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"Trends in International Financial Cooperation for LDCs"

Development Cooperation Policy Branch
Office for ECOSOC Support and Coordination
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Background Study for the 2012 Development Cooperation Forum

Trends in International Financial Cooperation for LDCs

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The views expressed in this paper are those of the authors and do not necessarily reflect the views of the United Nations.

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Acronyms

ACP - African, Caribbean and Pacific Group of States

AfDB – African Development Bank

AsDB- Asian development Bank

BADEA - Arab Bank for Economic Development in Africa

BPoA - Brussels Programme of Action

CPA - Country Programmable Aid

CRS – Creditor Reporting System

DAC - Development Assistance Committee

DCF - Development Cooperation Forum

EC - European Commission

ECOSOC - Economic and Social Council

EVI - Economic Vulnerability Indicator

G8 - Group of Eight

GAVI – Global Alliance for Vaccines and Immunisation

GDP - Gross Domestic Product

GEF – Global Environmental Facility

GNI - Gross National Income

IADGs - Internationally Agreed Development Goals

IDA – International Development Association

IMF - International Monetary Fund

IPoA – Istanbul Programme of Action

IsDB - Islamic Development Bank

LDC-IV - UN Conference of Least Developed Countries

LDCs - Least Developed Countries

LLDCs - Landlocked Developing Countries

MDGs - Millennium Development Goals

MTEFs - Medium-Term Expenditure Frameworks

NGOs - Non-Governmental Organisations

ODA - Official Development Assistance

OECD - Organisation for Economic Co-operation and Development

PBAs – Programme Based Approaches

PDMR - Paris Declaration Monitoring Report

PFM - Public Financial Management

PIU – Project Implementation Unit

PRSPs - Poverty Reduction Strategy Papers

SIDS - Small Island Developing States

UNICEF- United Nations Children’s Fund

UNCTAD - United Nations Conference on Trade and Development

UNOHRLLS – United Nations Office of the High Representative for the LDCs, LLDCs and SIDS

Executive Summary

1. Introduction

The Brussels Programme of Action (BPoA) is the existing framework for guiding development cooperation in Least Developed Countries (LDCs). Holding LDC donors and governments to account on realising commitments for LDCs is key to promoting their implementation. The upcoming Fourth United Nations Conference on Least Developed Countries (LDC-IV) to be held from 9 to 13 May 2011 in Istanbul, Turkey will review the BPoA and agree on a new Programme of Action (IPoA) for LDCs. In preparation for the conference, a strong accountability framework on quantity and quality of aid to LDCs should be established to ensure robust accountability of all stakeholders. Against this background the DCF secretariat has commissioned a background study analysing the quantity and quality of aid in LDCs and outlining possible elements for an LDC accountability framework that builds on existing review processes.

2. Trends in development cooperation to LDCs

Since the BPoA in 2001, the growth in OECD DAC donors' aid[1] to LDCs has been higher than to all programme countries. Since 2001, aid to LDCs has risen from US$ 13.8 billion (26.6% of total OECD DAC aid) to US$ 37.3 billion (31.4% of total OECD DAC aid) in 2009, which represents an annual average increase of 13.2% compared with the rate of growth of aid to all developing countries of 10.9% per annum. As a proportion of OECD DAC donors' GNI, aid to LDCs has increased from 0.056% in 2001 to 0.97% in 2009. However, this is considerably below the minimum BPoA target of 0.15% aid to GNI.

In 2009, only seven OECD DAC donors (Luxembourg, Sweden, Denmark, Norway, Ireland, Netherlands and Belgium) had exceeded the top end of the BPoA target, providing more than 0.20% aid/GNI to LDCs. A further two donors (Finland and the United Kingdom of Great Britain and Northern Ireland) had achieved the minimum target of 0.15% aid/GNI to LDCs. To achieve the minimum LDC target of 0.15% aid to GNI, OECD DAC bilateral donors would need to provide net ODA flows of US$ 58 billion, or approximately 1.5 times the current level of aid. To achieve the 0.2% target of aid to LDCs would require OECD DAC donors to more than double their current aid flows to US$ 77 billion.

Country programmable aid (CPA) is an indicator of the quality of donor aid as it measures the aid flows relevant to decision-making in programme countries: it reflects the flows of aid that are available to plan and spend on national priorities. The total volume of CPA[2] of OECD DAC bilateral donors and multilateral agencies has grown on average by 5.5% per annum from US$ 61 billion in 2000 to US$ 99 billion in 2009. But this rate of growth is expected to

[1] Net bilateral ODA plus imputed multilateral ODA. All OECD DAC donors refers to all bilateral donors and multilateral organisations which are members of the OECD DAC.
[2] Measured in US dollars at 2008 prices.

slow in the coming years, with the volume of CPA anticipated to increase by just 4.6% in 2010 and 3% in 2011, before stagnating in 2012.

3. Composition and quality of development cooperation to LDCs

The principles of the BPoA are supportive if delivering aid through instruments, such as direct budget support, which promote country ownership and use country systems. There has been a significant increase in disbursements of aid as budget support to LDCs from US$2 billion in 2002[3] to US$ 3.9 billion in 2009. However as proportion of aid to LDCs, budget support has actually declined from 12% in 2002 to 9.1% in 2009.

The average grant element of ODA to LDCs was 99.4% in 2010, very much higher than 67.7% to all programme countries. In addition, it is in line with the 1978 OECD DAC recommendation on the financial terms to LDCs which states that ODA to LDCs should essentially be in the form of grants[4].

The distribution of resources to LDCs remain uneven, with some LDCs (donor darlings) continuing to receive far more aid than others (donor orphans). In the terms of the total amount of CPA disbursed Afghanistan, Bangladesh, Ethiopia, Mozambique, Tanzania and Uganda are donor favourites, while Equatorial Guinea, Kiribati, Sao Tome and Principe and Tuvalu are donor orphans. However in terms of CPA as % of GNI, Liberia, Samoa and Solomon Islands come in the top ten, while Bangladesh is in the bottom five. Looking at per capita CPA, small Pacific island LDCs receive the highest levels, while larger economies such as Bangladesh get significantly less CPA per capita. So assessing donor darlings and orphans depends on the measure used, although none of these reflect LDCs' needs.

LDCs with the greatest need of assistance to achieve the MDGs are not necessarily those forecast to receive increased CPA from donors in the period 2010-2012.

In line with the BPoA commitments, LDCs have prioritised infrastructure and productive sectors as important for fostering economic growth and sustainable development. However the proportion of donor aid for the economic infrastructure sector has remained virtually unchanged at 4% of total aid between 2002 and 2009, while the share of aid for government and civil society sector has risen from 3.1% to 4.6% over the same period. Furthermore some LDCs, mainly the "donor darlings", are receiving the major share of sectoral aid. For instance, Afghanistan, Ethiopia and Tanzania accounted for 43% of all OECD DAC donor aid for agriculture, forestry and fisheries whereas the median for the sector is just 0.9%. Many LDCS are thus receiving only small amounts of aid for agriculture.

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[3] Disbursement data are not available prior to 2002.

[4] OECD (1978). Alternatively, OECD/DAC recommends that, as a minimum, the average grant element of all commitments from a given donor should either be at least 86% to each LDC over a three-year period or at least 90% annually for LDCs as a group

Aid fragmentation remains an issue for many LDCs as dealing with donors absorbs government time and resources. Some major OECD DAC donors are planning to reduce the number of priority countries, thereby reducing fragmentation which may benefit some LDCs. However, for some other LDCs and post-conflict and other countries in special development situations that have only a few donors in key sectors (ie aid orphans), this leaves them potentially more vulnerable to volatility and/or major financing shortfalls through decisions of their major donors.

One of the five principles of the BPoAis "country ownership, where least developed countries should identify national priorities that their development partners can use to provide support"[5]. There has been progress as LDCs, such as Burkina Faso, Burundi, Ethiopia, Sierra Leone and Zambia, have strengthened national ownership with improved national development strategies. However this has not necessarily translated into better use by donors of country public financial management systems for aid delivery or more donor harmonisation of aid flows.

For LDCS, unpredictable donor aid can significantly hinder governments' abilities to implement the national budget and meet national spending commitments. For LDCs as a group, just over two-thirds of donor aid was disbursed on schedule and recorded by governments. But predictability varies considerably by country; in Zambia 82% of aid was disbursed on schedule whereas in the Democratic Republic of Congo it was just 20%. Predictability tends to be higher in LDCs, such as Ethiopia, Tanzania and Uganda, which have a significant proportion of their aid disbursed through Performance-based approaches (PBAs).

In addressing their BPoA commitment to untie aid to LDCs, OECD DAC bilateral donors have increased the proportion of untied aid from 42% in 1999-2001 to 84% in 2009. However, the pledge by donors to untie aid excludes technical cooperation and food aid. When those are taken into account approximately 30% of OECD DAC bilateral aid is untied.

4. Proposed accountability framework on quantity and quality of development cooperation

Building on existing progress on accountability, this chapter notes the urgent need to enhance follow-up and review of commitments on development cooperation for LDCs by strengthening global monitoring mechanisms. It shows that the analysis and recommendations of the Eminent Persons Group report prepared for the fourth United Nations conference on Least Developed Countries reinforce the need for a stronger accountability framework for development cooperation to LDCs, placing key emphasis on country-led monitoring of accountability.

[5] UN SG report, page 3

Pending the completion of the negotiations on the draft Istanbul Programme of Action, this chapter suggests that an accountability framework on development cooperation for LDCs could include some of the following elements, many of which spring from commitments already made at the UN and positions expressed at the DCF in 2008 and 2010 – and are consistent with the commitments of the PD and AAA:

Donors would need to:

- meet the targets of the Brussels Programme of Action on aid for LDCs, which would require increasing aid to LDCs by 50-100%.
- improve the allocation of country-programmable aid among LDCs, to avoid overconcentration in key strategic zones at the expense of "aid orphans".
- ensure that their reduction in numbers of programme countries genuinely reduces fragmentation in aid darlings and does not increase the numbers of aid orphans.
- accelerate the transition from humanitarian and post-conflict assistance to budget support in countries with special development needs. The EPG report makes a similar suggestion to "deliver more … assistance as direct budget support".
- allocate aid clearly on the basis of need and vulnerability rather than performance, limiting the influence of performance only to decisions on types/channels of aid.
- accelerate untying of aid including technical assistance and food aid
- increase use of LDC public financial management, procurement, and monitoring and evaluation systems, especially where these systems are themselves being improved.
- monitor allocation of aid to each LDC within each sector, to ensure a more even distribution of sector funds among LDCs, and support evenly the funding of all LDCs' national development strategies.
- increase aid for infrastructure and agriculture in LDCs (especially low aid LDCs). The EPG also suggests increasing "aid allocation to targeted areas such as infrastructure, agriculture and productive capacity".
- reduce sharply the volatility of aid, especially in post-conflict and special development needs countries, mainly by reducing conditionality
- increase the predictability of aid by providing LDCs with regular and timely indicative forecasts of aid for three years ahead.
- improve the flexibility and speed of disbursement of their aid to combat exogenous shocks, conflict and refugee crises, and fund changing national priorities. The EPG makes a similar suggestion that "new, quick-disbursing instruments need to be developed and placed in the regional development banks where the need can be more quickly identified and where disbursement is less constrained by other, more policy-based considerations."

LDCs would need to:

- Further strengthen national leadership and ownership of development plans, especially through more inclusive and broad-based participation in their design and implementation;
- accelerate progress on improving public financial management and procurement systems;
- especially enhance their monitoring and analysis of development results so that, as suggested by the EPG, the efficiency, propriety and transparency of use of development resources can be clearly assessed. This implies NOT an additional set of targets for programme countries, but rather greater involvement of parliaments and other domestic stakeholders in assessment of results, and clearer identification of the contribution of aid and other resources to reaching development results, to justify increased flows.
- take even stronger leadership of mutual accountability processes at national level by moving ahead with the key components necessary for mutual accountability on results of development cooperation, especially national aid policies; targets for individual donors; and annual reviews of progress, discussed at national high-level fora which include all key domestic stakeholders and development partners.
- accelerate efforts to make development cooperation and its results more transparent at national level, by establishing or improving information systems to track flows, quality and results of cooperation; making these up-to-date, accessible and easy to use for all stakeholders, and introducing freedom of information acts or other legal mechanisms to ensure citizen access to data.

The chapter also outlines how monitoring and reporting on the progress in implementing a mutual accountability framework for LDCs could be organized, including by:

- promoting national-level mutual accountability in countries in special situations;
- having in each LDC a country-led and inclusive annual mutual accountability discussion of a detailed progress report on development cooperation and results – as part of or as an input to the country-level regular reviews of the implementation of the Istanbul Programme of Action;
- at the global level, supporting periodic progress reviews in the UN General Asembly and ECOSOC, including by using an accountability framework attuned to the needs of LDCs along the lines of the one outlined in this study;

- ensuring that future surveys and reports on aid quantity, quality and effectiveness contains analysis disaggregated by different country groupings with improved and expanded indicators (including on reducing policy conditionality, transforming technical assistance into capacity development; and increasing flexibility to combat exogenous shocks or accommodate changing national priorities).

- monitoring of indicators should be broadened to cover all major development cooperation actors.

- Ideally each of the global annual reviews of progress in the IPoA should be based on the annual reviews conducted at national level of IPoA progress, as well as any additional reviews of progress on national aid policies. It could be considered to feed reviews of progress on indicators to be agreed in Busan and those contained in fragile states principles into such UN processes.

1. INTRODUCTION AND BACKGROUND

To consolidate, strengthen and build on the achievements of the first two phases of the Development Cooperation Forum (DCF) of the Economic and Social Council (ECOSOC) of the United Nations, the overall objective of the DCF in 2010-2012 is to promote development cooperation and to improve its quality and results to help programme countries reach their national development priorities and internationally agreed development goals (IADGs), including the Millennium Development Goals (MDGs). As part of this process the DCF is poised to support the development of a strong accountability report on the adequacy and quality of development cooperation to Least Developed Countries (LDCs).

The Brussels Programme of Action (BPoA) is the existing framework for guiding development cooperation in LDCs and holding LDC donors and governments to account on realising commitments for LDCs. The upcoming Fourth UN Conference of Least Developed Countries (LDC-IV) in Istanbul in May2011 will review the BPoA and agree on the Istanbul Programme of Action (IPoA). In preparation for the conference, a strong accountability framework on quantity and quality of aid to LDCs should be established to ensure robust accountability of all stakeholders. Against this background the DCF secretariat has commissioned a background study analysing the quantity and quality of aid in LDCs and outlining the possible elements for an LDC accountability framework that builds on existing review processes.

The present study[6] focuses on the following areas:

- Section two provides a brief review of recent trends in the quantity of development cooperation to LDCs. It will consider overall trends and particularly those of the donors of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) for country programmable aid (CPA) to LDCs, landlocked developing countries (LLDCs), small island developing states (SIDS) and post-conflict countries and other countries in special development situations[7]. Where possible, the analysis will look at trends regarding LDCs receiving high aid levels in proportion to their GNI and those receiving less aid as a ratio of GNI[8].

[6] The study has been prepared by Alison Johnson, Matthew Martin and Richard Watts of Development Finance International, March 2011.
[7] The programme country groupings of LDCs, LLDCs and SIDS are those listed by the UN Office of the High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UNOHRLLS). The reference to “post-conflict countries and other countries in special development situations” in this study refers to countries and areas included in the OECD classification of “fragile states”. The countries/areas comprising each group are listed in Annex 1.
[8] The high aid LDCs are those programme countries having aid/GNI ratios of greater than the average LDC aid/GNI ratio of 9.2%, while low aid LDCs are those receiving aid of less than 9.2% of GNI, using World Bank data for 2009.

- Section three analyses the composition and quality of aid to LDCs and other country groupings. In particular, it considers the progress in improving aid quality and delivery by LDCs and donors in meeting the BPoA commitments and more widely. The analysis focuses on aid modalities and concessionality; allocation and poverty targeting; alignment and fragmentation; national ownership, use of country systems and harmonisation; predictability, flexibility, volatility and conditionalities; untying of aid; technical cooperation and results-based management and mutual accountability.

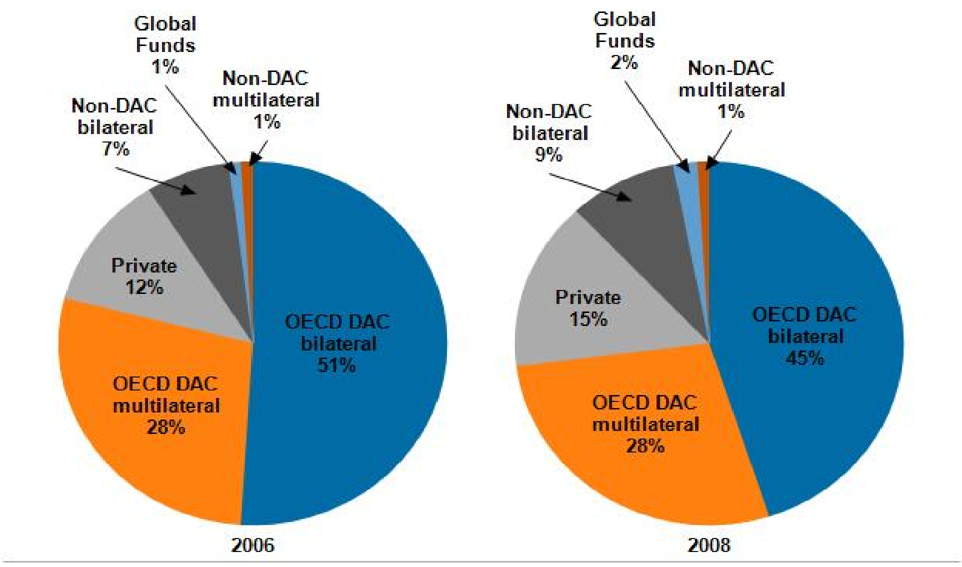
- Building on the findings on the quantity and quality of aid to LDCs, Section four examines how frameworks to ensure mutual accountability between LDCs and their donors on aid can contribute to the implementation of international commitments on development and aid, building on the draft Istanbul Programme of Action (IPoA) and other milestone documents.

