

**UC Davis**

**Norma J. Lang Prize for Undergraduate Information Research**

**Title**

A Conflict of Interests: Revisiting Development Assistance Committee Members' Tied Aid Policy Post 2001

**Permalink**

<https://escholarship.org/uc/item/7xd3r09m>

**Author**

Aderonmu, Funke

**Publication Date**

2018-08-08

# A Conflict of Interests: Revisiting Development Assistance Committee Members' Tied Aid Policy Post 2001

Funke Aderonmu

Honors Thesis

International Relations Program

Completed on March 21, 2017

Foreign aid remains a key part of development and humanitarian assistance to the world's poorest regions and has been the source of achievements in global health outcomes such as the eradication of polio in most regions of the world. Yet when it comes to disbursing bilateral foreign aid, state donor agencies often hold political and economic considerations that can inform where and how they give aid. These motivations are particularly relevant in the case of tied aid, where aid recipients are required to spend aid funding on procurement of goods and services sourced solely from the donor country (OECD, 2016). However, research dating back to the 1970s found the practice of tying aid to be detrimental to the effectiveness of foreign aid in alleviating poverty and promoting economic growth in recipient countries. These findings cite aid tying as having the effect of increasing transaction costs, as well as reinforcing dependency and lack of ownership on aid projects by recipients (Clay et al. 2008, Osei 2003, and Aryeetay et al 2003).

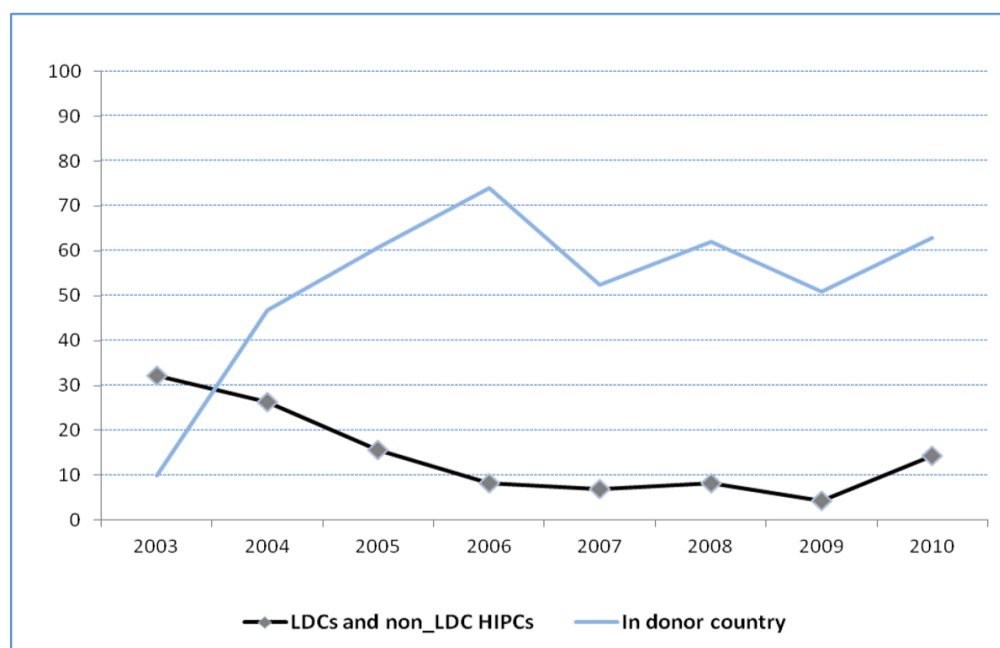
Grounded in this research, a group of major aid donor countries from the Organization for Economic Co-operation and Development convened in 2001 to move towards untying aid in the development community. Known as the Development Assistance Committee (DAC), representatives from each member state in the Committee established the 2001 Recommendation to Untie Aid. The Recommendation called on DAC member states to untie their bilateral aid commitments to Least Developed countries (LDCs) to the greatest extent possible without reducing their total aid flows; this recommendation eventually expanded to include aid to Highly Indebted Poor Countries (HIPC) in 2008 (Carbone 2014, OECD 2005).

