Indicator Ten Untying aid

Percentage of aid that is fully untied.

Draft Assessment and Proposals

1. Introduction

Track Three of the MAG's work plan is to provide advice on the continued relevance and usefulness of the GPEDC monitoring framework to the GPEDC Co-Chairs and Steering Committee. The MAG initiated this review process at its February 2016 meeting.

In doing so, three working groups examined the ten indicators in three clusters — ownership and results, inclusiveness, and transparency and accountability. At its February meeting, MAG members contributed perspectives on the continued relevance of the indicator (in light of the SDGs and Agenda 2030), the effectiveness and efficiency of the methodology at a practical level in gathering data, and the usefulness of the indicator for GPEDC stakeholders. The draft assessment and proposals for each indicator is the result of this work. The MAG is also examining issues affecting the structure of the monitoring framework as a whole.

These documents are posted on the <u>MAG's Teamworks web site</u> for review and comments. Our advice will be finalized at the MAG's next meeting, June 4-6, in Paris.

Comments and suggestions are very welcome from GPEDC stakeholders. Comments can be provided on the site, or submitted to the MAG Chairperson, Brian Tomlinson (brian.t.tomlinson@gmail.com).

1. Overview

Untied aid is an essential quality of effective development cooperation. A main purpose for not tying aid is to avoid imposing on recipient countries conditions, in which development co-operation is used to explicitly favour provider countries or institutions in terms of trade. The objective of untied aid is highly relevant and complements other ownership indicators.

The indicator measures the percentage of aid that is fully untied, using a measure already in place by the OEDC Development Assistance Committee.

Relevance The indicator is in line with Accra Agenda for Action, which states that "we will accelerate our efforts to untie aid." This is not a results indicator as such (untied aid is not a measurement of development outcomes). However, this indicator is relevant: under almost any modern theory of development, the future development and freedom of a recipient country can be in jeopardy when aid is tied. Such tied aid presents itself as development co-operation focused on the provider's interests, rather than the recipients' development.

Is this indicator relevant to the achievement of SDGs? Under the assumption that development cooperation is focused more on developing countries than in developed ones, it is logical that untied aid has more chances to increase recipients' development outcomes. This indicator might not address a specific SDG; however, with respect to SDG 17 that seeks to promote partnership, tied aid would be an important indication of equitable partnership, where providers do not gain financially from the very assistance a country commits to give to developing country partners.

Efficiency This indicator can be measured periodically over time, basically relying on the OECD-DAC Creditor Reporting System.¹

Usefulness Modern and efficient development co-operation resources should not be tied to provider country commercial interests. This indicator is therefore very useful in guiding such discussions between providers and recipient actors to reduce tying in all its forms. On the side of the recipient country, information of tied aid is not only useful for governments, but also for parliaments, civil society and private sector actors.

3. Key Issues and Challenges

There have been several issues with the DAC metric on untying aid. The first, now no longer an issue, has been coverage. A number of donors, such as the US, did not report the tying status of their aid in earlier years. There is now full coverage of bilateral aid for all DAC donors.

- a) Exclusion of aid modalities from DAC calculations A significant issue in the DAC methodology for calculating untied aid is the exclusion of technical cooperation expenditures and food aid (as well as administration expenditures) from the measurement of the tying status of bilateral aid. In 2014, free-standing technical cooperation and relief food aid was 22% of net DAC bilateral aid (less imputed student costs, refugee costs in donor countries and debt cancellation).
- b) The need for an approach that includes an assessment of informal tying practices This indicator should take into account "informal tying of aid," i.e. the continued strong prevalence of awarding contracts within the aid provider's country irrespective of the formal tying status for bilateral aid. In relation to the earlier observation of relevance of effective resource allocations for the SDG, international competitive bidding is preferable to tied aid whereby for the former, the global market tends to assure a more efficient determination of value for money compared to the single sourcing orientation that tied aid presents.
- c) Relevance for South South Cooperation providers For certain South South Cooperation (SSC) providing countries, aid is seen to have legitimate mutual benefits as

¹ This information is up to date and available by DAC donor at http://stats.oecd.org/Index.aspx?ThemeTreeId=3, under "flows by provider", aid (ODA) tying status (DAC7b). More information about DAC initiatives on untying aid is available at http://www.oecd.org/dac/untied-aid/.

² See Clay, Geddes and Natali, Untying Aid: Is it Working? ODI, February 2009, page 17, accessed at http://www.oecd.org/development/evaluation/dcdndep/44375975.pdf.

developing countries with a shared development experience. That is why some providers may use their own companies and processes for the infrastructure projects they finance, for example. Such tying may in fact, be a difficult element to avoid for SSC providers (and may also be the reason they may not participate in with this monitoring framework/process).

4. Steps Forward

a) Developing an accurate measure of goods and services bought in recipient countries
would be important to measure the amount of local products and services bought in recipient
countries due to development co-operation projects. This would provide information on the
actual real sector benefits aid brings into the country. Complementing this measure, an
assessment of informal tying practices by providers from OECD DAC countries would also be
useful along the lines of the 2009 ODI study noted above.