2. RECENT TRENDS IN DEVELOPMENT COOPERATION TO LDCS

2.1. Global trends

Globally the OECD DAC bilateral donors and multilateral institutions provided about 73% of total development cooperation in 2008, compared with about 80% in 2006, as shown in Chart 2.1 below[9]. In contrast, there has been a significant increase in non-OECD DAC development cooperation, the bulk of which is South-South cooperation, and private philanthropy. Initial estimates indicate that the share of non-OECD DAC development cooperation has risen from 8% in 2006 to about 10.5% in 2008, while global funds and philanthropy rose from 13% to 17% of total development cooperation in the same period.

Chart 2.1: Sources of development cooperation, 2006 and 2008



Source: UN ECOSOC

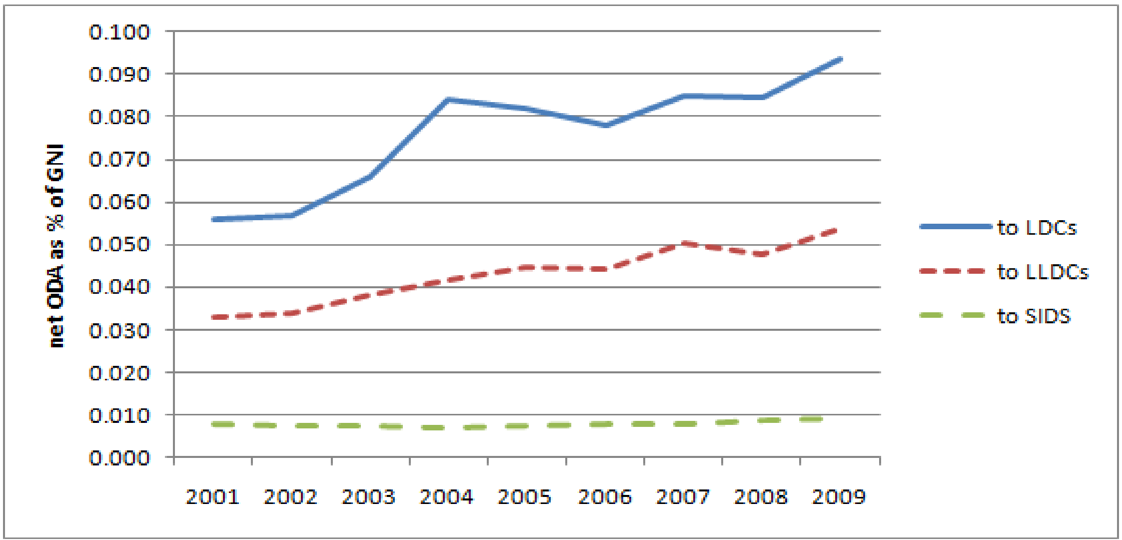
More recently, net official development assistance (ODA) of OECD DAC donors in 2010 increased by 6.5% in volume terms, after having stagnated in 2009 at a time of international financial crisis and worldwide recession. In nominal terms, ODA was US$ 128.7 billion in 2010 compared with US$ 119.8 billion in 2009. As a share of gross national income (GNI), it rose to 0.32%, compared with 0.31% in 2009[10]. However, OECD DAC donors have not been living up to the pledges made six years ago at the Gleneagles G8 and the 2005 World Summit, with an estimated shortfall of about US$ 19 billion in the aid delivered.

Since the Brussels Programme of Action (BPoA) in 2001, the growth in OECD DAC donors' aid[11] to LDCs has been higher than to all programme countries. Since 2001, aid to LDCs has risen from US$ 13.8 billion (26.6% of total OECD DAC aid) to US$ 37.3 billion (31.4% of total

[9] UNECOSOC (2010b)
[10] OECD (2011)
[11] Net bilateral ODA plus imputed multilateral ODA

OECD DAC aid) in 2009, which represents an annual average increase of 13.2% compared with the rate of growth of aid to all developing countries of 10.9% per annum. The rate of growth of aid to LLDCs was 13.8% over the same period 2001-2009, while that to SIDS was 11.2%. Aid to LLDCs rose from 15.8% of total OECD DAC aid in 2001 to 19.4% in 2009, while the share of aid provided to SIDS was virtually unchanged at 3.5%. As a proportion of OECD DAC donors' GNI, aid to LDCs has increased from 0.056% in 2001 to 0.97% in 2009, as shown in Chart 2.2. The ratio of aid to GNI for LLDCs has risen from 0.033% to 0.54%, while that for SIDS has hardly changed from 0.08% to 0.09% over the same period.

Chart 2.2: Trends in OECD DAC aid as % of GNI to LDCs, LLDCs and SIDS, 2001-2009



Source: OECD

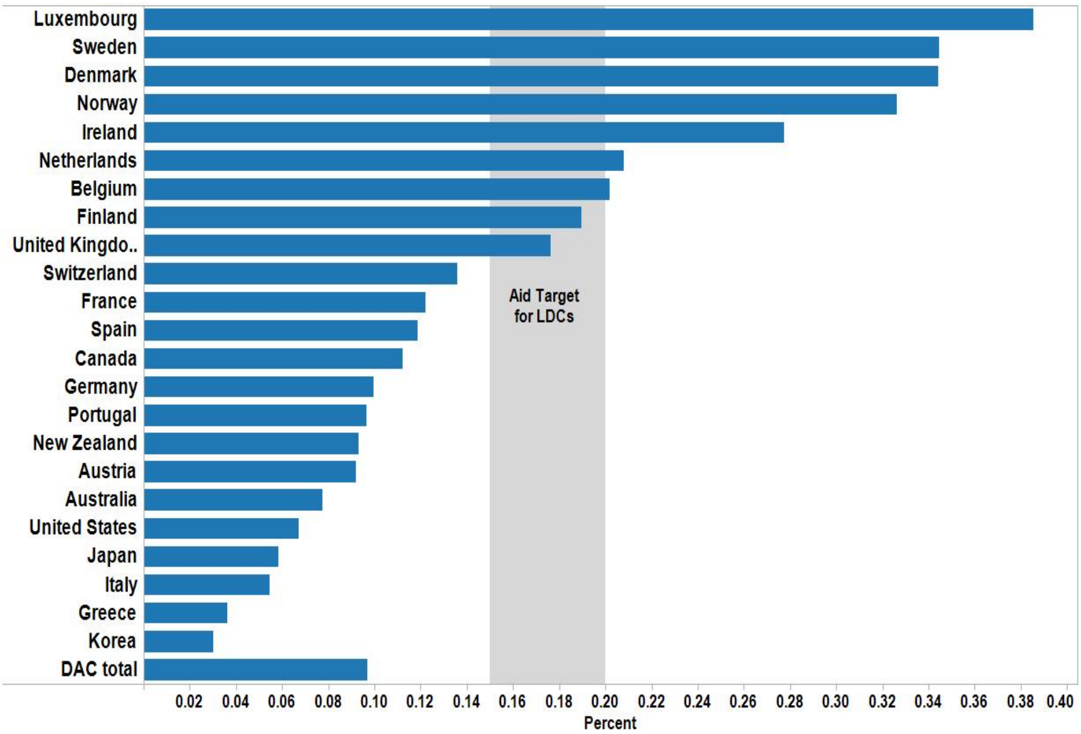
2.2. Progress in meeting aid/GNI targets in LDCs

In the BPoA donors agreed to implement actions which would achieve aid targets of ODA to LDCs of 0.15% to 0.20% of GNI[12]. However, OECD DAC bilateral donors' aid to LDCs, at 0.097% of GNI, was considerably below the minimum target of 0.15% to LDCs, as shown in Charts 2.2 and 2.3. In 2009, only seven OECD DAC donors (Luxembourg, Sweden, Denmark, Norway, Ireland, Netherlands and Belgium) had exceeded the top end of the target, providing more than 0.20% aid/GNI to LDCs as shown in Chart 2.3. A further two donors (Finland and the United Kingdom of Great Britain and Northern Ireland) had achieved the minimum target of 0.15% aid/GNI to LDCs. The remaining fourteen bilateral donors are not providing sufficient ODA to LDCs to meet the minimum 0.15% target.

[12] Article 83 of the BPoA says:(a) Donor countries providing more than 0.20 per cent of their GNP as ODA to LDCs: continue to do so and increase their efforts;(b) Other donor countries which have met the 0.15 per cent target: undertake toreach 0.20 per cent expeditiously;(c) All other donor countries which have committed themselves to the 0.15 per cent target: reaffirm their commitment and undertake either to achieve thetarget within the next five years or to make their best efforts to accelerate theirendeavours to reach the target;

Denmark, Luxembourg, Netherlands, Norway, and Sweden had also achieved the 0.7% target for aid as a % of GNI to all programme countries in 2009 and 2010, while Belgium, Finland, Ireland and the United Kingdom of Great Britain and Northern Ireland provided aid as % of GNI ratios to all programme countries of more than 0.51%, thereby surpassing the European Union member countries' promise of delivering 0.51% aid/GNI by 2010. The other European countries did not reach the 2010 European target. Canada (at 0.33%), Japan (at 0.20%) and the United States (at 0.21%) are still well short of achieving the 0.7% aid to GNI target.

Chart 2.3: OECD DAC bilateral aid as % of GNI to LDCs, 2009



Net disbursements including imputed flows through multilateral organisations. Source: OECD database (accessed March 2011)

To achieve the minimum LDC target of 0.15% aid to GNI, OECD DAC bilateral donors would need to provide net ODA flows of US$ 58 billion, or approximately 1.5 times the current level of aid. To achieve the 0.2% target of aid to LDCs would require OECD DAC donors to more than double their current aid flows to US$ 77 billion[13]. UNCTAD estimates that the scale of the aid shortfall to LDCs from 2000 to 2008 in relation to the 0.15% aid target was equivalent to 51.3% of the GNI of the LDCs as a group in 2008, while the cumulative shortfall over the period 1990-2008 was equivalent to 100% of the GNI of LDCs in 2008[14].

[13] These figures are lower than the estimates in UNCTAD LDC report, as OECD DAC bilateral donors 2009 GNI was less than in 2008.

[14] UNCTAD (2010)

Although there are no agreed targets for aid as % of GNI for LLDCs and SIDS, OECD DAC bilateral donors provided a smaller proportion of their aid to these country groups at 0.06% and 0.01% of GNI, respectively, in 2009. For the LLDCs, it is the same nine donors (Belgium, Denmark, Finland, Ireland, Luxembourg, Netherlands, Norway, Sweden and United Kingdom of Great Britain and Northern Ireland) which provided the most aid as share of GNI in 2009. For SIDS, Australia and New Zealand provided the largest share of aid as % of GNI, reflecting their aid flows to Pacific Island countries. Annex 2 provides details of OECD DAC bilateral donor aid to GNI ratios to LLDCs and SIDS in 2009.

2.3. Country programmable aid

Country programmable aid (CPA) is an indicator of the quality of donor aid as it measures the aid flows relevant to decision-making in programme countries: it is the flows of aid that are available to plan and spend on national priorities (see Box 1). It excludes the less predictable flows (debt relief and humanitarian aid), non-cross-border flows (costs of refugees in donor country, administrative costs, imputed student costs and promotion of development awareness), flows outside of cooperation agreements (food aid and aid from local governments) and core funding to donor country NGOs.

Box 1 Country programmable aid

CPA is a useful tool for measuring the overall quality of donor ODA as it provides a basis for transparent forward planning and accountability by donors and recipients, and is much closer to ODA reported in programme country budgets and country aid databases. It is also much more useful for judging the fragmentation of aid and the transaction costs imposed on programme country governments than ODA. In addition, it is provides a way of comparing coherence and the likely impact of different donors' effortsat the country level.

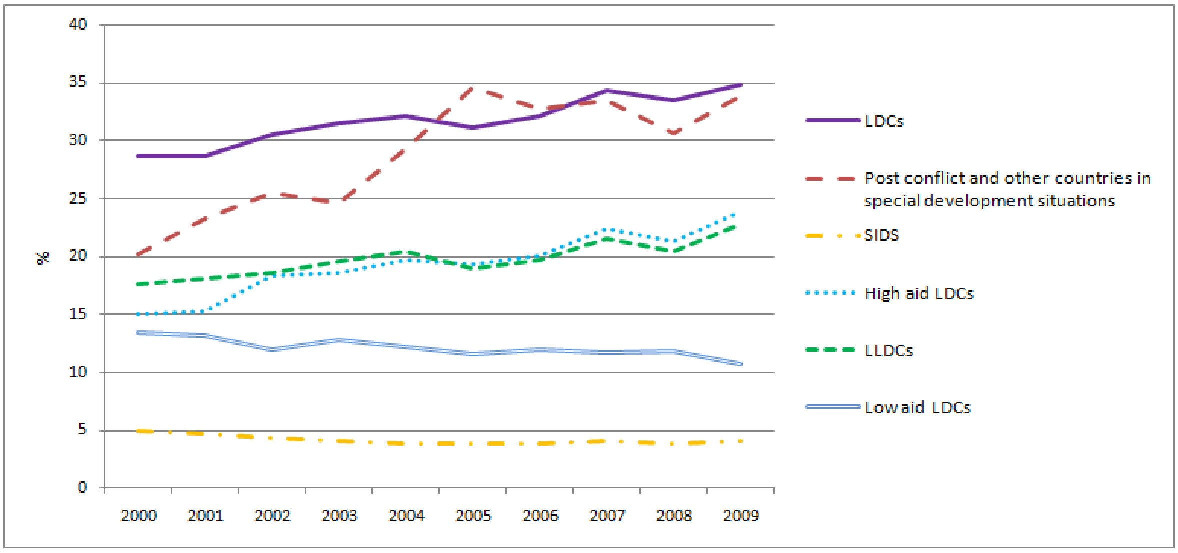
Independent analysts (such as Clemens, Radelet and Bhavani (2004)) have also found that CPA shows a much higher relationship to national growth and development than ODA.

Source: ECOSOC (2010a)

OECD DAC donors have been providing an increasing proportion of the volume of their total CPA[15] to LDCs, from 29% in 2000 to 35% in 2009, as shown in Chart 2.4. However, the largest rise in CPA has been to post-conflict and other countries in special development situations from 20% of total CPA in 2000 to 34% of total CPA in 2009. The share of CPA to LLDCs has risen from 18% to 23% of total CPA, while that to SIDS has declined slightly from 5% to 4% of total CPA.

[15]Measured in US dollars at 2008 prices.

Chart 2.4: Proportion of the volume of CPA by country groupings, 2000-2009

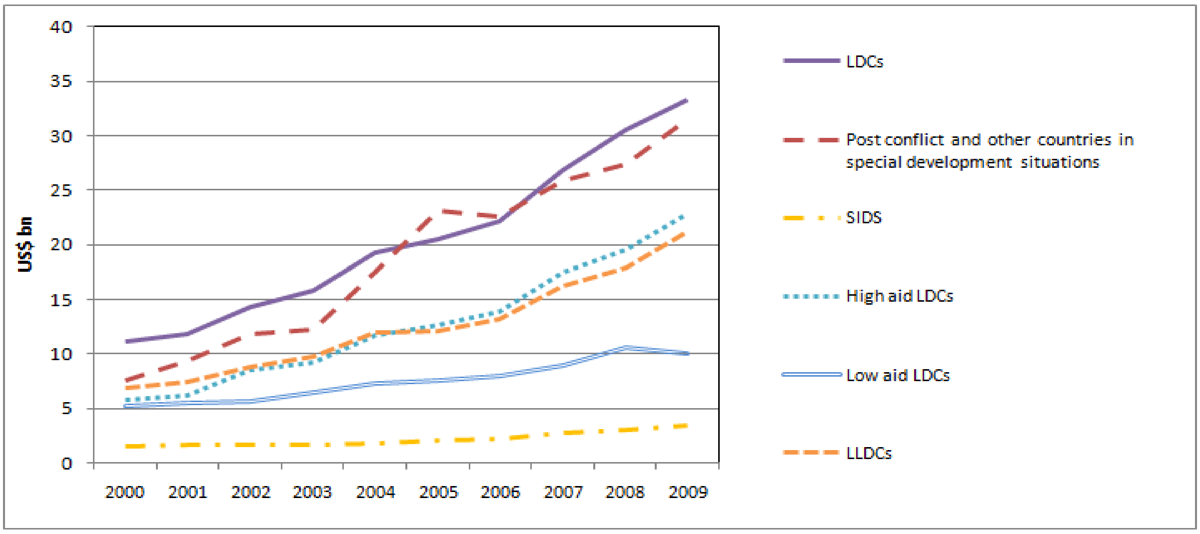


Source: OECD database (accessed March 2011)

The amounts of CPA by country grouping are illustrated in Chart 2.5. Since 2000, LDCs received more CPA than post-conflict and other countries in special development situations, except in 2005 which reflects the doubling of bilateral CPA to Iraq to US$ 7.5 billion. The trend in aid flows to post-conflict and other countries in special development situations are heavily influenced by changes in flows to both Afghanistan and Iraq in recent years (see Box 2). LLDCs as a group have received less CPA than post-conflict and other countries in special development situations, and marginally less CPA than high aid LDCs[16]. The proportion of CPA going to high aid LDCs, at 24% in 2009, was more than double the 11% going to low aid LDCs.

