

Summary of Phase I Report on the Effectiveness of Aid Untying¹

This report presents the results of Phase I of a thematic study being undertaken to assess the effectiveness of untied aid. The study is in response to the proposals of the Working Party on Aid Effectiveness and the DAC Network on Development Evaluation and the request in the 2001 DAC Recommendation to untie ODA to the LDCs for a comprehensive evaluation of its impact by 2009. The preliminary findings and conclusions of this study are as follows.

DAC donor countries had by 2006 formally untied over four fifths (82%) of their ODA to LDCs, against a 60 % benchmark for untying bilateral aid linked to the Recommendation. A wider process of aid untying appears to be continuing: in 2006 70% of bilateral ODA for non-LDCs was untied and if (untied) multilateral aid is taken into account, then 85% of all ODA was untied. Untying has had no apparent negative effects on support for aid, or any related diversion of resources to non-LDCs. A statistical analysis comparing 22 DAC donors indicates that the Recommendation is an important influence on the extent to which aid is untied. But reporting on tying practices is still far from complete or consistent or timely and needs to be improved. This should be a matter of priority for aid agency statisticians.

A review of donor policies and practices including a purposive survey of five donors that had already largely untied or were actively untying after 2001 (Australia, Canada, Denmark, Norway and Switzerland) suggests that:

- The Recommendation has had different implications, especially significant for those DAC members that had previously taken very limited steps towards untying.
- Untying is widely seen as closely linked with decentralisation of responsibility for aid programming to a country office level.
- There has been a shift to forms of aid that pass responsibility for disbursement to country partners, other joint donor partners, and civil society organisations.
- There is also a much-reduced donors' role in contracting organisations to provide goods and implement projects. There are several remaining relatively grey areas of tying practice in which it is not clear if tying is an issue of importance.

A literature review on tying practices confirms that the theoretical case for untying on both effectiveness and efficiency grounds is regarded as unequivocal by economists. There is also a substantial body of evidence on the negative effects of tying practices, especially a substantial loss of resource transfer value to recipients (at least 15-30%). In contrast, the actual consequences of untying have hardly been investigated in any systematic way.

So Phase II of the thematic study offers an important and timely opportunity to fill that gap. A set of country studies done with the full cooperation of recipient countries and donor agencies would enable the DAC and its partners to acquire a better understanding of how untying works, its impact and whether it is contributing to aid effectiveness as envisaged in the Paris Declaration.

¹ Clay, Edward J. Matthew Geddes, Luisa Natali and Dirk Willem te Velde, 2008. 'Thematic Study - the Developmental Effectiveness of Untied Aid: Evaluation of the Implementation Of The Paris Declaration and of the 2001 DAC Recommendation On Untying ODA to the LDCs. Phase One Report.' London, Overseas Development Institute (ODI). The report is available in a pdf version on the Evaluation of the Paris Declaration web-site at : <http://www.oecd.org/dataoecd/5/22/41537529.pdf> and the PD Evaluation web-site home page is: http://www.oecd.org/document/60/0,2340,en_21571361_34047972_38242748_1_1_1_1,00.html