

Special Event
Fourth United Nations Conference
on Least Developed Countries (LDC-IV)
Thursday 12 May 2011 6:15 pm-8 pm

Istanbul Congress Centre
Çamlica Hall

Background Note

<p>MUTUAL ACCOUNTABILITY FOR LDCs:</p> <p>A FRAMEWORK FOR AID QUALITY AND BEYOND</p>
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Co-Sponsors: UN DESA, OECD-DAC, UNDP

Objective

The Fourth Conference on Least Developed Countries in Istanbul (LDC-IV) provides a unique opportunity to review how the development concerns of Least Developed Countries and MDG challenges can be better met by increasing aid, improving its quality and strengthening mutual accountability frameworks for development results. The objective of the event is to promote a better understanding of how mutual accountability frameworks on aid for LDCs can contribute to the implementation of international commitments on development and aid and, building on the draft Istanbul Programme of Action (IPoA) and other milestone documents¹.

The special event will:

- (i) discuss aid quality and effectiveness from the perspective of LDCs; and
- (ii) explore whether the frameworks aimed at ensuring mutual accountability on aid commitments fully reflect the concerns and needs of LDCs.

The special event will bring together leaders of LDCs, the donor community and other stakeholders. Its outcome will be a Chairperson summary, which will inform preparations for the fourth High-level Forum on Aid Effectiveness in Busan in November 2011 and the United Nations Development Cooperation Forum (DCF) in June/July 2012. A background note on trends in aid in LDCs will provide suggestions on how mutual accountability for LDCs can be improved building on existing structures.

¹ These include the Monterrey Consensus, the Paris Declaration on Aid Effectiveness, the Doha Declaration on Financing for Development and the outcome document of the 2010 MDG Summit.

Background

The 48 Least Developed Countries (LDCs) are the home of more than 880 million people, 75 per cent of whom live in abject poverty. Although per capita GDP has grown significantly in real terms in many LDCs over the past few years, their progress in achieving the Millennium Development Goals (MDGs) has been undermined by several factors. These include a range of structural and other challenges common to many LDCs, such as conflict or post conflict situations, weak productive and technical capacities, and low domestic resource mobilization, resulting in economic and political volatility and low resilience to shocks and crises.

ODA and other development assistance continue to be of major importance to support government budgets and to promote development in LDCs. The 2010 report of the United Nations MDG Gap Task Force however estimates the shortfall of ODA to LDCs at US\$ 22.9–42.5 billion in 2008. Only nine DAC donors are meeting target 7 of the Brussels Programme for Action (allocating 0.15-0.2% of GNP to LDCs).² The latest OECD/DAC forecasts indicate that the share of country-programmable aid to LDCs could fall further over the next two years.³

Against this backdrop, this special event will address the following two issues:

1) Quality and effectiveness of aid through LDC lenses

Despite some progress on aid quantity and quality, aid to LDCs often remains donor driven and fragmented – which limits its impact on long term development. The main shortcomings include:

- Aid allocation practices do not sufficiently take into account the features that characterize LDCs such as chronic low per capita income, weak human assets and high economic vulnerability.⁴ This puts some LDCs at a disadvantage, especially those affected by or recovering from conflict and other complex emergencies. This also is confirmed by a recent OECD-DAC report on aid orphans, which identifies most countries in this group to be LDCs.⁵ There is also the question of whether the focus on performance is fully consistent with the principle of national ownership and leadership.
- Concerns about aid fragmentation are leading some major bilateral donors to concentrate their aid on a reduced number of priority countries. There is a risk that, while commendable, the trend towards harmonisation and an improved “division of

² According to UNData (<http://data.un.org/Data.aspx?d=MDG&f=seriesRowID%3A650>) these were Belgium, Denmark, Finland, Ireland, Luxembourg, the Netherlands, Norway, Sweden and the United Kingdom.

³ According to analysis made for the International Development Cooperation Report (IDCR) of the DCF, available on www.un.org/ecosoc/dcf (p. 10) and the 2011 DAC Report on Aid Predictability (forthcoming).

⁴ Proposals have been made to modify allocation criteria and to link them with the Human Asset Index and Economic Vulnerability Index, as well as environmental vulnerability (See work by Patrick Guillaumont in particular).

⁵ See OECD-DAC discussion paper, Aid Orphans: A collective responsibility? Improved identification and monitoring of under-aided countries in the run-up to Busan (forthcoming).

labour” among donors may accentuate the problem of “donor darlings” against “donor orphans”.⁶

- Much development assistance to LDCs is technical cooperation with limited impact in terms of skills transfer or capacity-building, especially where the needs of LDCs do not match priorities and interests of providers of development/technical cooperation.⁷
- Very little aid is provided in the form of budget support. In countries with national development strategies and advanced governance structures, greater use of this modality would enhance aid absorption capacity and ensure that aid is attuned to country priorities.
- The use of country systems remains limited in spite of major improvements to such systems in many LDCs⁸. The creation of parallel systems has particularly damaging effects in LDCs and countries emerging from conflict as it can hamper state- and institution-building.
- Disbursement of aid is often slow, unpredictable and volatile, partly due to pro-cyclical conditionalities.⁹
- Aid to LDCs is not flexible enough to respond to changing government priorities and to counter exogenous shocks.¹⁰
- Excluding technical co-operation, most of bilateral aid to the LDCs is untied, though efforts are still required by some countries. In 2009, USD 3.5 billion or 12% of total bilateral aid by DAC members to LDCs remained tied. Of that amount USD 1 billion can be attributed to technical co-operation activities, which remain exempt from the DAC 2001 Recommendation to untie aid to the LDCs and, since 2009, the non-LDC HIPCs.¹¹ . In addition, developmental food aid and technical cooperation remain tied by some countries, and only a quarter is procured from companies located in developing countries.¹²

⁶ See presentation by IMF representative to the UN for the Fourth LDCs conference, on enhancing quantity and quality of ODA to LDCs. More flexible assistance from multilateral donors enabled several LDCs to partly offset the negative impact of falling exports and private capital inflows (Cf. UNCTAD 2010 LDC Report, p. 19.).