[16] The high aid LDCs are those programme countries having aid/GNI ratios of greater than the average LDC aid/GNI ratio of 9.2%, while low aid LDCs are those receiving aid of less than 9.2% of GNI, using World Bank data for 2009.

Chart 2.5: CPA (in current prices) by country grouping, US$ billion, 2000-2009

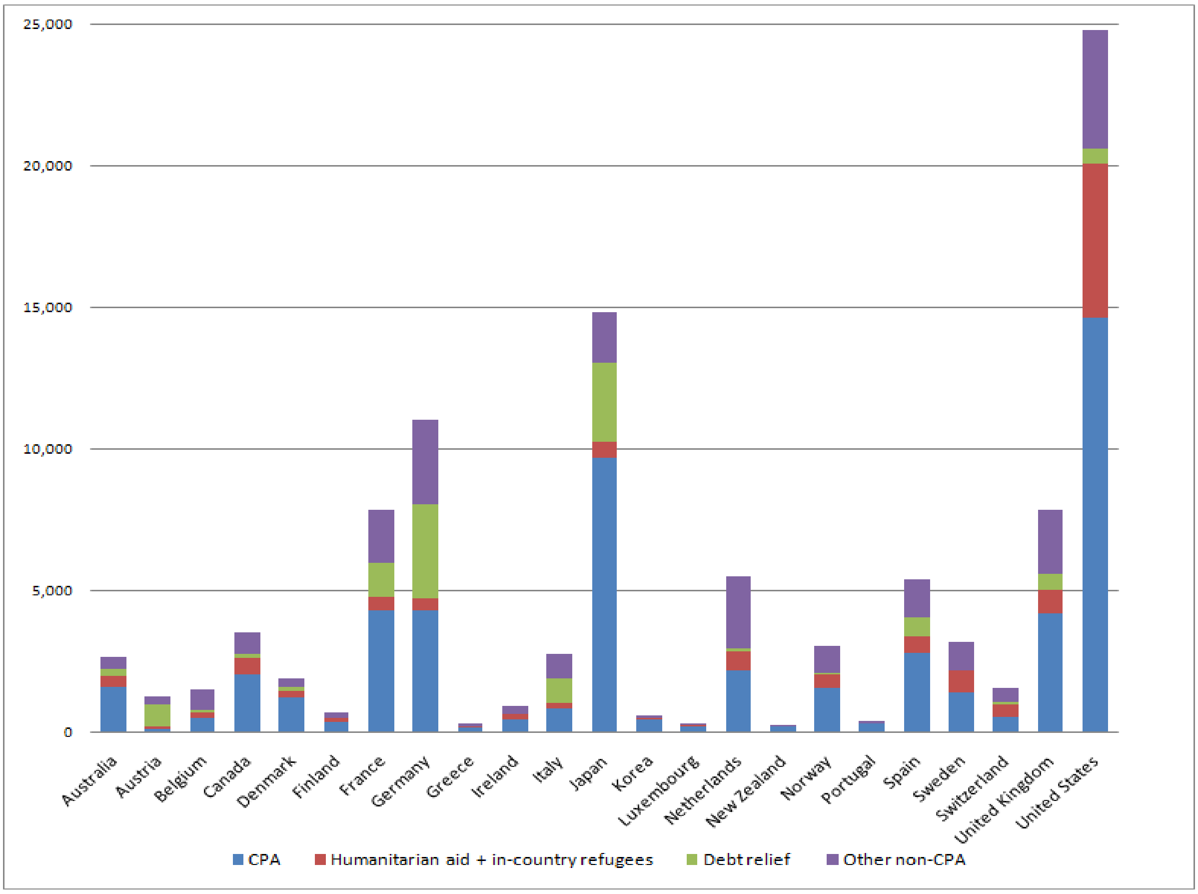


Source: OECD database (accessed March 2011)

About 60% of total CPA is provided by the OECD DAC bilateral donors[17], with the remaining 40% being disbursed by multilateral organisations. However, there is considerable variation amongst the provider countries as shown in Chart 2.6. Japan, Republic of Korea, Luxembourg and Portugal provided more than two-thirds of their 2008 aid as CPA, whereas Austria, Belgium, Germany, and Switzerland had the lowest proportions of CPA. For Austria, Germany and Switzerland this was because debt relief accounted for a relatively large share of their 2008 aid disbursements.

[17] These data are for all programme countries as there are no data for LDCs.

Chart 2.6: Composition of OECD DAC bilateral aid (2008 US$ million), 2008



Source: OECD

Going forward how is the projected slowdown in the growth of CPA expected to affect LDCs and other programme countries?

Although the total CPA to LDCs is expected to increase by US$ 2.3 billion between 2009 and 2012, almost all this increase will come in 2010 and 2011, with virtually no growth of CPA projected in 2012. For 13 LDCs (listed in Annex 3), CPA is projected to decrease by US$ 847 million in the next few years. The most affected LDCs will be Ethiopia (US$450 million less) and Afghanistan (US$303 million), which together account for nearly 90% of the reduction. On the other hand, there are expected to be more winners than losers, with the majority of the LDCs receiving a total increase of US$ 3.1 billion in CPA between 2009 and 2012. However this increase is not evenly distributed, with Bangladesh (US$ 615 million more), Madagascar (US$ 338 million more) and Zambia (US$ 215 million) receiving more than a third of the total increase.

Post-conflict and other countries in special development situations are projected to receive the largest reduction in CPA of US$ 1.48 billion between 2009 and 2012, with the hardest hit being Pakistan (US$ 538 million less), Ethiopia (US$ 405 million less) and Afghanistan (US$ 303 million less). Despite the reduction in CPA for some post-conflict and other countries in special development situations, just over half these programme countries will receive more CPA. However Nigeria, albeit an oil-producing country, is projected to receive the largest increase in CPA of US$ 791 million, about a third of the increase for this country grouping as a whole.

OECD DAC donors are expecting to provide more CPA to low aid LDCs at US$ 1.0 billion than to high aid LDCs, at US$0.4 billion between 2009 and 2012. Nearly 80% of the low aid LDCS are projected to receive more aid in the coming years, whereas two-thirds of high aid LDCS will receive more aid, as shown in Annex 3. There are however more winners than losers, with an expected US$ 4.8 billion increase in CPA for low income countries between 2009 and 2012 as shown in Annex 3. LDCs as a group will receive the largest increase of US$ 3.1 billion, with post-conflict and other countries in special development situations projected to receive an increase in CPA of US$ 2.5 billion between 2009 and 2012.

Box 2: Afghanistan and Iraq – blurring the picture of aid trends

ODA to Iraq and Afghanistan have a significant effect when analysing overall OECDDAC ODA and CPA trends to different country groupings. For example there have been significant ODA levels going to Iraq since 2003, peaking at 19.3% of total OECDDAC ODA in 2005, and reducing significantly to 2% in 2009. OECD DAC ODA disbursements to Afghanistan have gradually increased from around 2% in 2002 to 4.2% in 2009. There has been a similar pattern to ODA in both countries, with humanitarian aid initially being the main donor priority, which has been followed by a shift in donor priorities towards sector support, in particular governance related. The impact of the extraordinary debt relief provided to Iraq shows up markedly in 2005, whereas Afghanistan received more modest debt relief upon reaching its HIPC decision point in 2007 with its completion point relief to be received in 2010.

	2002	2003	2004	2005	2006	2007	2008	2009
Iraq								
ODA (% of OECD DAC ODA)	0.2	3.1	5.6	19.3	5.8	8.1	6.4	2.0
o/w Sector support	0.0	1.8	4.1	6.5	3.3	3.5	2.2	1.7
o/w Humanitarian Aid	0.0	1.1	1.2	0.5	0.2	0.3	0.3	0.3
o/w Debt relief	0.0	0.0	0.1	12.3	2.2	4.3	3.9	0.0
CPA (% of OECD DAC CPA)	0.0	2.5	5.9	11.5	7.6	5.3	3.3	2.4
Afghanistan								
ODA (% of OECD DAC ODA)	1.7	1.8	2.3	2.4	1.8	3.2	3.5	4.2
o/w Sector support	0.5	1.1	1.6	1.9	1.5	2.6	2.7	3.6
o/w Humanitarian Aid	0.9	0.5	0.3	0.3	0.2	0.3	0.7	0.4
o/w Debt relief	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0
CPA (% of OECD DAC CPA)	1.3	2.3	3.0	3.7	3.8	4.5	4.3	5.5

Source–OECD(CRS),accessed-March2011

The USA is the major donor to both Iraq and Afghanistan, providing an average of 58% of ODA disbursements in Iraq from 2003-2009 and an average of 46% of ODA disbursements from 2003-2009 in Afghanistan. Including ODA disbursements from Germany and the United Kingdom increases the average in Iraq to 72% and 58% in Afghanistan.

The effect of ODA levels to these countries has a significant skewing of data when analysing country groupings. The main skewing of analysis is in the grouping post-conflict and other countries in special development situations, as both Iraq and Afghanistan are present. Afghanistan is included as an LDC, LLDC and high aid LDC.

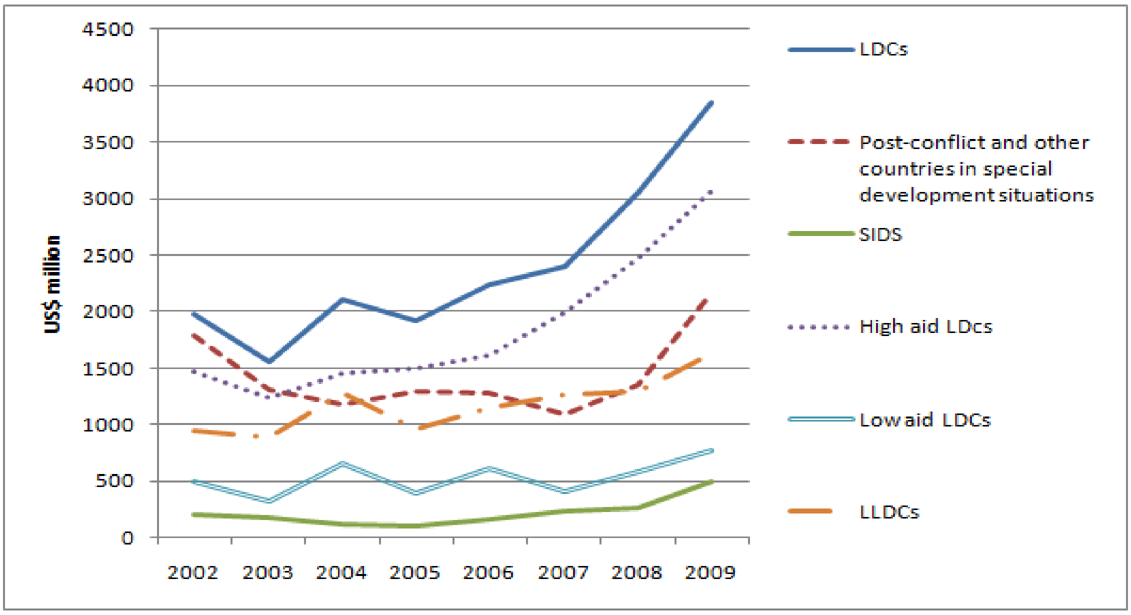
3. COMPOSITION AND QUALITY OF DEVELOPMENT COOPERATION TO LDCS

3.1. Aid modalities and concessionality

Aid modalities

Aid delivery through instruments, such as direct budget support which promote country ownership as well as use of country systems are in line with the BPoA principles. As shown in Chart 3.1 there has been a significant increase in disbursements of aid as budget support to LDCs from US$2 billion in 2002[18] to US$ 3.9 billion in 2009. However as a proportion of aid to LDCs, budget support has actually declined from 12% in 2002 to 9.1% in 2009. It is the same story for all country groupings in that despite the increase in aid disbursed as budget support in nominal terms, as a proportion of total aid, it has declined.

Chart 3.1 Trends in budget support by country grouping, 2002-2009 (US$ million)



Source: OECD database (accessed March 2011)

Chart 3.2 illustrates the variation in proportion of 2009 OECD DAC donor aid disbursed as direct budget support, humanitarian assistance and technical cooperation to LDCs and other country groupings. The main points to note are:

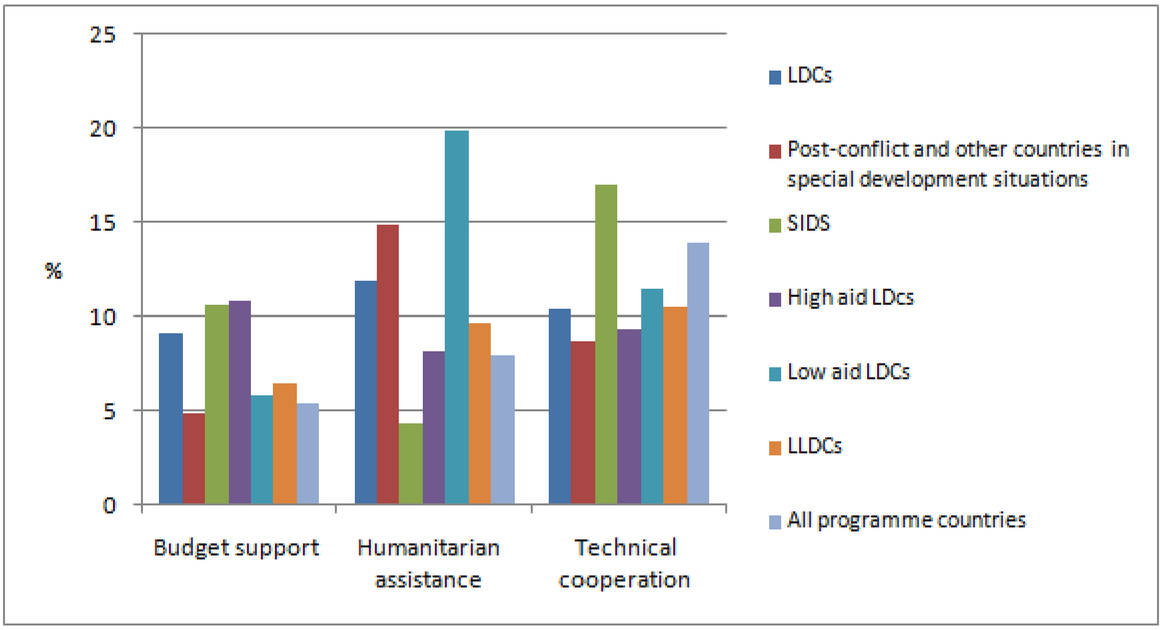
- LDCs, SIDS and high aid LDCs received a larger proportion of their aid as budget support than the 5.4% for all programme countries. Eight LDCs (Burkina Faso 23%, Democratic Republic of Congo 33%, Guinea-Bissau 22%, Mozambique 23%, Rwanda 18%, Sierra Leone 19%, Tanzania 32% and Zambia 37%) received nearly a fifth or more of their aid as budget support in 2009. However post-conflict and other countries in special development situations and low aid LDCs had the lowest shares

[18] Disbursement data are not available prior to 2002.

of budget support, in part reflecting donor concerns about disbursing directly to these governments' budgets,

- On the other hand, post-conflict and other countries in special development situations and low aid LDCs receive the largest proportion of aid as humanitarian assistance. Such countries have received the highest proportion of their aid as humanitarian assistance, such as Chad (52%), Eritrea (70%), Democratic People's Republic of Korea (45%), Myanmar (47%), Sudan (57%) and Zimbabwe (49%). SIDS received the lowest proportion of their aid as humanitarian assistance,
- There was less variation in the shares of aid disbursed as technical cooperation. Interestingly SIDS received the highest proportion in 2009, reflecting high levels of technical cooperation in the Solomon Islands (73%) and Papua New Guinea (57%).