Over a decade after the 2001 Recommendation, DAC member states increased their proportion of untied official development assistance (ODA) from 46% in the 1991-2001 period

to 76% by 2007 with untied aid to LDCs having risen to 80% in 2010 (OECD, 2012). The move towards untied aid indicated that donors were increasingly removing contractual restrictions on the geographical sourcing of goods and services with aid funding for recipient countries. This was done with the expectation that less aid funding would be spent in the donor country where costs to recipients were higher and instead would be allocated to the cheapest and most efficient vendors, thus improving aid efficiency as the research implies (Jepma, 1991).

While overall tied aid decreased significantly following the 2001 Recommendation, when disaggregated and examined on a country level, there exists significant variation among DAC member countries on how much ODA has been officially untied (OECD, 2016). Some countries such as the UK, Finland and Australia have emerged as “untying champions” having officially untied virtually 100% of their bilateral aid while others known as the “untying laggards,” including the US, Portugal, and South Korea, have not made as much progress in untying their aid (Carbone, 2014). Furthermore, records of aid distribution contracts by DAC donors show a majority of bilateral aid funding still being spent in the donor country in the form of aid procurement contracts awarded to firms from the donor country. The implications of this are that bilateral aid in fact remains de facto or informally tied. This finding is supported by reports and studies that cite up to 60% of aid as being de facto tied, although contractual obligations to tie aid have been lifted significantly by DAC donors following the 2001 Recommendation (Carbone 2014, Ellmers 2011, OECD 2012), implying that progress in untying formal aid may not be as significant and compliance not as widespread as the overall numbers suggest.

**Chart 2. Distribution of contract awards: Share of volume**



Source: OECD DAC-CRS aid activity database

Figure 1 illustrates the share of total aid contracts that have been awarded to Least Developed Countries (LDCs) and Highly Indebted Poor Countries (HIPCs) as opposed to the donor country from 2003-2009. The data points indicate a rise in the proportion of aid contracts being awarded to the donor country; an indicator of *de facto* tied aid.

That aid may indeed remain *de facto* or informally tied despite commitments made by DAC member states to untie their aid points to the possible insertion of domestic political interests amid the international commitments made by donors. In particular, studies on the politics of aid disbursement have highlighted the role domestic special interest groups play in lobbying for tied aid policy at the national level. These interests are largely embodied by domestic private firms and associations which benefit from tied aid and to which government

legislators are beholden to as their elected representatives (Carbone 2014, Chung et al. 2015, Pincin 2013, Riddell 2007). This in turn suggests domestic political considerations as playing a significant role in donor incentives for tying bilateral aid.

In so far as the prevalence of domestic special interest influence on tied aid policy persisted following the 2001 Recommendation to Untie Aid, I argue that the actions in untying aid exercised by DAC members do not reflect genuine implementation of policy change to improve aid efficiency and expand aid procurement options for recipients, but rather serve to secure symbolic capital through signaling DAC donors as promoting pro-poor aid policy. In this way, donors are able to publicly untie aid in support of aid effectiveness while still responding to pressures from domestic special interest actors in favor of tied aid. As such, I hypothesize that holding constant domestic interest group influence, DAC donor states with a relatively stronger record of support of development-friendly initiatives will see a rise in informal tied aid relative to total tied aid.

To test this claim, I conduct a statistical correlation test on the percentage change in the share of informally tied aid as a fraction of total tied aid, relative to the level of support for development-friendly initiatives. I conduct a second correlation analysis on the share of formal tied aid and the level of support for development-friendly initiatives as well as an additional correlation test on the level of support for development-friendly initiatives and share of informally tied aid. This analysis is done using a sample of eight OECD DAC member countries in the following years: 2009, 2010 and 2013.