⁷ See analysis of challenges for South-South Cooperation with LDCs in the 2010 LDC Report (Table 132).

⁸ The 2008 Paris Declaration Monitoring Survey showed improvements in the quality of country systems in 36% of the DAC's partner countries while their use has only increased by 4-5%. The survey recommended to systematically step up efforts to use such systems as a way of reinforcing country ownership of aid.

⁹ See Ministerial meeting on enhancing the mobilization of financial resources for Least Developed Countries' development, Lisbon, 2-3 October 2010; Background paper, *Enhancing the quantity and quality of Official Development Assistance for the Least Developed Countries*.

¹⁰ *ibid*.

¹¹ OECD-DCD Statistics on Resource Flows to Developing Countries: CRS aid activity database.

¹² see the 2010 Least Developed Countries Report.

- The steady increase of aid to LDCs during the past decade has been accompanied by a stagnation of aid to the infrastructure and productive sectors at low levels. Some rebalancing of aid allocation towards productive capacities is necessary to respond to national priorities and needs in many LDCs.

This meeting will provide an opportunity to get a better understanding of the aspects of the aid effectiveness agenda which may need to be prioritized in order to better meet the specific needs of LDCs. It may also point to new dimensions which should be taken into account in improving the quality and impact of aid.

The variety in LDCs situations will need to be taken into account in the debate. For instance, the major concern of some LDCs is insufficient aid while for others it is aid volatility. Also, the causes of the structural vulnerability of LDCs – and thus their needs in terms of sectoral allocation of aid - vary from one country to another.¹³

Questions for the first part of the event could include:

- **How do the structural factors characterizing LDCs influence the quality of aid provided to these countries?**
- **Building on Brussels Programme of Action and the Istanbul conference, which aspects of aid quality are the most important ones for LDCs?**

2) Deepening development results by improving frameworks for mutual accountability between LDCs and their development partners

ODA continues to play a key role in supporting poverty reduction in LDCs. In some cases it remains the largest source of external financing. There is a fundamental questioning on how to ensure that development cooperation has a maximum positive impact on the lives of the poor.

There is also growing consensus that mutual accountability on aid between LDCs and countries supporting their development is vital to promote trust and pave the way for making progress both on aid quality but also on aid quantity. Mutual accountability mechanisms thus have the potential to help increase development cooperation and its impact.

The importance of mutual accountability has been stressed in the 2010 UN MDG summit and the 2010 Development Cooperation Forum (DCF). It is a key principle in the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action.

Despite the strong political commitment to strengthen mutual accountability mechanisms, studies and surveys conducted for the United Nations Department of Economic and Social Affairs (UNDESA) and the UN Development Programme (UNDP) show that mutual

¹³ United Nations, Committee for Development Policy, *Strengthening International Support Measures for the Least Developed Countries*, 2010

accountability mechanisms generally remain weak and imbalanced, and have very limited impact on the development cooperation behaviours of donor countries.¹⁴

Nonetheless, several LDCs have established relationships of mutual accountability on aid with their donors. Practical lessons can be learned from their experience on how to design aid policies, set clear time-bound targets for individual providers, and review progress annually in public forums engaging also parliaments and civil society.

At the international level, the Working Party on Aid Effectiveness, within the OECD DAC, has set targets for mutual accountability. The Paris Declaration Monitoring Survey has created an opportunity for deepening discussions at the country level around the implementation of the aid effectiveness principles. The increasing number of countries taking part in the survey (from 34 in 2006 to around 90 in 2011) shows its importance as an international mutual accountability mechanism. The UN Development Cooperation Forum provides an inclusive platform for developed and developing country governments and non-executive stakeholders to hold each other to account on development cooperation. Building on the momentum of LDC IV, LDCs could make greater use of the DCF (i) to share experiences on how to strengthen national mutual accountability mechanisms on aid; and (ii) to review trends in the quantity and quality of aid and other financial flows to LDCs as well as the impact of policy coherence. In this regard, LDCs could use the DCF for developing an improved framework for mutual accountability which could serve as a basis for policy dialogue about international support measures for LDCs. Such a framework could be built around the Brussels and Istanbul targets and go beyond aid effectiveness indicators.

The following questions may be addressed:

- **How is mutual accountability at country level best developed or enhanced to better address areas of concern for LDCs on aid quantity and aid quality? How can such mechanisms support greater development results? What are good practices in this regard?**
- **What should a framework for mutual accountability between LDCs and donors on aid issues look like? What should be the key elements and targets of such a framework? How can we ensure it is manageable and not an additional burden on countries?**
- **How should such a review process be governed and structured in order to avoid duplication of efforts?**

¹⁴ See, for example, the study on “Review of progress in international and national mutual accountability and transparency on development cooperation” at http://www.un.org/en/ecosoc/newfunct/pdf/ma_study-status_and_progress.pdf.