Chart 3.2 Budget support, humanitarian assistance and technical cooperation as % of aid by country grouping, 2009

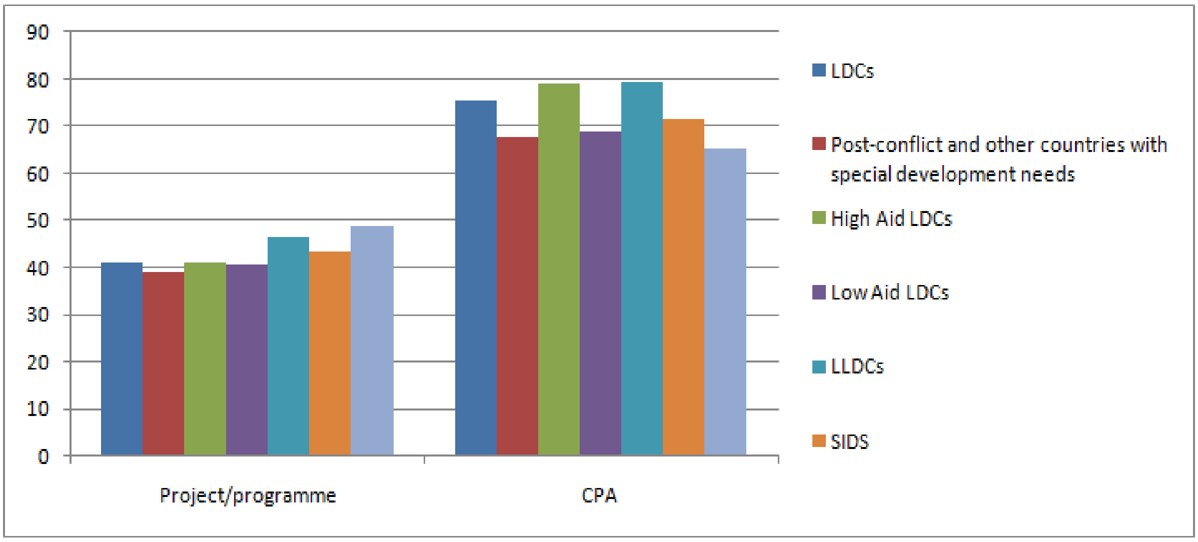


Source: OECD database (accessed March 2011)

There is less variation in the proportion of project/programme aid disbursed by country groupings as shown in Chart 3.3. In 2009, LDCs received 40% of their aid as project/programme while the average for all programme countries was 49%. Post-conflict and other countries in special development situations received the proportion at 39%.

In 2009 LDCs, LLDCs and high aid LDCs received more than three-quarters of their total aid as CPA as shown in Chart 3.3, whereas post-conflict and other countries in special development situations and low aid LDCs received 67% and 69% of their aid as CPA respectively, compared with 65% for all programme countries as shown in Chart 3.3.

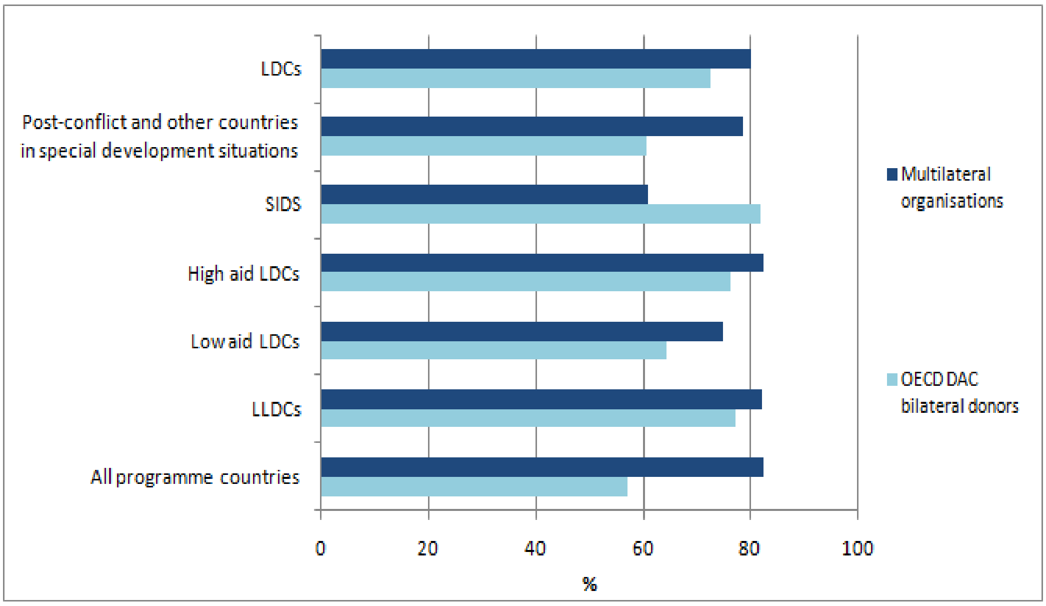
Chart 3.3 Programme/project aid and CPA as % of aid by country grouping, 2009



Source: OECD database (accessed March 2011)

As shown in Chart 3.4 multilateral organisations provided a higher proportion of their aid in 2009 as CPA than did OECD DAC bilateral donors for all country groupings, except SIDS. For LDCs, OECD DAC bilateral donors and multilateral organisations provided on average more than 70% of their aid as CPA, while for post-conflict and other countries in special development situations the ratio of CPA to ODA provided by multilateral organisations was 79% compared with 61% by OECD DAC bilateral donors.

Chart 3.4: CPA as % of total aid by OECD DAC donor type and country grouping, 2009



Source: OECD database (accessed March 2011)

Concessionality

In 2009 the majority of OECD DAC bilateral donor aid to all programme countries, including LDCs, is now provided solely as grants. However seven bilateral donors (Belgium, Finland, France, Italy, Japan, Portugal and Spain) still provide a small proportion of their aid in the form of concessional loans[19]. In addition, multilateral aid to LDCs remains highly concessional as the major donors, such as the World Bank and regional development banks, have special windows for low income countries, while the IMF has reduced its interest rates on loans to low income countries, which is applicable to 33 LDCs, about two-thirds of the low income countries.

While the average grant element of OECD DAC donor ODA loans was 67.7% in 2007-08, the average grant elements of ODA to LDCs was very much higher at 99.4%. This is in line with the 1978 OECD DAC recommendation on the financial terms to LDCs which states that ODA to LDCs should essentially be in the form of grants or, as a minimum, the average grant element of all commitments from a given donor should either be at least 86% to each LDC over a three-year period or at least 90% annually for LDCs as a group[20].

3.2. Allocation and poverty targeting

Allocation - darlings and orphans

Irrespective of overall aid trends, there continues to be a very uneven distribution of resources as some LDCs (donor darlings) continue to receive far more aid than others (donor orphans). Despite the concern for responding to country needs, donor-specific considerations such as geo-political links, trade and investment opportunities and language/culture and historical factors all play a part in donor prioritisation of LDCs and other programme countries and their aid allocations[21].

Although there is no internationally-agreed classification of donor darlings and orphans, the three most frequently used measures are the total amount of CPA, CPA as % of GNI and per capita CPA. Table 3.1 shows the top and bottom twenty LDCs in terms of total amount of CPA and Chart 3.5 shows the rankings of LDCs in terms of CPA as % of GNI and per capita CPA.

All three measures have limitations and none necessarily reflects country needs. The total amount of CPA can reflect donor herding to the largest recipients whereby many donors prioritise and allocate resources to the same LDCs whereas countries at the bottom of the list tend to be the smaller countries. On the other hand, countries with large populations, such as Bangladesh and Ethiopia, will have lower per capita CPA than small island countries,

[19] OECD (2010c)
[20] OECD (1978)
[21] OECD (2009b)

such as the Solomon Islands and Vanuatu, with small populations. CPA as % of GNI only measures aid in relation to the size of the official economy and GNI data are not always available or reliable, such as in Afghanistan and Somalia[22]. So identifying donor darlings and orphans depends on the measure being used.

Table 3.1: Largest and smallest LDC recipients of CPA, 2009

Top twenty: CPA in 2009 (current US$ Mn)		Bottom twenty: CPA in 2009 (current US$ Mn)	
Afghanistan	5096.6	Tuvalu	17.1
Ethiopia	2900.0	Sao Tome & Principe	24.4
Tanzania	2827.5	Kiribati	27.2
Mozambique	1876.3	Equatorial Guinea	30.6
Congo, Dem. Rep.	1676.3	Comoros	44.2
Bangladesh	1642.5	Samoa	78.9
Uganda	1541.9	Eritrea	93.8
Zambia	1201.3	Vanuatu	103.2
Burkina Faso	994.2	Djibouti	123.3
Mali	926.9	Bhutan	127.2
Senegal	912.4	Gambia	127.6
Sudan	879.7	Lesotho	130.7
Haiti	876.0	Guinea-Bissau	132.6
Rwanda	873.7	Somalia	166.8
Nepal	864.8	Myanmar	172.5
Cambodia	694.9	Guinea	174.4
Malawi	681.7	Central African Rep.	180.4
Benin	643.3	Timor-Leste	196.5
Laos	421.6	Solomon Islands	206.0
Burundi	416.5	Togo	217.3

Source: OECD database (accessed March 2011)

In terms of the total amount of CPA, Afghanistan, Ethiopia, Tanzania, Mozambique, Bangladesh and Uganda are clearly the donor favourites, whereas Tuvalu[23], Sao Tome and Principe, Kiribati and Equatorial Guinea are donor orphans. However, as Chart 3.5 shows, Liberia, Samoa and the Solomon Islands are in the top ten LDCs in terms of CPA as % GNI and per capita CPA, whereas Afghanistan and Mozambique are the only countries amongst the top ten recipients in terms of the amount of CPA and one of the other two measures. The limitations of these measures are demonstrated by Sao Tome and Principe which is amongst the bottom ten recipients in terms of the total amount of CPA disbursed in 2009, but it is amongst the top ten in terms of per capita CPA and top 15 in terms of CPA as % GNI. For Bangladesh it is the reverse, as it is in the top ten in terms of the amount of CPA but in the bottom ten in terms of the other two measures.

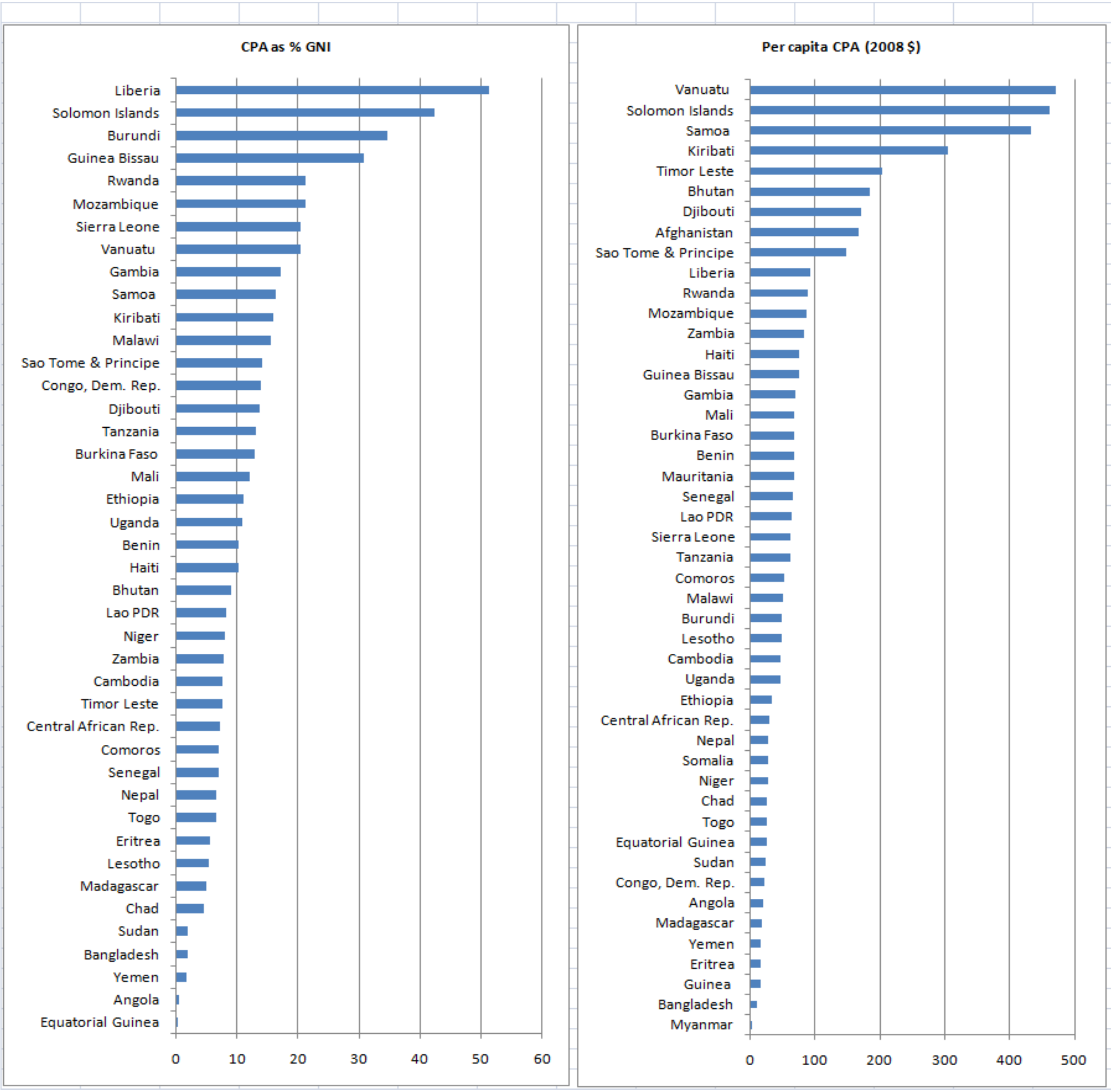
[22] Afghanistan, Guinea, Mauritania, Myanmar, Somalia and Tuvalu are not included in chart showing CPA as % GNI as data were not available.

[23] Tuvalu is not included in the per capita chart as per capita income of $2,036 is significantly higher than other LDCs and its inclusion would dominate the chart.

On all three measures, Equatorial Guinea and Eritrea are donor orphans and seven countries (Angola, Bangladesh, Equatorial Guinea, Eritrea, Madagascar, Sudan and Yemen) are in the bottom ten in terms of CPA as % GNI and per capita CPA.

However the overall numbers can disguise the reliance of some LDCs on just a few donors. Madagascar is an example of an LDC which is heavily reliant on few donors, with five donors, France (24%), United States (18%), EU institutions (13%) and World Bank and African Development Bank (8% each), providing more than 70% of the country's total ODA in 2009. In Equatorial Guinea, Spain provides more than 60% of its ODA, although Equatorial Guinea only accounts for 0.4 % of Spain's gross ODA disbursements in 2009.

Chart 3.5: CPA as % GNI and per capita CPA of LDCs, 2009



Source: OECD

In a recent study of “fragile states”[24], the OECD identified eight post-conflict and other countries in special development situations (Afghanistan, Cote d’Ivoire, Democratic People’s Republic of Korea, Iraq, Liberia, Papua New Guinea, Solomon Islands and Togo), which are dependent on one donor for at least 50% of their aid. Iraq and Democratic People’s Republic of Korea receive over 80% of the CPA from the United States, while Papua New Guinea and Solomon Islands receive 78% and 82%, respectively, of their CPA from Australia.

Poverty targeting

However, none of these measures reflect countries’ needs for donor resources. One way of assessing needs is in terms of LDCs’ progress towards the MDGs. To assess whether aid is going to LDCs and other programme countries which need it most, the OECD has grouped 59 programme countries into clusters, based on their MDG status and progress towards achieving the MDGs, as shown in Table 3.2[25]. It compares the average annual growth of CPA between 2005-2009 with the projected annual average increase in CPA of 2009 to 2012.[26]

[24] OECD (2010b)
[25] OECD (2010a). The programme countries analysed are mainly low income countries. The methodology underlying the classifications by cluster is discussed in OECD (2010a).
[26] As CPA excludes humanitarian assistance, the data may underestimate the impact of humanitarian assistance and peacekeeping budgets in helping to achieve development goals in some LDCs and post-conflict and other countries with special development needs.

Table 3.2: Annual Average % Change in CPAs, 2005-2009 and 2009-2012

	2005-2009	2009-2012	LDC s	Non-LDCs
Cluster 1 - very low stats and no progress				
LDCs	11.1	0.2	*Afghanistan, Angola, Central African Republic, Chad, Congo DR, Guinea Bissau, Haiti, Liberia*, Mozambique, *Niger, Sierra Leone, Somalia, Timor-Leste, Yemen*	*Nigeria*
Post conflict & other countries in secial development	12.6	2.5		
All countries	11.8	2.2		
Cluster 2 - low status and no progress				
LDCs	9.0	4.9	*Burundi, Djibouti, Equatorial Guinea, Eritrea*, Lesotho, Madagascar, *Sudan, Togo*, Tanzania, Zambia	*Cote d'Ivoire, Papau New Guinea, Zimbabwe*
Post conflict & other countries in secial development	10.3	2.7		
All countries	11.5	4.2		
Cluster 3 - low status but some progress				
LDCs	8.2	3.2	Bangladesh, Benin, Burkina Faso, *Comoros, Ethiopia, Gambia, Guinea*, Malawi, Mali, Rwanda, Senegal, *Uganda*	*Kenya*, Korea DR, *Pakistan*
Post conflict & other countries in secial development	13.8	-0.1		
All countries	9.5	2.4		
Cluster 4 - medium status and signficant progress				
LDCs	7.3	2.5	Bhutan, Cambodia, Laos, Mauritania, *Myanmar, Nepal, Solomon Islands*	Ghana
Post conflict & other countries in secial development situations	10.7	0.9		
All countries	6.8	2.6		
Cluster 5 - high status and some progress				
LDCs	21.7	-2.6	Vanuatu	Maldives, *Tajikistan*, Uzbekistan
Post conflict & other countries in secial development situations	2.8	11.2		
All countries	10.3	-2.0		
Cluster 6 - high status and significant progress				
LDCs	4.6	5.8	Samoa, *Sao Tome and Principe*	Kyrgyz Rep, Viet Nam
Post conflict & other countries in secial development situations	-8.2	-0.2		
All countries	13.9	-1.0		
Post conflict and other countries with special development needs are marked in italics				
Source: OECD				

The programme countries with the greatest need for assistance to achieve the MDGs are those in Cluster 1, of which all but one country, Nigeria, are an LDC. Yet the Cluster 1 LDCs can expect an annual average increase in CPA in the coming years of just 0.2%, compared with 2.5% for post-conflict and other countries in special development situations and 2.2% per annum for all the programme countries in this Cluster. During the period 2005-2009, CPA to this Cluster increased by an average of 11.1% per annum. Furthermore, two oil-producing programme countries in this Cluster, Angola and Nigeria, are projected to have average increases of 7.3% and 14.3% per annum respectively between 2009 and 2012, whereas Afghanistan, Central African Republic, Chad, Haiti, Liberia, Sierra Leone, Somalia and Timor Leste, all of which are post-conflict and other countries in special development situations, are amongst the LDCs which can be expected to see a reduction in the amount of CPA each receives in the coming years (see Annex 3 for the list of expected CPA winners and losers).