The findings do not support the stated claim that holding special interest group influence through electoral competition constant, a relatively stronger record of development-friendly initiatives leads to an increase in the proportion of informal tied aid among DAC member

countries. While no definite conclusions can be drawn from the results of this study on what factors are responsible for the varied levels of progress among DAC donors in untying aid following the 2001 Recommendation, this study contributes to the existing literature by providing a new perspective in which to explore the potential impact of the interplay between domestic and international politics on tied aid policy and aid effectiveness

## **Background**

The 2001 Recommendation represented the culmination of decades of research on aid effectiveness that found tied aid to be a hindrance to promoting economic development and poverty alleviation in recipient countries. (Clay et al., 2009). In particular, research estimates that tied aid as opposed to untied alternatives results in an excess cost of 15-30% to recipient countries (Jepma, 1991). These costs arise from inefficiencies cited as higher transaction costs and result in welfare losses for recipients (Osei 2003, Quartey 2005, and Clay et al. 2008).

For donor agencies, lack of flexibility in procurement with tied aid can also pose burdens on taxpayers, such as with food aid in the US, which is estimated to increase the excess cost to taxpayers of financing by 50% (Clay, Riley and Urey, 2005). Apart from economic considerations, use of tied aid also limits recipient country ownership of aid projects; prioritizes commercial and political interests of donors over the welfare of recipients; and promotes dependency, undermining the local institutional capacity of the recipient country (Clay et al. 2008, Osei 2003, and Aryeetay et al. 2003).

In response, OECD DAC member states drafted the 2001 Recommendation to Untie aid, publicly committing to formally untie official development assistance (ODA) flows to LDCs and later to HIPC's in 2008 (Carbone 2014, OECD 2005). The Recommendation extended to almost

all sectors of development assistance but due to significant resistance from key members such as the United States, food aid and technical cooperation assistance were classified as exceptions to the commitments made (Carbone 2014, OECD 2016). Following the Recommendation, two additional high level forums—the Paris Declaration on Aid Effectiveness in 2005 and the Accra Action Agenda in 2008 further emphasized the message of untying aid to donors and included new measures such as improving donor reporting on compliance with the 2001 Recommendation (Carbone, 2014).

Since the enactment of the Recommendation, DAC member states have steadily increased their share of untied aid, up to 80% in 2010, with members such as Australia and the UK having successfully untied their entire share of qualifying aid while others such as the US and Portugal lag in untying aid (OECD, 2012).

Despite this progress, many DAC countries have maintained the use of informally or de facto tied aid. Informal aid tying can occur when donor countries persuade recipient country governments to favor donor firms for aid contracts or through aid contract bidding systems set to the advantage of firms from donor countries (La Chimia, 2004). This differs from formal tied aid in that there is no official or contractual obligation to source aid goods and services from donors. Rather donors leverage their influence in structuring the aid bidding market, to give their domestic firms an upper hand in securing aid contracts. Ultimately, this results in aid being de facto tied where a greater proportion of contracts and thus aid funding is granted to domestic firms relative to recipient or international firms (Carbone 2008, Clay et al. 2009, La Chimia-2004). While 20% of foreign aid remains tied officially, research indicates that up to 60% of aid remains tied informally, pointing to an increase in this practice following the recommendation



(Carbone 2014, Ellmers 2011, OECD 2012). These details suggest that progress in untying formal aid may not be as significant and compliance not as widespread as previously thought.

### **Historical Motivations for Tied Aid**

In light of research pointing to the negative impacts of tied aid along with the high-level commitments to untie aid made by DAC countries at three separate forums, it stands to question what continued motivations exist for the persistence of de facto tied aid among DAC members. Scholars have explored potential justifications for why countries tie aid at all and why tied aid continues to persist at varying levels among DAC donors following the 2001 Recommendation. From an economic standpoint, tied aid has been justified as a means to advance the interests of donor countries both internationally and domestically. Wagner (2003) and Nowak-Lehman (2008) argue that tying aid serves value for donors as it helps boost donor exports, supporting the economy through boosting employment and GDP along with improving balance-of-payments problems. However, other studies pose competing arguments, citing use of tied aid as unlikely to improve balance-of-payments or donor economic growth because foreign aid flows constitute a marginal portion of donor country GDP (Jepma-1991, Clay et. al, 2008). Additional research posits that tied aid does not boost employment as a whole for the donor country because the returns typically accrue to a small number of firms whose services and/or goods are procured for contracted aid projects (Clay et al., 2009).

