

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

TERMS OF REFERENCE
22 FEBRUARY 2008

1 Background

1. For decades, debates on aid effectiveness have focussed on the issue of the tying status of aid.¹ It has been clearly documented that tied aid raises the cost of goods, services and works by 15% to 30% on average, and by as much as 40% or more for food aid. This is a conservative estimate of the real costs of tying, since it does not incorporate the indirect costs.

2. As a result, after extended and difficult negotiations, the OECD/DAC adopted in 2001 a Recommendation to untie much ODA to Least Developed Countries (LDCs). The Recommendation (amended in 2006) also invites DAC Members to provide untied aid in areas not covered by the Recommendation and to study the possibilities of extending untied aid in such areas. Progress achieved in the proportion of ODA that is untied is tracked in the context of the Millennium Development Goals, *e.g.* target number 35. The 2005 Paris Declaration on Aid Effectiveness reiterated the 2001 DAC recommendation and progress in the share of aid that is untied is monitored through indicator 8.

3. International conferences on development, such as the Monterrey International Conference on Financing for Development, have consistently highlighted that increasing the share of aid that is untied is a significant means to improve aid effectiveness. This view has been reiterated at successive G-8 Summits, most recently the June 2007 Heiligendamm G-8 Summit which noted in paragraph 21 the need to continue enhancing efforts to untie aid.

4. In view of these arguments and the calls for further untying a number of DAC donors have either fully untied their aid (*e.g.* Ireland, Norway, Luxembourg, and the United Kingdom) or almost completely untied their bilateral aid programmes (*e.g.* Australia, Belgium, Denmark, Finland, Sweden and Switzerland). In addition, the European Community has adopted two regulations governing access to EC external assistance under which all aid to LDCs is provided untied. Moreover, all expertise (*e.g.* technical co-operation) and food aid will be untied and aid from the EU budget (*i.e.* excluding the European Development Fund) will be open to other donors on the basis of reciprocity. Finally, the US Millennium Challenge Corporation (MCC) also provides its aid in untied form.

5. In preparation of the Third High Level Forum on Aid Effectiveness to be held in Accra, Ghana on 2-4 September 2008, Members of the Working Party on Aid Effectiveness and the DAC Network on Development Evaluation have asked for a Thematic Study of the extent to which development partners have untied their assistance and the key factors promoting or impeding progress on fully untying development assistance. Furthermore, they have asked to identify examples of benefits of fully untied aid.

6. In the context of the 2001 DAC Recommendation to Untie ODA to the LDCs a comprehensive evaluation, *inter alia*, of its impact is mandated for submission to the 2009 DAC High Level Meeting. (The comprehensive evaluation will also pay attention to the implementation of this Recommendation with respect to achieving a balance of efforts among DAC Members and promoting and sustaining ODA flows to LDCs.)

7. In light of the close communalities between the Thematic Study within the framework of the evaluation of the Paris Declaration on Aid Effectiveness and the DAC request for a comprehensive evaluation of 2001 DAC Recommendation on Untying ODA to the LDCs, **one** thematic study will be undertaken to assess the effectiveness of untied aid. The evaluation study will include results assessments based on case studies in a number of partner countries.

2 Purpose

8. The purpose of the study is to provide the 3rd HLF in Acra in September 2008, the DAC and the 2009 HLM, as well as the wider development community, with a comprehensive assessment of current donor policies and practices regarding the tying status of aid and an assessment of the effects of the untying status on aid effectiveness. The Thematic Study should focus on the results of untied aid, and examine if, and to what extent the present effort for untying aid has contributed to aid effectiveness. The Study should also explore the prospects for increasing the share of untied aid, and where relevant provide policy recommendation on promising approaches on how to achieve this objective.

9. The questions to be addressed by the Evaluation study are:

- To what extent has donor behaviour changed as a result of the 2001 DAC Recommendation on Untying Aid to Least Developed Countries, i.e. to what extent has donors untied their aid further?
- What factors have enhanced or impeded fully untying development assistance?
- Is there evidence of untying of aid having resulted in an increase of the effectiveness and efficiency of aid?

3 Output

10. The Thematic Study will be undertaken through a consultative process with donors, partner countries and civil society. The evaluation study will be conducted in two stages.

- The output of the first stage will be a report providing a comprehensive overview of the current policies and practices of DAC members and non-DAC donors regarding the tying status of their aid and the effects on aid effectiveness. During this first stage to be based on documentary research and the DAC database, a methodology for the partner country case studies will also be developed.
- The output of the second stage will be a representative number of, evidence-based case studies in partner countries concerning the effects of the (un)-tying status of aid on aid effectiveness. The case studies will be undertaken in cooperation with local research centres, such as for instance the African Economic Research Consortium. This stage should also examine the extent to which untied aid has resulted in procurement from local/regional companies and its effect on aid effectiveness.

11. The comprehensive final report covering Stages I and II should outline practical policy recommendations for increasing the share of aid that is untied¹.