In contrast, the Cluster 2 LDCs, which are also amongst those needing the most assistance to achieve the MDGs, are projected to see an average CPA increase of 4.9% per annum between 2009 and 2012, which is higher than the 4.2% average for this Cluster, while post-conflict and other countries in special development situations in this Cluster will receive the lowest annual average increase in CPA at 2.2%. Within this Cluster, CPA to Madagascar is expected to nearly double between 2009 and 2012 and Lesotho will also see its CPA increase by about 9% per annum, whereas CPA to Cote d'Ivoire, Djibouti, Equatorial Guinea and Zimbabwe, all post-conflict and other countries in special development situations, is forecast to decline.

In Cluster 3, Bangladesh and Kenya will be beneficiaries of higher CPA between 2009-2012, whereas Ethiopia, Democratic People's Republic of Korea and Pakistan can expect lower CPA. Within this grouping, LDCs are expected to benefit most, whereas post-conflict and other countries in special development situations will see a marginal decline in the CPA they receive. In Clusters 4 and 5, LDCs can expect to see the changes in projected CPA on a par with the average for the Cluster as a whole, while for Cluster 6, LDCs will see their CPA increase[27].

3.3. Alignment and fragmentation

Alignment

A key LDC commitment of the BPoA is to "identify sectors where ODA can have the most significant catalytic effect on efforts to eradicate poverty, and foster sustained economic growth and sustainable development"[28]. To achieve growth and sustainable development, LDCs have prioritised the development of infrastructure and the productive sectors through the priority sectors and projects identified in national development strategies, PRSPs and other national documents.

However, throughout most of the 2000s, much of the focus of OECD DAC donor aid was driven by the donors' commitments to help LDCs and other programme countries achieve the MDGs. As a result, an increasing proportion of OECD DAC donor disbursements were allocated for social sectors, such as health, education and to governance. Hence some of the LDCs' needs for funding economic infrastructure and productive sector investments have been increasingly met by Southern development cooperation providers, such as China, India, Kuwait, Saudi Arabia, the Arab Bank for Economic Development in Africa (BADEA), the

[27] Clusters 4,5 and 6 have fewer countries and so the average annual growth rates for LDCs and post-conflict and other countries in special development situations reflect the projected CPA changes for only one to three countries.

[28] UNOHRLLS (2005), page 42

Islamic Development Bank (IsDB) and the OPEC Fund[29] (see Box 3). However, since 2007, there has been a refocus by OECD DAC bilateral donors and multilateral organisations to better meet LDCs' and other programme countries' priorities for economic growth, with the share of donor disbursements to all programme countries for economic infrastructure rising to an average of 13.6% in 2007-2009 compared with an average of 10.2% between 2002 and 2006, while the share of aid to productive sectors increased from an average of 5.9% to 6.5% in the same periods.

Box 3Key characteristics of South-South development cooperation

South-South development cooperation is playing a growing role in the international financial framework. For LDCs and other programme countries, South-South development cooperation is seen as complementary to assistance provided by Northern donors, helping to meet certain gaps, particularly in the area of infrastructure, and importantly, unencumbered by the contributor's agenda. In particular, the key characteristics of Southern development cooperation are1:

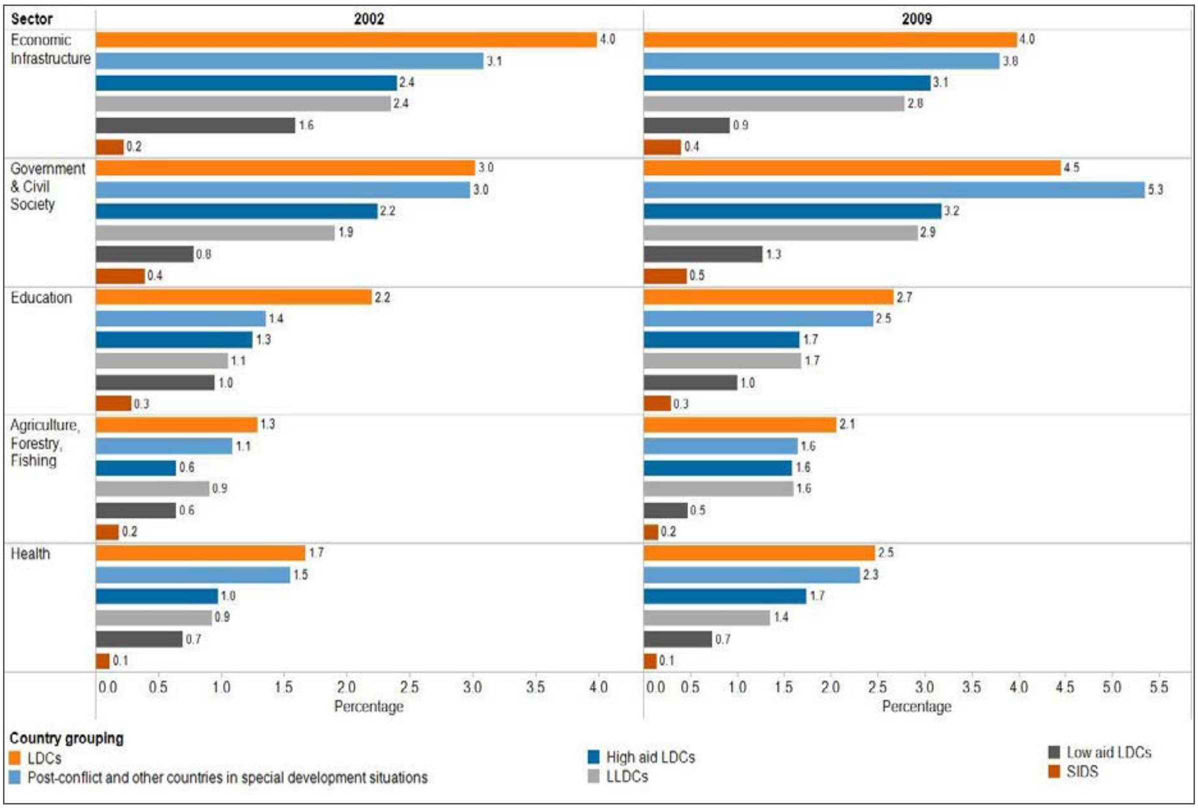
- It has few, if any, policy conditionalities and while some Southern contributors provide entirely grants, and almost all provide technical cooperation as grants, project and programme assistance is primarily provided as loans;
- Some Southern contributors have a good record of providing development assistance on-budget and others do not;
- It is seen to be meeting programme country priorities for infrastructure development and productive sector investments;
- It tends to be viewed as being relatively predictable because it is disbursed on schedule within the financial year, which not only benefits government fiscal planning but it also means projects tend to be completed on time;
- It is often seen as more flexible and responsive to national priorities, however none of the major Southern contributors have specific facilities for funding external shocks, or the flexibility to be able to quickly disburse funds in such situations;
- It is viewed by programme countries as being less encumbered by procedural and administrative delays, although not necessarily more aligned with national financial management systems than aid from Northern donors;
- The bulk of Southern development assistance is tied to the procurement of goods and services from suppliers in the contributor country, although this does not mean higher costs or poorer standards. On the contrary, projects implemented by Southern contributors are often viewed by beneficiaries as low cost, good standard and completed on time;
- It is seen as having less concern about due diligence with respect to environmental standards and social impact, particularly as it relates to infrastructure projects;
- There is little information available on the monitoring and evaluation procedures of Southern

[29] UNECOSOC (2010b)

However the overall trends disguise a considerable variation in aid funding for LDCs and other country groupings, as shown in Chart 3.6, which illustrates the range and changes in OECD DAC donor aid disbursed by sector between 2002 and 2009. The main points arising are as follows:

- The proportion of funding for the economic infrastructure sector in LDCs has hardly changed from 4% in 2002 to 4.1% in 2009. Furthermore, low aid LDCs are the only country grouping to be receiving a lower proportion of aid for economic infrastructure in 2009 at 0.9% than in 2002 at 1.8%, which suggests that not all LDCs are receiving sufficient infrastructure financing.
- In 2009 aid for governance and civil society exceeded aid for economic infrastructure in all country groupings, whereas in 2002 aid for economic infrastructure was higher than aid for governance in all country groupings, except SIDS.

Chart 3.6: Aid disbursements by sector, % of total, 2002 and 2009
(% of gross disbursements, current prices)



Source: OECD database, accessed March 2011

- Aid funding for governance and civil society sectors have increased in all country groupings between 2002 and 2009, with the largest increase from 3% to 5.3% of total ODA in post-conflict and other countries in special development situations, compared with an increase from 3.1% to 4.6% for LDCs over the same period.
- The proportions of aid funding for education and health have increased in all country groupings between 2002 and 2009, with the exception of low aid LDCs where it has remained unchanged, which highlights the need for additional funding to these countries to achieve the MDGs.
- Reflecting in part donors' responses to the food crisis of 2008, aid funding for agriculture, forestry and fisheries has increased in importance in all country groupings between 2002 and 2009, except for low aid LDCs and SIDS.

Looking at the aid received by LDCs by sector as illustrated in Table 3.3, the dominance of a few of the major recipients is obvious as follows:

- Ethiopia, Afghanistan and Tanzania accounted for 43% of the aid disbursed to the agriculture, forestry and fisheries sector in 2009, as well as also accounting 43% of aid disbursed to transport and storage and 47% of aid to other social infrastructure and services,
- For education, health, population and reproductive health and water supply and sanitation, all MDGs priority sectors, the top three recipient LDCs received a lower proportion of aid than in most other sectors, which indicates a more equal allocation of aid to these sectors .
- The median LDC percentage share by sector is significantly below the top three percentage share for all sectors, and only rises above 1% for education and governance and civil society sectors, which indicates that half the LDCs are receiving a small proportion of the aid disbursed in each sector.

While the lumpiness of particular project disbursements can account for some of the high proportion of sector aid being disbursed to a few LDCs as well as donor herding to donor darlings, it cannot account for the highly uneven distribution overall.

Table 3.3 Largest LDC recipients of aid by sector, 2009

Sector	Largest LDC recipients	Top three % share	Median % share	Amounts disbursed to sector, 2009 (US$ billion)
Agriculture, forestry and fisheries	Ethiopia (18.2%), Afghanistan (17.8%), Tanzania (7.3%)	43.3	0.91	2.64
Banking & financial services	Ethiopia (18.2%), Afghanistan (18.0%), Congo DR (17.4%)	53.6	0.97	0.34
Business	Afghanistan (30.4%), Tanzania (8.3%), Uganda (8.2%)	46.9	0.84	0.53
Communications	Mozambique (20.3%), Bangladesh (14.9%), Bhutan (7.8%)	43.0	0.98	0.11
Education	Ethiopia (15.5%), Afghanistan (7.9%), Bangladesh (6.2%)	29.6	1.09	2.88
Energy	Ethiopia (14.7%), Afghanistan (14.0%), Congo DR (10.9%)	39.6	0.82	1.22
Governance and civil society	Afghanistan (33.3%), Sudan (7.7%), Congo DR (4.8%)	45.8	1.03	5.30
Health	Ethiopia (14.4%), Congo DR (8.7%), Tanzania (8.6%)	31.7	0.64	3.10
Industry, mining and construction	Tanzania (16.6%), Uganda (11.2%), Afghanistan (8.5%)	36.3	0.38	0.40
Other social infrastructure and services	Afghanistan (31.5%), Ethiopia (9.8%), Tanzania (5.5%)	46.8	0.45	1.40
Population and reproductive health	Tanzania (10.8%), Uganda (10.3%), Ethiopia (9.3%)	30.4	0.75	2.69
Tourism	Cambodia (20.4%), Laos (18.9%), Bhutan (18.2%)	57.5	0.93	0.01
Trade policies	Mozambique (14.7%), Afghanistan (13.0%), Sudan (12.1%)	39.8	0.74	0.21
Transport and storage	Afghanistan (28.3%), Ethiopia (9.4%), Tanzania (5.4%)	43.1	0.54	2.64
Water supply and sanitation	Tanzania (10.7%), Ethiopia (8.8%), Haiti (7.6%)	27.1	0.40	1.32

Source: OECD database accessed March 2011

Fragmentation

LDCs have on average 24 OECD DAC donors, of which 14 are bilateral and 10 multilateral organisations[30]. However, the number is considerably higher in some LDCs when multilateral organisations are included. The situation becomes even more complex if one takes into account bilateral providers of South-South cooperation. Post-conflict and other countries in special development situations and LLDCs have slightly more OECD DAC donors on average at 26 and 25 respectively, whereas SIDS have the lowest average number of OECD DAC donors at 12. Having a large number of donors can be problematic for LDCs as it means more government time needs to be devoted to donors and increases administrative and transaction costs (see also Section 3.4.4).

Aid fragmentation is also an issue from a donor perspective as some OECD DAC bilateral donors (for example Canada, France, Germany, Japan, United Kingdom of Great Britain and Northern Ireland and the United States) disbursed aid to more than 100 programme countries apiece in 2008[31]. Most multilateral organisations also disburse to a large number of programme countries but the situation is not strictly comparable because of their constituencies and mandates. Subsequent to the financial crisis, a number of major OECD DAC member states have indicated they are not only reducing the number of their priority programme countries but some are also shifting their aid allocation priorities to focus more on donors' foreign policy interest, for example:

[30] OECD (2009a)
[31] ibid

- In 2009 Canada pledged to spend 80% of its bilateral aid on 20 countries of focus of which 9 are LDCs, defined in part by their alignment with Canadian foreign policy priorities[32],
- In 2009, France defined five criteria of interest, including importance to French national defence and counter-terrorism and their proportion of immigrants to France, and five criteria of need as the basis for its aid allocations[33].
- In 2011, the United Kingdom of Great Britain and Northern Ireland announced a refocus of its bilateral aid programme on 27 programme countries of which 17 are LDCs, and as a result it will end aid to 16 programme countries (of which 5 are LDCs) over the next few years[34]. In 2010, the UK indicated that development aid to some priority countries, such as Afghanistan and Pakistan, will need to be in line with UK national security interests in these countries.

Although reducing fragmentation may benefit some programme countries, for others, such as LDCs and post-conflict and other countries in special development situations having only a few donors in key sectors (for example aid orphans), this leaves them potentially more vulnerable to volatility and/or major financing shortfalls through decisions of their major donors.

It would appear that most changes in donor priority countries and aid allocations are a reflection of changing donor interests and priorities rather than based on programme country criteria. Furthermore, changes in donors' aid allocations are not based on any measure of structural vulnerability as such as the Economic Vulnerability Indicator (EVI), which is a criterion for identifying the LDCs[35].

3.4. National ownership, use of country systems and harmonisation

National ownership

One of the five principles of the BPoA is "country ownership, where least developed countries should identify national priorities that their development partners can use to provide support"[36]. This is further enhanced through its accountability under MDG 8 – a global partnership for development. Target 8b of MDG8 focuses on addressing the special needs of LDCs, including more generous ODA for LDCs committed to poverty reduction. Indicator 1 of the Paris Declaration focuses on programme countries, including LDCs, progress in designing and implementing national development strategies as aid is most effective when there is programme country ownership and it is programme country-led rather than donor-led.

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[32] CIDA (2009)
[33] Oxfam (2011)
[34] DFID (2010)
[35] UNCTAD (2010). See also Patrick Guillaumont*Selected challenges and solutions in making development financing in LDCs more sustainable* (forthcoming).
[36] UNECOSOC (2011), page 3

In recent years, there has been progress in LDC country-ownership as measured by the Paris Declaration monitoring surveys. Between 2005 and 2007 five of 28 LDCs surveyed (Burkina Faso, Ethiopia, Zambia, Burundi and Sierra Leone) were assessed as having strengthened country ownership with better national development strategies and policies, although this was a lower proportion than for the non-LDCs surveyed. However, a higher proportion of LDCs were ranked as having stronger strategies than the non-LDCs (see Box 4). In addition a number of LDCs, such as Rwanda and Uganda, are expected to demonstrate further progress as these countries are in the process s of developing new resource mobilisation strategies. LLDCs were rated as having made better progress in developing national strategies between 2005 and 2007 and overall had a higher proportion of stronger strategies scoring Bs than LDCs. Post-conflict and other countries in special development situations showed the least progress in country ownership and have the highest proportion of programme countries with strategies classified ass “poor” or “very poor”.

Use of country systems

One of the key modalities for strengthening national ownership of the aid process is for LDCs and other programme countries to establish strong public financial management (PFM) and procurement systems, which donors use rather than relying on their own rules and procedures. It also means donors using country systems rather than setting up dedicated structures, such as parallel implementation units (PIUs).

The reliability of country PFM systems has been improving in recent years with the strongest systems being in high aid LDCs and LLDCs and the weakest in post-conflict and other countries in special development situations, as measured by the Paris Declaration monitoring process which tracks progress in this area (see Box 4). The reliability of country PFM systems for the majority of LDCs scored in the middle range of 3.0 – 3.5higher flows, although both continue to demonstrate strong country ownership. Overall the greatest use of PBAs for aid delivery was in high aid LDCs and SIDS, while post-conflict and other countries in special development situations experienced the lowest proportion of aid being delivered through PBA-approaches, reflecting donor concerns about disbursing directly to government budgets in these countries.

Box 4LDCs' progress in achieving the Paris Declaration indicators

There are 12 key Paris Declaration indicators which are monitored to assess progress of donors and programmes countries in improving aid effectiveness. The table below highlights progress achieved by LDCs and other country groupings towards achieving the 2010 targets for the 12 indicators between 2005 and 20071.

The key points arising for LDCs are as follows:

- A higher proportion of LDCs, LLDCs and high aid LDCs had stronger national development strategies, achieving a B score, than all the survey countries. LDCs and high LDCs also had a larger proportion of countries with poor national development strategies, scoring D-E, than did the survey countries overall. Post-conflict and other countries in special development situations had the highest proportion of countries with poor national development strategies;
- High aid LDCs and LLDCs had the highest share of countries with the most reliable PFM country systems, while post-conflict and other countries in special development situations had the least reliable PFM country systems overall;
- LDCs, LLDCs and high aid LDCs had stronger accountability as measured by a greater proportion of countries capturing aid flows in national budgets;
- Technical cooperation was least coordinated in LDCs, at 53%, compared with other country groupings and an average of 59% for all survey countries.
- Donors use of country PFM systems was lower in LDCs and the other country groupings than for all survey countries, with the lowest usage in SIDS and post-conflict and other countries in special development situations1.
- LDCs, LLDCs and high aid LDCs had the most number of parallel implementation units (PIUs) being set up and used by donors on average.
- Aid predictability was highest in SIDS, LDCs and LLDCs and worst in post-conflict and other countries in special development situations;
- The proportion of aid untied for LDCs and other country groupings, except SIDS1, was above 90%;
- Donor harmonisation through the use of common PBA frameworks accounted for 44% of aid disbursements in LDCs and 47% in high aid LDCs, compared with the average of 44% for all survey countries.
- Harmonisation of donor missions and analytical work was weakest in LDCs with only 18% of donor missions being coordinated and 41% for donor analysis, compared with 20% and 44% respectively in

For LDCs, the proportion of joint donor missions at 18% is still very low and means a great deal of government time is still being devoted to dealing with donors. For LDCs, the proportion of co-ordinated donor analysis is higher at 41%, but the coordination of donor analysis is lower than for other country groupings. So there is still considerable progress required to improve donor harmonisation in LDCs. Interestingly there is better harmonisation of donor missions in post-conflict and other countries in special development situations than in LDCs overall.

3.5. Predictability, flexibility, volatility and conditionalities

Predictability and flexibility

For LDCs and other programme countries, the predictability of donor aid is crucial as unpredictable aid can significantly hinder governments' abilities to implement their national budgets and meet spending commitments. In the worst cases, it can lead to higher budget deficits and result in important projects and programmes being severely delayed.

Predictability has several facets including donors' ability to provide 2 to 3-year commitments of anticipated disbursements and an annual disbursement schedule, and to disburse in line with the schedule annually. Although the focus of predictability measures including Paris indicators tends to be on the latter, the former are also important to enhance country ownership through enabling them to properly plan and execute their national development strategies.

Although making aid more predictable is one of the key Paris Declaration benchmarks, progress has been slow, particular with respect to disbursements of project aid, basket funds and technical cooperation[37]. Based on the Paris Declaration monitoring process, just over two-thirds of donor aid to LDCs was disbursed on schedule and recorded by governments, whereas it was less predictable at 59% for post-conflict and other countries in special development situations (see Box 4). However predictability varies considerably by country. For example, in Zambia 82% of aid was disbursed as scheduled while in the Democratic Republic of Congo it was just 20%. Predictability tends to be higher in LDCs such as Ethiopia, Tanzania and Uganda which have a significant proportion of their aid disbursed through PBAs. Box 5 highlights donors' ability to predict and deliver CPA.

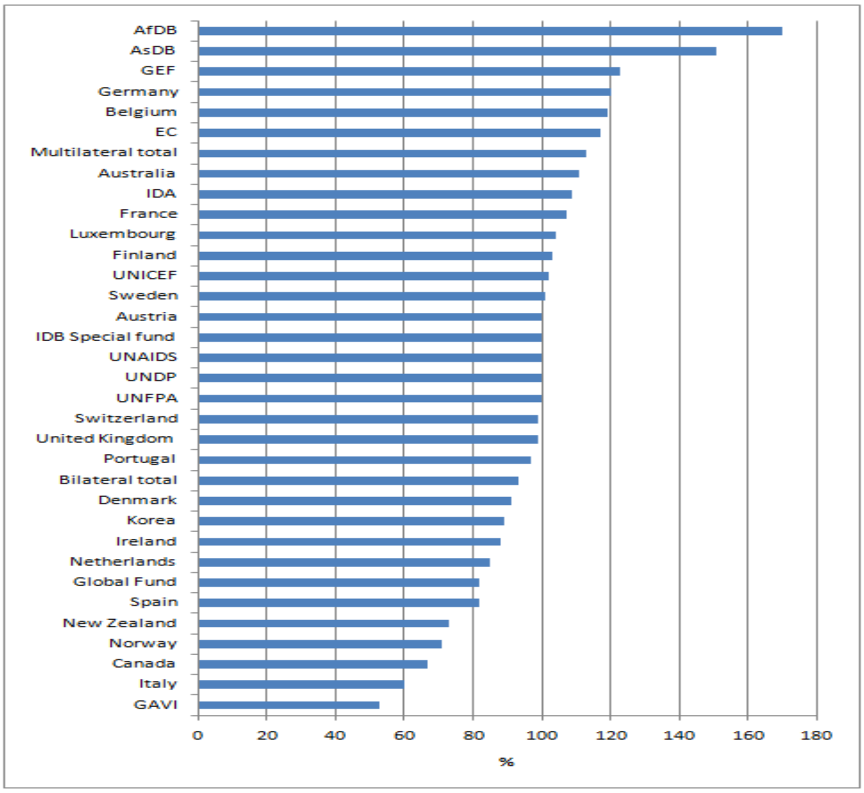
[37] OECD (2008)

Box 5 Predictability of OECD DAC donor aid

The OECD has recently calculated a new predictability indicator which assesses how well or poorly OECD DAC donors have been in disbursing CPA compared to what they had planned over one-year and two-year periods1. The chart below illustrates the one-year predictability outcomes for 2009 whereby OECD DAC donors which disbursed more CPA than planned show a predictability ratio of more than 100% and those which failed to disburse as planned have a ratio of less than 100%. The donors which disbursed as planned are shown as having predictability ratios of 100% or thereabouts.

Overall OECD DAC donors disbursed just 3% more than predicted in 2009, however this hides considerable variation between individual donors. Overall multilateral organisations disbursed morethan predicted whereas bilateral donors disbursed less than predicted. For example, the African and Asian Development Banks both disbursed significantly more than programmed in 2009 reflecting the front-loading of additional resources to assist programme countries during the financial crisis1. In contrast the United Nations organisations disbursements were almost exactly as planned. Whereas a few OECD DAC bilateral donors disbursed more than predicted (such as Australia, Belgium, Germany and France), more than half disbursed less than predicted with Canada, Italy, Norway and New Zealand being the least predictable.

Aid Predictability of OECD DAC donors over 1-year



Source: OECD

Over a two-year period, donor aid was less predictable with disbursements overall being 8% more than predicted, although the variations amongst donors were greater.

LDC s and programme countries have long requested improvements in the flexibility of aid to help them cope with shocks or unexpected financing needs[38]. However, for all

[38] There is no information on flexibility of aid to LDCs.

programme countries, this is an area where donors are ranked as performing badly (see Box 6) and on which there has not been significant progress. Nonetheless some donors, notably the African and Asian Development Banks in 2009, did respond quickly and flexibly to programme countries' needs arising from shocks and crises, which demonstrates how some multilateral organisations are able to respond. In addition, some OECD DAC bilateral donors have been providing more resource flexibility through higher allocations of budget support to programme countries. Although some steps have been taken to set up more flexible financing facilities to assist programme countries, such as the European Commission's Vulnerability-FLEX mechanism available to 13 ACP countries and the IMF's Rapid Credit Facility for low income countries, more still needs to be done, in particular with respect to LDCs.

Volatility

Aid volatility can have significant consequences for LDCs and other programme countries; at a macroeconomic level it can result in lower economic growth while at a microeconomic level it can make fiscal planning and implementation very difficult. A study by HomiKharas[39] concludes that ODA is five times more volatile than GDP and three times as volatile as exports for the average programme country. Furthermore Kharas estimates for the average programme country that aid volatility can cost about 1.9% of GDP and sub-Saharan African and small Pacific island countries are more vulnerable than other regions due to high aid dependency. For aid dependent countries[40] the cost can be as high as 7% of GDP. For donors, the costs can vary from a low of $0.07 (Sweden) to a high of $0.28 (United States) per dollar of aid, with average being $0.148 per dollar of aid [41]. Kharas notes that donors which link aid most closely to conditionalities have the highest losses arising from aid volatility[42]. From an LDC perspective, policy-based conditionalities are restrictive on government's policy space and undermine national ownership[43].

In its recent analysis of "fragile states"[44], an OECD/DAC category which includes 31 LDCs, the OECD highlights that these countries experience lower rates of aid predictability and higher volatility, which can reduce the value of ODA by 15%. In addition, the study notes that post-conflict and other countries in special development situations are particularly vulnerable to aid volatility as many of these programme countries have experienced two or more shocks between 1970 and 2006 (for example Burundi, Gambia, Guinea-Bissau, Kiribati, Liberia, Rwanda, Sao Tome and Principe, Solomon islands and Timor Leste, all of which are LDCs) and some face chronic crises (for example Cote d'Ivoire and Guinea –Conakry).

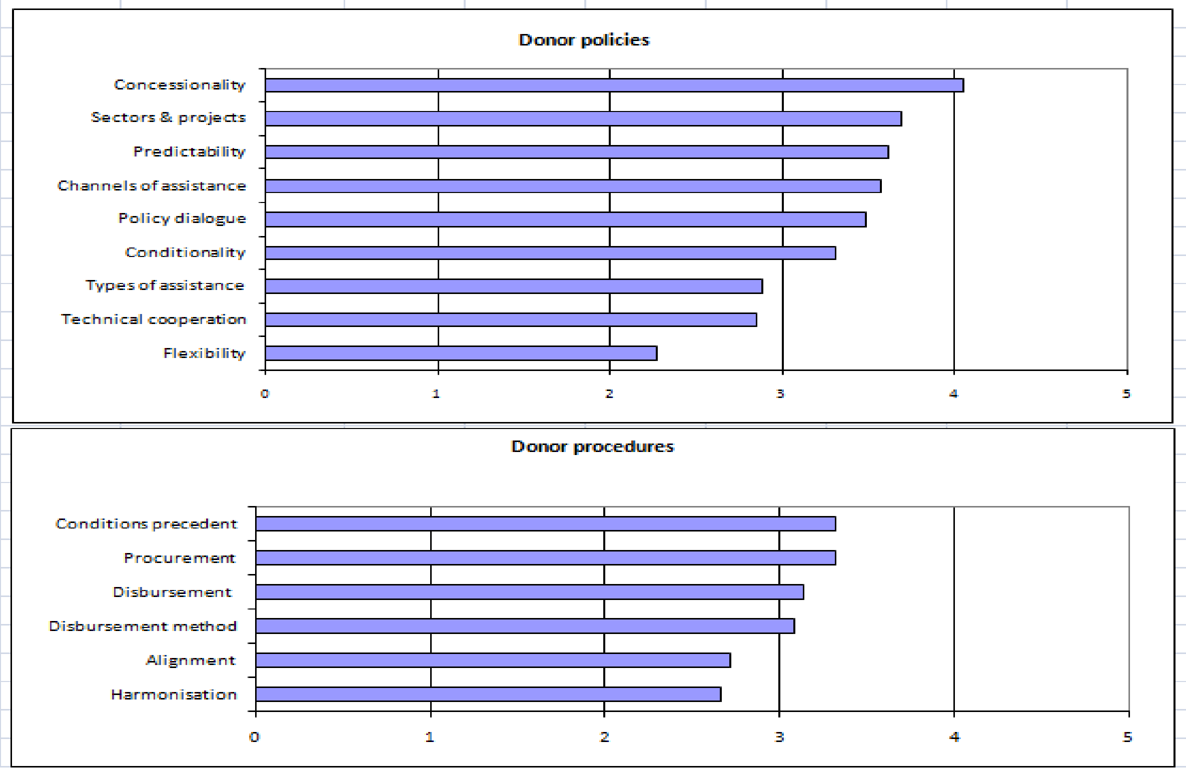
[39]Kharas (2008). This study does not focus specifically on LDCs however its findings are of relevance to LDCs
[40]Kharas does not list the LDCs which are aid dependent.
[41]ibid
[42] ibid
[43] UNECOSOC (2010a), page 24
[44] OECD (2010b)

Box 6 Programme country rankings of donors' policies and procedures

There is no formal forum for assessing LDCs' and other programme countries' views on donors' aid policies and procedures and evaluating the impact on the in-country delivery of aid. Although the Paris Declaration indicators do provide a few measures from a country perspective, most are based on donor information and assessment. However one effort to compile programme countries' views on donors' policies and procedures was undertaken as part of the Heavily Indebted Poor Countries Capacity Building Programme (CBP)1, where virtually all of the participating programme countries are LDCs.

The HIPC CBP indicators are wider than the Paris indicators and reflect more on programme countries' concerns. For example, the predictability indicator has three components, all of which important for government budgeting, namely, each donor's ability to provide 2 to 3-year disbursement commitments and an annual disbursement schedule as well as the donor's ability to disburse in accordance with these schedules.

In terms of policies, countries rank donors highest on the concessionality of resources provided, reflecting the increasing trend of bilateral donors to provide only grants and the highly concessional loan windows of multilateral organisations. In contrast donors were ranked worst on aid flexibility - as very few provide facilities to deal with shocks- andon technical assistance because of its perceived poor content and quality and lack of alignment with government priorities. The chart illustrates the programme countries' rankings of donor policies and procedures, using a scoring system of 1 (lowest) to 5 (highest).



Source: HIPC CBP

On procedural matters, donors were ranked highest on conditions precedent as many donors have simplified the number and types of conditions required before loan and grant agreements become effective and disbursements can commence. On the other hand, donors were ranked lowest on their alignment with programme country PFM and procurement systems and on the lack of harmonisation of procedures amongst donors.

For a comparison of individual donor's performances based on the Paris indicators (for all surveyed countries) and the HIPC CBP evaluations (virtually all LDCs) (see Annex 5).

Conditionalities

Although there has been progress in LDC ownership of the aid process, there is an issue with the way it is being measured: namely as actions to increase donor confidence in countries' use of aid resources, in particular in national budgets. As an UNCTAD report notes, the effect of equating ownership with whether a development strategy is operational is that "the monitoring of ownership has become a way in which process conditionality in financial governance is being reinforced"[45]. So this aspect of donor conditionality is not necessarily being reduced. In fact it can be argued that this type of conditionality may be increasing as some donors are refocusing their allocation policies to align more closely with foreign policy interests, such as the UK's focus on aligning aid with its national security interests in Afghanistan.

There are also policy and structural conditionalities which donors impose through macroeconomic adjustment programmes, budget support frameworks and lending arrangements. Although there have been some moves by donors to streamline and harmonise policy conditionalities in recent years, for example through the advent of multi-donor budget support programmes, these have frequently been at the level of the 'highest common multiple'. As a result of the international financial crisis, the IMF has stopped using structural performance criteria, but this does not appear to have resulted in any significant changes in IMF practices[46] as the relaxation of conditionalities that has occurred has been mainly in stand-by agreements and not to IMF facilities for low income countries, including LDCs[47].

3.6. Untying of aid

In the BPoA, donors committed "to implement the OECD-DAC recommendation to untie aid to LDCswhich will significantly increase the value of aid in an expeditious manner"[48]. Since 1999-2001, the proportion of untied OECD DAC bilateral aid has increased from 42% to 84% in 2009.[49]. However, the pledge by donors to untie aid excludes technical cooperation, food aid and donor administrative costs.

Despite the progress achieved, approximately 30% of the aid disbursed to LDCs and other programme countries is still tied, when the exempt technical cooperation and food aid are included as these types of aid account for about 16% of total OECD DAC bilateral aid. Furthermore, donors can in practice tie their programme and project aid informally because local and regional contractors may not be able to bid internationally or they are not able to access information on contracts open for bidding. Donor regulations or reliance on headquarters, not local offices who are familiar with programme country issues, can also

[45] UNCTAD (2010),page 163
[46] Van Waeyenberge et al (2010)
[47] UNCTAD (2010)
[48] UNOHRLLS (2005), page 42
[49]OECD CRS. There are no separate data on share of aid tied and untied to LDCs.

result in de facto tying. As UNCTAD notes the underlying issue is one of perception, whereby donors see untying as an administrative and legal requirement, whereas LDCs and other programme countries see it as a transfer of responsibilities[50].