4 Activities

12 The overall assessment (*e.g.* Stages I and II) will be presented in a succinct, but comprehensive report that contains:

- i) An executive summary.
- ii) Brief overview of the international rules and agreement concerning the tying status of ODA.
- iii) A statistical analysis of trends in the tying status of ODA including tying/untying practices of emerging non DAC donors. [The report should also address issues of burden-sharing and transparency of processes and procedures].
- iv) A survey of the political factors and national rules and regulations bearing on the tying status of ODA.
- v) An assessment of the developmental effectiveness of tied versus untied ODA based on a literature survey and the outcomes in a representative number of case studies in partner countries.
- vi) Policy focussed conclusions and recommendation on promising approaches to increase the share of ODA that is untied and developmentally effective.

13. The chapter concerning the international rules and agreements regarding the tying status of ODA will provide a succinct and comprehensive overview of OECD arrangements and recommendations on tied and untied aid as well as WTO arrangements and agreements. The chapter should assess the current position on both sides of the debate as to the *de facto* credibility, balance and enforceability of untying.

14. The chapter concerning the statistical analyses by donor country of trends in the tying status of ODA will cover the period 1985 – 2005. It will aim at identifying robust statistical correlations between the extent of tied/untied ODA and;

- financial instruments, such as loans, grants or mixed credits, and innovative financing instruments, such as Global Funds (HIV/AIDS)
- types of aid, such as financial aid, technical assistance, food aid, programme aid, budget support and debt relief;
- bilateral and multilateral flows;
- income categories, and
- ODA/GNI ratios (as a proxy for public support for the aid effort).

¹ PD para 31: “Untying aid generally increases aid effectiveness by reducing transaction costs for partner countries and improving country ownership and alignment. DAC Donors will continue to make progress on untying as encouraged by the 2001 DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries (Indicator 8).”

15. The chapter providing an overview of trends in DAC Members and non-DAC donors' policies and practices will be based on the existing data and documents, especially the annual Progress Report on the implementation of 2001 Untying Recommendation and the results of the DAC study concerning local and regional procurement which is currently being undertaken.

16. The chapter addressing the political factors influencing the tying status of ODA will provide an analytical assessment of the arguments made in different countries in support of tied aid such as, *inter alia*, capturing or preserving export markets for donors' companies, generating domestic support for the aid effort and strengthening the interaction between citizens from donor and partner countries. To assess the strength of arguments in favour of untying ODA, the chapter will address issues related to trade distortion, national as well as international policy coherence, cost effectiveness, and aid effectiveness.

17. The **second stage** of the evaluation study (e.g. chapter vi) will assess the developmental effects (or effectiveness) of tied versus untied aid projects and programmes through a representative number of case studies in partner countries. This assessment will be based on the DAC evaluation criteria, e.g.

- *Relevance* (e.g. appropriateness of the procured goods, works or services, and whether the tying status of aid is consistent with the country's development objective and needs.
- *Efficiency* (e.g. cost and non-cost factors such as, quality of goods and services, delivery period, guarantee conditions, maintenance conditions, cost of repairs and spare parts, safety and health aspects)
- *Impact* (e.g. effects on the market for local and regional producers, on promotion of the linkage of the local economy with regional networks, global networks, on employment, on pro-poor growth and poverty alleviation, and on gender and environment, impact of untied aid on Corporate Social Responsibility and on project lifetime cost savings.
- 18. The assessments listed above (e.g. chapters ii – vi) should be discussed with representatives from donors, partner countries, civil society and the private sector to arrive at a small set of key policy focussed conclusions to increase the effectiveness, quality, transparency and share of aid that is untied.² These recommendations should meet the DAC criteria for reviewing possible ways to increase the share of aid that is untied. First, there should be broad-based support for the proposal and second, the magnitude of the potential benefits should be reasonable.

5 Timing

19. The initial report on Stage I should be ready in time for the Third High Level Forum on Aid Effectiveness, which will be held in Accra, Ghana on 2-4 September 2008. The specific timing of stage II, e.g. partner country case studies, will be decided when specific ToR have been developed and relevant case study countries identified and agreed upon.

6 Experts profile

20. The research team should combine training and experience in development policy, official development assistance financing, evaluation and procurement, and have a sound experience related to the issues of results assessments. They should also have experience regarding the issue of the tying status of

² The modalities for this need to be established

aid and be familiar with related publications and works. The team should combine experts from different DAC Member States and from partner countries.

7 Reporting

21. At the start of the assignment the consultants will provide an inception report. During the assignment the consultants will provide progress reports on a continuous basis. Progress in work and provisional results will also be presented and discussed in regular meetings with a Management Group comprising representatives of the DAC Secretariat and the Reference Group for the Evaluation of the Paris Declaration. The consultants should accept suggestions and guidelines agreed upon at these meetings.

22. At the end of Stage I of the Thematic Study an interim report will be produced in English no later than **XXXX**. This report will describe the results of the descriptive analysis, database, conclusions and references according to section 4 above. At the end of Stage II after the completion of the case studies, a comprehensive report will be produced in English no later than **XXX**.

23. The report will then eventually be revised following comments from the Management Group. The final report, which should link a clear communications style with a rigorous analytical approach, will be published and shared with the OECD members and partner countries.

8 BUDGET

24. A maximum of **€ XXXXXXXX** is available.

NOTES

1.

TIED AID CREDITS	Official or officially supported loans, credits or associated financing packages where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all developing countries.
UNTIED AID	Official Development Assistance for which the associated goods and services may be fully and freely procured in substantially all countries.
PARTIALLY UNTIED AID	Official Development Assistance for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all developing countries