3.7. Technical cooperation

Improving the quality of technical assistance to focus on building national capacities in areas identified as meeting national needs is important for LDCs. However from the countries' perspective donors are being slow to deliver on improving these aspects of technical assistance. The quality of technical assistance receives the second lowest ranking in the HIPC CBP evaluation (see Box 6) and the lowest ranked aspect is its content and its lack of focus on capacity building[51].

Assessing the coordination of technical assistance with country programmes is one of the Paris Declaration indicators and LDCs come out worst with only 53% of the technical assistance being coordinated compared with 59% for all surveyed countries (see Box 4). However, there is considerable variation amongst LDCs. In Nepal and Sierra Leone only 15% and 22% of the technical cooperation is coordinated, whereas in Madagascar and Bangladesh, it is 71% and 69% respectively.

Although OECD DAC donors have in effect achieved the Paris Declaration target of 50% of technical assistance being coordinated with country programmes, it is arguable whether this target was sufficiently ambitious and as with the tying of aid, there may be an underlying issue of perception, whereby donors view the coordination of technical assistance as an administrative matter, while programme countries see it as a transfer of responsibilities.

3.8. Managing for results and mutual accountability

The Doha Declaration on Financing for Development stresses the importance for LDCs and other programme countries of continuing to improve managing for results and improved transparency and accountability[52]. The Accra Agenda for Action calls on programme countries to improve managing for results by strengthening policy design, implementation and assessment through improving information systems[53]. As discussed in Section 3.4, LDCs have made progress in the quality of national development strategies. They have also been making progress on results-based monitoring frameworks on the outcome of the Paris Declaration indicators. A larger proportion of LDCs (11%) achieved stronger scores than the average of 7.5% for all surveyed countries (see Box 4). In particular, three high aid LDCs (Mozambique, Tanzania and Uganda) are ranked as having the strongest results-based

[50] UNCTAD (2010), page 56
[51] The HIPC CPB evaluation assesses technical assistance on (1) how it fits with government priorities and (2) the degree to which it is genuinely focused on building national capacities.
[52] UN (2008), para 43.
[53] AAA (2008)

monitoring systems. Over all post-conflict and other countries in special development situations had the lowest quality results-based management frameworks.

In terms of conducting mutual accountability reviews, only 14 of the 45 programme countries surveyed under the Paris Declaration monitoring process have developed mutual accountability frameworks. Of these programme countries, eight are LDCs (Afghanistan, Burundi, Cambodia, Ethiopia, Malawi, Mozambique, Senegal and Tanzania). However, there are other accountability mechanisms than just the Paris Declaration process[54] . Some LDCs, such as Benin, Mali and Zambia, have developed review processes for donors participating in their multi-donor budget support programmes, whereas others, such as Rwanda, tailor their reviews to individual donors[55].

[54]For a review of mutual accountability frameworks, see UN ECOSOC (2010a) chapter 2 and in particular Table 2.3.
[55]UNECOSOC (2010a)

4. PROPOSED ACCOUNTABILITY FRAMEWORK ON QUANTITY AND QUALITY OF DEVELOPMENT COOPERATION

4.1. Existing processes on accountability

Previous sections of this study have reached conclusions on trends in the quantity, composition and quality of development cooperation provided to LDCs. This section draws from these findings to suggest how to strengthen accountability for development cooperation provided to LDCs, building on (rather than reinventing) existing frameworks, to ensure much more rapid progress in delivering development results for the LDCs.

Main United Nations global accountability frameworks relating to development cooperation for LDCs include:[56]

1. **The UN conferences and declarations related to theMillennium Development Goals**. The most recent of these was the High-level Plenary Meeting of the General Assembly on the MDGs (MDG Summit) in September 2010;

2. **The UN conferences and declarations onFinancing for Development**, beginning with the Monterrey Consensus in 2002 and continuing with the Doha Declaration in 2008.

3. **The Programmes of Action for Least Developed Countries .**The United Nations Conference on LDCs to be held in Istanbul from 9 to 13 May 2011 will adopt a programme of action for LDCs, which is currently being negotiated. Its predecessor, the Brussels programme of action **(2001),** provides specific guidance on assistance to LDCs. It contains in particular two concrete targets:

    - donors to provide 0.15-0.2% of GNI as development cooperation to LDCs; and
    - untying cooperation to LDCs (excluding food aid/technical cooperation).

4. **The Development Cooperation Forum (2008 and 2011)**. The DCF is not a decision making body, but has helped to identify additional concerns of developing countries which could be transformed into indicators for an accountability framework on development cooperation for LDCs. These include:

- reducing policy conditionality and reducing/abolishing procedural conditionalities
- flexibility to combat exogenous shocks or changing national priorities,
- alignment with sectoral priorities of the national development strategy,

[56] There are also of course multiple frameworks through which institutions providing development cooperation hold LDCs accountable for their policies, institutions and results (such as the CPAs of the Multilateral Development Banks, and other allocation systems and conditionality frameworks used by donors). However, these are not considered here because they are not mutual.

- More balanced allocations of aid across countries and sectors and ensuring that aid allocation is predictable, responsive to needs of programme countries and oriented to maximize results
- Avoiding fragmentation and improving donor coordination
- quality of technical assistance (the degree to which it is managed by the LDCs themselves and genuinely building national capacity);

At the same time, important other non-UN processes have sprung from the Monterrey conference:

1. The Paris Declaration on Aid Effectiveness (PD)/Accra Agenda for Action (AAA) (2005/2008), which pursued aspects of the Monterrey agenda that focused on aid quality. The Paris Declaration (which was signed by 40 LDCs) contains 12 targets, of which 3 apply to LDCs, 8 to their development partners and 1 (on national-level mutual accountability) to both. The Accra Agenda covered a broader spectrum of issues (many of which are taken up below), but did not define any additional indicators. A successor set of indicators might be agreed at the Fourth High-Level Forum on Aid Effectiveness in Busan in November/December 2011.

4. **the "Fragile States Principles" (2007).** Adopted by OECD/DAC development cooperation ministers, these principles have subsequently been agreed as a basis for monitoring by the LDCs "G7+ group" chaired by Timor-Leste. The 2011 survey on implementation of these principles contains many detailed indicators which could be used more widely, and applied to many LDCs with special needs (on such issues as brain drain, programme country delivery of services, the proportion of donor funds invested in improving key state functions such as revenue mobilisation or service delivery, and avoiding exclusion of certain social groups). It also contains many questions which are more specific to "fragile states" (or countries with "special development needs" due to conflict), such as investments in security and conflict prevention, transitions from peacebuilding and humanitarian to development support, analysis of conflict/fragility/insecurity, priority given to prevention systems, and coherence across development, political and security aims.

As discussed in Box 2, indicators have also been defined by LDCs as their top priorities to improve aid quality (most recently putting technical assistance and conditionality high on their lists of concerns for discussion at the Busan High-level Forum) and accordingly been monitored by the HIPC Capacity-Building Programme, and by other non-official global accountability mechanisms such as the ONE campaign, the Publish What You Fund Transparency Index, and the Action Aid Real Aid report. LDCs' own aid policies[57] have also included indicators to rationalise donor interventions via division of labour, abolish all

[57] Eg Ghana, Mozambique, Rwanda, Uganda.

Development Partner-sponsored Project Implementation Units (PIU) in favour of common PIUs in each ministry, increase the proportion of development cooperation devoted to general or sector budget support, and untie all development cooperation including technical assistance and food aid.

In addition, to promote and review progress on these targets, and as encouraged by the 2010 MDG summit and the PD/AAA process, LDCs should be establishing their own national-level mutual accountability frameworks with development partners. These should engage stakeholders such as parliaments, social partners (private sector and trade unions) and civil society. However, a 2010 analysis for the UN Development Cooperation Forum (UN ECOSOC 2010c), which is currently being updated through a new country-level survey, found that:

- Overall progress on mutual accountability and aid transparency has been very disappointing. This matched the findings of the 2008 Paris Declaration Survey which found that national-level mutual accountability was among the indicators making the least progress since 2005. So there is need for a special emphasis on progress in mutual accountability in all countries, but particularly in countries with special development needs.
- LDCs and LLDCs match the average performance of developing countries in terms of national-level progress on mutual accountability, and SIDS perform better than average, but countries with special development needs (including post conflict countries) and Sub-Saharan African countries have seen much less progress;
- there is no noticeable difference on transparency between (i) aid-dependent, special needs or LDCs/LLDCs/SIDS, and (ii) average performance across all countries.

4.2. Proposed mutual accountability framework for development cooperation in LDCs

There is an urgent need to enhance efficient follow-up and monitoring of commitments for LDCs by strengthening global implementation/monitoring mechanisms. The recent Eminent Persons Group (EPG) report prepared before the LDC-IV conference has highlighted the need for it to:

> "Assist in the implementation of a monitoring framework that ensures accountability without undermining the independence and ownership of LDC's development programmes."

It finds that:

> "an international support architecture is neededwith a strong follow-up and monitoring mechanism to ensure the full implementation of the next Programme of Action. ….

> The international track will monitor the performance of the global community, including bilateral and multilateral donor agencies, regional organisations and emerging market economies, in meeting their stated commitments. This can be carried out by the United Nations through a strengthened version of the existing mechanism, and will score countries and agencies in terms of the degree of correspondence between commitments and action. …
>
> The second track will involve all domestic stakeholders of the concerned LDC together with the representation of development partners, including the UN System organisations as is the practice in monitoring the MDGs. The mandate of these reviewers should be to:
> i. Assess the rate of progress towards the stated targets of the PoA;
> ii. Assess the quality of resource use in terms of its efficiency, propriety and transparency.
> The reviewers can use that information to provide a country rating that can be used to recommend the most appropriate approach to resource transfers going forward." (UN LDC-IV/OHRLLS 2011)."

The analysis in the EPG's report reinforces the need for a stronger accountability framework for development cooperation to LDCs, placing key emphasis on country-led monitoring of accountability. It has shown that progress in relation to the existing accountability indicators has been disappointing, especially by donors.

Pending the completion of the negotiations on the draft Istanbul Programme of Action, it would seem that an accountability framework on development cooperation for LDCs could include some of the following elements, many of which spring from commitments already made at the UN and positions expressed at the DCF in 2008 and 2010 – and are consistent with the commitments of the PD and AAA:

Donors would need to:

- meet the targets of the Brussels Programme of Action on aid for LDCs, which would require increasing aid to LDCs by 50-100%.
- improving the allocation of country-programmable aid among LDCs, to avoid overconcentration in key strategic zones at the expense of "aid orphans".
- ensure that their reduction in numbers of programme countries genuinely reduces fragmentation in aid darlings and does not increase the numbers of aid orphans.
- accelerate the transition from humanitarian and post-conflict assistance to budget support in countries with special development needs. The EPG report makes a similar suggestion to "deliver more … assistance as direct budget support".
- allocate aid clearly on the basis of need and vulnerability rather than performance, limiting the influence of performance only to decisions on types/channels of aid.
- accelerate untying of aid including technical assistance and food aid
- increase use of LDC public financial management, procurement, and monitoring and evaluation systems, especially where these systems are themselves being improved.

- monitor allocation of aid to each LDC within each sector, to ensure a more even distribution of sector funds among LDCs, and support evenly the funding of all LDCs' national development strategies.
- increase aid for infrastructure and agriculture in LDCs (especially low aid LDCs). The EPG also suggests increasing "aid allocation to targeted areas such as infrastructure, agriculture and productive capacity".
- reduce sharply the volatility of aid, especially in post-conflict and special development needs countries, mainly by reducing conditionality
- increase the predictability of aid by providing LDCs with regular and timely indicative forecasts of aid for three years ahead.
- improve the flexibility and speed of disbursement of their aid to combat exogenous shocks, conflict and refugee crises, and fund changing national priorities. The EPG makes a similar suggestion that "new, quick-disbursing instruments need to be developed and placed in the regional development banks where the need can be more quickly identified and where disbursement is less constrained by other, more policy-based considerations."

LDCs have performed in line with other developing countries in terms of improving their development strategies. However, to convince donors to provide more and better assistance in a time of budgetary restrictions, they would need to:

- Further strengthen national leadership and ownership of development plans, especially through more inclusive and broad-based participation in their design and implementation;
- accelerate progress on improving public financial management and procurement systems;
- especially enhance their monitoring and analysis of development results so that, as suggested by the EPG, the efficiency, propriety and transparency of use of development resources can be clearly assessed. This implies NOT an additional set of targets for programme countries, but rather clearer identification of the contribution of aid and other resources to reaching development results, to justify increased flows as well as greater involvement of parliaments and other domestic stakeholders in assessment of results.

LDCs also need to take even stronger leadership of mutual accountability processes at national level by moving ahead with the key components necessary for mutual accountability on results of development cooperation, especially national aid policies; targets for individual donors; and annual reviews of progress, discussed at national high-level fora which include all key domestic stakeholders and development partners.

LDCs also need to accelerate efforts to make development cooperation and its results more transparent at national level, by establishing or improving information systems to track flows, quality and results of cooperation; making these up-to-date, accessible and easy to use for all stakeholders, and introducing freedom of information acts or other legal mechanisms to ensure citizen access to data.

In many countries, there will be a strong need for building capacity within government and among other stakeholders to improve accountability and transparency for development cooperation and its results.

Although these measures may seem difficult to implement amidst competing pressing development priorities, they are important to open the door for maximizing aid and its results for LDCs.

4.3. Implementing the framework at national and global level

Monitoring and reporting on the progress in implementing a **"Mutual accountability framework for development cooperation to LDCs**" could be organized as follows:

- there should be a particular emphasis on promoting (and on developing countries and their development partners jointly monitoring progress on) national-level mutual accountability in LDCs and countries in special situations.

- the key aim should be to have in each LDC a country-led annual mutual accountability discussion of a detailed progress report on development cooperation and results. This discussion should include key domestic stakeholders (parliamentarians, local government and civil society) and provide sufficient space for them to present their own independent analysis. This could be part of or an input into the country-level regular review of the implementation of the Istanbul Programme of Action envisioned in the draft outcome document.

- At the global level, the implementation and monitoring mechanisms established for the BPoA should be enhanced by the Istanbul Programme of Action. The UN General Assembly and the Economic and Social Council – including its Annual Ministerial Review and the Development Cooperation Forum - will play a major role. Their work could be supported by using an accountability framework attuned to the needs of LDCs along the lines of the one suggested in this study.

These mechanisms should also take account of how effectively frameworks are being applied to countries in special situations, as well as allocation among countries.

- all future surveys and reports of progress on aid quantity, quality and effectiveness should contain analysis disaggregated by different country groupings as well as by individual providers of development cooperation;

- the indicators included in these surveys should be improved and expanded to cover issues of special concern to LDCs, which have already been raised in the DCF, the negotiations on the IPoA , or countries' own national aid policies. The most vital of these as assessed by LDCs themselves are reducing policy conditionality, transforming technical assistance into capacity development; and increasing flexibility to combat exogenous shocks or accommodate changing national priorities. This would preferably be achieved by including these concerns in the IPoA framework. If not, maximum effort should be made to include these indicators in national-level mutual accountability surveys and/or other independent global- or regional-level surveys of development cooperation.

- monitoring of indicators should be broadened to cover all major actors – NGOs, foundations and South-South development cooperation (taking into account its comparative advantages such as appropriate technology and speed of delivery)[58].
- Ideally each of the global reviews of progress in implementing the IPoA should be based on the annual reviews conducted at national level of IPoA progress, as well as any additional reviews of progress on national aid policies. It could be considered feeding reviews of progress on indicators to be agreed in Busan and those contained in fragile states principles into such a UN process.

[58] For more detail on these comparative advantages see UN ECOSOC 2008.

Annex 1 – County or area groupings list

LDCs	Post conflict and other countries in special development situations	SIDS	LLDCs	High Aid LDCs	Low Aid LDCs
Afghanistan	Afghanistan	Antigua and Barbuda	Afghanistan	Afghanistan	Angola Bangladesh
Angola	Angola	Bahamas	Armenia	Benin	Bhutan
Bangladesh	Burundi	Bahrain	Azerbaijan	Burkina Faso	Cambodia
Benin	Cameroon	Barbados	Bhutan	Burundi	Chad
Bhutan	Central African Republic	Belize	Bolivia	Central African Republic	Comoros
Burkina Faso	Chad	Cape Verde	Botswana	Congo, DR	Equatorial Guines
Burundi	Comoros	Comoros	Burkina Faso	Djibouti	Eritrea
Cambodia	Congo, Republic of	Cuba	Burundi	Ethiopia	Guinea
Central African Republic	Congo, DR	Domonica	Central African Republic	Gambia	Haiti
Chad	Equatorial Guinea	Domoinican Republic	Chad	Guinea-Bissau	Lao, PDR
Comoros	Eritrea	Micronesia	Ethiopia	Kiribati	Lesotho
Congo, DR	Ethiopia	Fiji	Kazakhstan	Liberia	Madagascar
Djibouti	Gambia	Grenada	Kyrgystan	Malawi	Mauritania
Equatorial Guinea	Guinea	Guinea-Bissau	Lao, PDR	Mali	Myanmar
Eritrea	Guinea-Bissau	Guyana	Lesotho	Mozambique	Nepla
Ethiopia	Haiti	Haiti	Malawi	Niger	Samoa
Gambia	Iraq	Jamaica	Mali	Rwanda	Senegal
Guinea	Kenya	Kiribati	Mongolia	Sao Tome and Principe	Somalia
Guinea-Bissau	Kiribati	Maldives	Nepal	Sierra Leone	Sudan
Haiti	Korea, DPR	Marshall Islands	Niger	Solomon Islands	Tuvalu
Kiribati	Liberia	Mauritius	Paraguay	Tanzania	Yemen
Lao, PDR	Myanmar	Nauru	Moldova	Timor-Leste	Zambia
Lesotho	Nepal	Palau	Rwanda	Togo	
Liberia	Niger	Papua New Guinea	Swaziland	Uganda	

Madagascar	Nigeria	Samoa	Tajikistan	Vanuatu	
Malawi	Pakistan	Sao Tome and Principe	Macedonia		
Mali	Papua New Guinea	Seychelles	Turkmenistan		
Mauritania	Rwanda	Singapore	Uganda		
Mozambique	Sao Tome and Principe	Solomon Islands	Uzbekistan		
Myanmar	Sierra Leone	St Kitts and Nevis	Uganda		
Nepal	Solomon Islands	St Lucia	Zambia		
Niger	Somalia	St Vincent and the Grenadines	Zimbabwe		
Rwanda	Sudan	Suriname			
Samoa	Tajikistan	Timor-Leste			
Sao Tome and Principe	Timor-Leste	Tonga			
Senegal	Togo	Trinidad and Tobago			
Sierra Leone	Tonga	Tuvalu			
Solomon Islands	Uganda	Vanuatu			
Somalia	Occupied Palestinian Territory				
Sudan	Yemen				
Tanzania	Zimbabwe				
Timor-Leste					
Togo					
Tuvalu					
Uganda					
Vanuatu					
Yemen					
Zambia					

The programme country groupings of LDCs, LLDCs and SIDS are those listed by the UN Office of the High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing Sates (UNOHRLLS). The programme countries and areas classified as post-conflict and other countries in special development situations are those included in the OECD classification of post-conflict and other countries and areas in special development situations.

The high aid LDCs are those programme countries having net ODA received/GNI ratios of greater than the average LDC net ODA received/GNI ratio of 9.2%, while low aid LDCs are those receiving net ODA received of less than 9.2% of GNI, using data from World Bank for 2009 (http://data.worldbank.org/)

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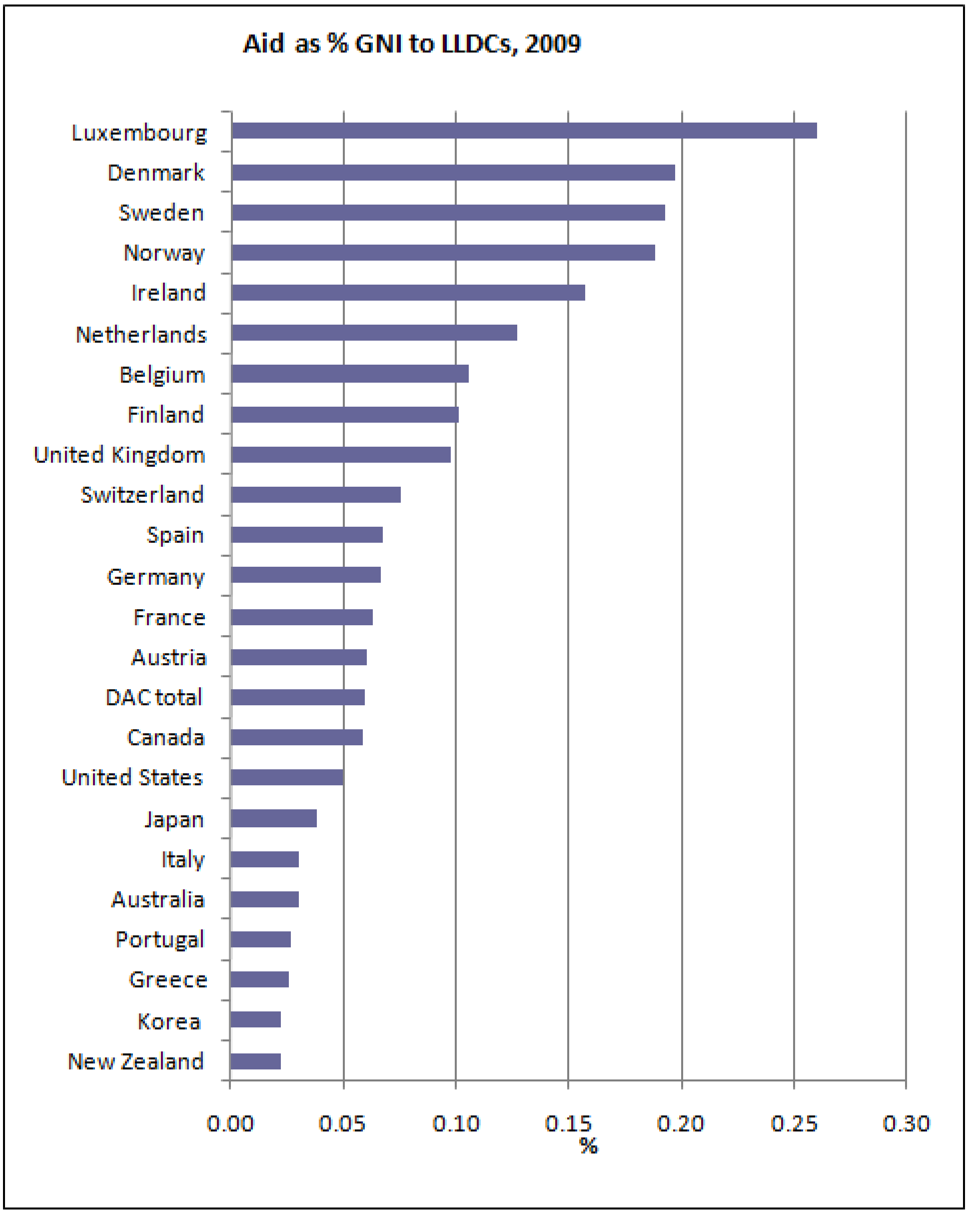
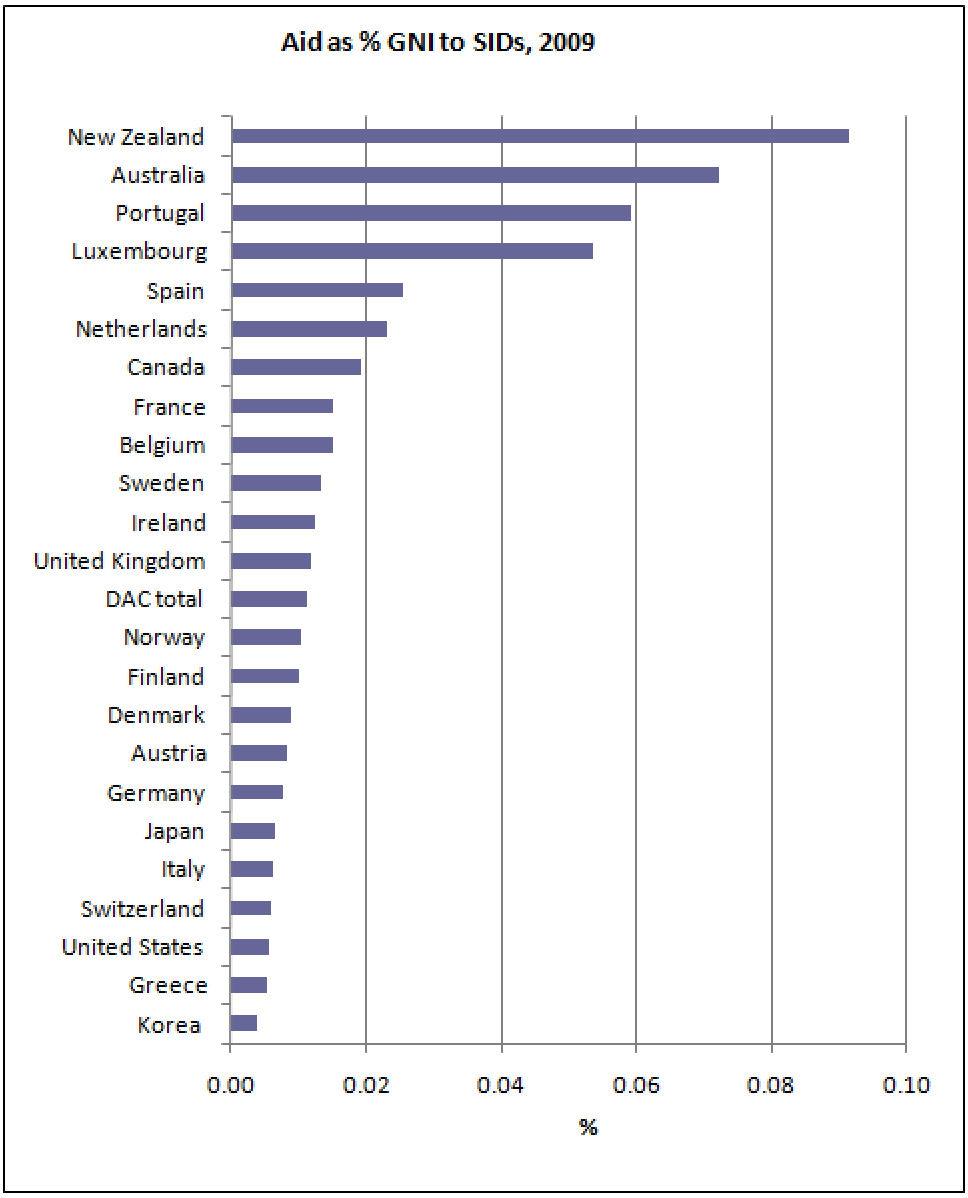
Annex 2

OECD DAC bilateral donor aid as % GNI to LLDCs and SIDs, 2009



Net disbursements including imputed flows through multilateral organisations.
Source: OECD database (accessed March 2011)



Net disbursements including imputed flows through multilateral organisations.
Source: OECD database (accessed March 2011)

Annex 3

Projected CPA winners and losers by country groupings, 2009-2012

Countries receiving less CPA 2009-2012, by country grouping					
LDCs	**LLDCs**	**SIDs**	**Post-conflict & other countries with special development needs**	**High aid LDCs**	**Low aid LDCs**
Afghanistan	Afghanistan	Haiti	Afghanistan	Afghanistan	Bhutan
Bhutan	Bhutan	Maldives	Central African Rep	Central African Rep	Chad
Central African Rep	Central African Rep	Sao Tome & Principe	Chad	Djibouti	Equatorial Guinea
Chad	Chad	Timor-Leste	Cote d'Ivoire	Ethiopia	Haiti
Djibouti	Equatorial Guinea	Vanuatu	Djibouti	Liberia	Somalia
Equatorial Guinea	Ethiopia		Equatorial Guinea	Sao Tome & Principe	
Ethiopia	Kyrgyz Rep		Ethiopia	Sierra Leone	
Haiti	Tajikistan		Haiti	Timor-Leste	
Liberia	Zimbabwe		Liberia	Vanuatu	
Sierra Leone			Pakistan		
Somalia			Sao Tome & Principe		
Timor-Leste			Sierra Leone		
Vanuatu			Somalia		
			Tajikistan		
			Timor-Leste		
			Zimbabwe		
US$ 847 million less	**US$ 863 million less**	**US$ 58 million less**	**US$ 1.48 billion less**	**US$ 763 million less**	**US$ 84 million less**
Countries receiving more CPA 2009-2012, by country grouping					
LDCs	**LLDCs**	**SIDs**	**Post-conflict & other countries with special development needs**	**High aid LDC**	**Low aid LDC**
Angola	Burkina Faso	Comoros	Angola	Benin	Angola
Bangladesh	Burundi	Guinea-Bissau	Burundi	Burkina Faso	Bangladesh
Benin	Laos	Kiribati	Comoros	Burundi	Cambodia
Burkina Faso	Lesotho	Papua New Guinea	Congo, Dem. Rep.	Gambia	Comoros
Burundi	Malawi	Samoa	Eritrea	Guinea-Bissau	Eritrea
Cambodia	Mali	Solomon Islands	Gambia	Kiribati	Guinea
Comoros	Nepal	Tuvalu	Guinea	Malawi	Laos
Congo, Dem. Rep.	Niger		Guinea-Bissau	Mali	Madagascar
Eritrea	Rwanda		Kenya	Mozambique	Mauritania
Gambia	Uganda		Kiribati	Niger	Myanmar
Guinea	Uzbekistan		Myanmar	Rwanda	Nepal
Guinea-Bissau	Zambia		Nepal	Solomon Islands	Samoa
Kiribati			Niger	Tanzania	Senegal
Laos			Nigeria	Togo	Solomon Islands
Lesotho			Papua New Guinea	Uganda	Sudan
Madagascar			Rwanda		Tuvalu
Malawi			Solomon Islands		Yemen
Mali			Sudan		Zambia
Mauritania			Togo		
Mozambique			Uganda		
Myanmar			Yemen		
Nepal					
Niger					
Rwanda					
Samoa					
Senegal					
Solomon Islands					
Sudan					
Tanzania					
Togo					
Tuvalu					
Uganda					
Yemen					
Zambia					
US$3.14 billion more	**US$1.32 billion more**	**US$101 million more**	**US$2.46 billion more**	**US$1.16 billion more**	**US$ 1.84 billion more**
Source: OECD					

Annex 4 Evaluating the performance of major donors

	Paris Declaration **average of all 2008 survey indicators** - strengths	**HIPC-CBP** **Donor Evaluations by Recipient Countries** - strengths
Australia	**M** - untying	-
Austria	**M** – untying, joint analysis	**L**– matching funds, concessionality
Belgium	**M** – untying, joint analysis	**M** –alignment, concessionality, matching funds, use PFM systems
Canada	**M** – use of PFM, untying	**L** – alignment, concessionality, matching funds
Denmark	**H –** untying, joint analysis, TA, programme aid	**M** - matching funds, concessionality, pledges fulfilled
Finland	**H** – untying, joint analysis, use procurement systems	**H** – alignment, concessionality, matching funds
France	**M** – untying, use procurement systems	**L** – alignment, concessionality, matching fund
Germany	**H** – untying, joint analysis, TA	**M** –conditionality, concessionality
Greece		-
Ireland	**H** – untying, TA, programme aid	**H** – alignment, concessionality, TA, procurement
Italy	**M** – TA	**L** – matching funds, concessionality
Japan	**M** – untying, TA	**L** – alignment, concessionality
Luxembourg	**L** – untying, joint analysis	**M –** concessionality, channels, alignment, predictability
Netherlands	**H** – untying, use procurement systems, programme aid	**H** – alignment, concessionality, procurement
New Zealand	**M** – untying, joint mission	-
Norway	**H** – untying, joint analysis, use	**H –** concessionality, alignment, TA,

	procurement systems	disbursement procedures
Portugal	**L** - untying	**L** – matching funds, concessionality
Republic of Korea	**L** – TA	**L** – channels, conditionality
Spain	**L** – use procurement systems	**L –** alignment
Sweden	**M** – untying, use country systems	**H** – alignment, concessionality, matching funds
Switzerland	**M** – untying, joint analysis	**M** – alignment, concessionality, matching funds
UK	**H** – untying, use PFM systems, programme aid	**H** – alignment, predictability, concessionality, conditionality
USA	**L** – TA	**L** – alignment, concessionality
AfDB	**M** – aid on budget	**M** – alignment, concessionality
ADB	**H** – predictability, aid on budget, use PFM systems	-
EC	**M** - – joint analysis, predictability	**M –**predictability, alignment, concessionality
GAVI	**M** – TA, joint missions	-
Global Fund	**M –** programme aid	-
IADB	**M** – TA	**M** – predictability, concessionality
IFAD	**H** – use procurement systems, joint analysis/missions	**L** – alignment
IMF	-	**H** – predictability, procurement
United Nations	**M** – joint analysis, TA	**H** – alignment, conditionality, concessionality
World Bank	**H** – TA, aid on budget	**M** – alignment, predictability

METHODOLOGY – **H** - High performers: top 1/3 of all assessed; **M**– Middle 1/3; **L** – bottom 1/3

Source: UNECOSOC

Annex 5

Assessment of LDCs public financial management systems and their use by donors,2008

LDCs	Reliability of PFM	% use of country PFM by donors
Burkina Faso	4	43.2
Ethiopia	4	46.7
Rwanda	4	42.0
Tanzania	4	71.5
Uganda	4	57.0
Benin	3.5	47.5
Madagascar	3.5	21.5
Mali	3.5	34.4
Mozambique	3.5	43.5
Nepal	3.5	68.4
Niger	3.5	25.5
Senegal	3.5	19.0
Sierra Leone	3.5	20.1
Zambia	3.5	59.4
Afghanistan	3	47.7
Bangladesh	3	76.8
Burundi	3	32.7
Cambodia	3	13.7
Haiti	3	46.0
Laos	3	30.7
Malawi	3	49.9
Yemen	3	5.2
Congo, Dem. Rep.	2.5	0.0
Mauritania	2.5	8.3
Central African Rep.	2	23.8
Sudan	2	3.1
Togo	2	4.4
Chad	..	1.0
Liberia	na	32.0

Source: OECD

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