Other scholars have focused on the political motivations for why countries tie aid, specifically in relation to the believed “additionality” of tied aid. In this case, tying aid helps maintain domestic support for foreign aid and thus untying aid would risk losing this support or would lead donor countries to divert their aid funds from LDCs to other countries of greater strategic interest (Clay et al., 2009). Yet absolute levels of DAC aid to LDCs did not fall as

countries began increasing levels of formally untied aid following the Recommendation. Rather, the data point to a doubling in the amount of DAC absolute aid to LDCs by 2007 (Clay et al., 2009). Given that the practice of de facto aid tying is shown to have existed during this period, these studies may still leave the question of additionality unanswered, perhaps indicating the strength of the role domestic groups may in fact play in determining foreign aid policy.

Another explanation for the tendency to tie aid relates to the issue of recipient country capacity. Defenders of tied aid cite that untying aid can create inefficiencies of its own in cases of corruption in recipient country institutions and where local country firms lack capacity or financial capital to implement aid projects. In addition, tied aid can provide needed resources and services in humanitarian situations where the local market is unable to provide necessities (Chinnock and Collinson-1999, Ellmers-2011, Sowa and White-1997). While the latter explanation illuminates a case where tied aid is likely to yield greater efficiency than an untied alternative, the former, opposing scholars argue, can be mitigated through establishing monitoring, evaluation and transparency procedures for local country-led aid projects as well as through investment in local capacity building (Clay et al., 2009). Along with this, it has also been posited that increased competition resulting from untying aid could provide strong incentives for recipient country institutions to improve local capacity due to the opportunities for greater ownership and autonomy (Clay et al., 2009).

More recently, scholars have taken an empirical approach to uncovering why countries tie aid, mainly through studying DAC member countries (Carbone 2014, OECD 2012, Pincin 2013, Birdsall and Vyborny 2008). In examining why there appeared to be minimal progress in aid untying among EU and other DAC member states, Carbone concludes that as a widely-proclaimed champion in the move to untie aid, the EU's efforts to coordinate tied aid policy

among its member states and encourage non-EU DAC donors to untie their aid through the principle of reciprocity, proved unsuccessful. The EU's failure Carbone argues was due to its inability to successfully mitigate the "different types and levels of resistance from three groups of actors: traditional donors, emerging powers, and developing countries" (Carbone, 2014, 113). For traditional donors, commercial interests in tying aid were a hindrance to joining the EU's efforts. Fear of competition from China and India as emerging aid donors who employed tied aid consistently also played in to DAC donors' resistance to expansion of untied aid as a proportion of total aid. Finally, speculation by some developing countries that untying aid would reduce aid flows or lead to new conditionalities, also fed the resistance and lack of support for EU efforts. Carbone posits that this resistance along with lack of enforcement and pressure from the international community contributed to the heterogeneous progress among DAC donors in untying aid (Carbone, 2014). Birdsall and Vyborny (2008) express a similar sentiment, explaining that lack of progress among certain countries in meeting their commitments to untie aid can be attributed to the limited international and public pressure donor countries face to meet their targets as well as "a collective inertia around making politically challenging reforms" to fully untie aid (1).

While the literature on tied aid motivations capture both economic and political considerations, this study seeks to expand investigation on the current political factors driving the continued use of tied aid among key donor states. In particular, this study examines how the presence of domestic special interests within donor countries coupled with the push from the international community to untie aid has shaped DAC donor states' responses to the 2001 Recommendation to Untie Aid.

## **Special Interest Groups in Aid Disbursement Policy**

Further studies examining the impact of special interest groups on aid policy suggest that special interest groups can and do significantly influence the aid policies of donor countries particularly in democratic governments where constituents elect public officials. Research finds that donor governments are often beholden to interest groups when determining the volume and allocation of aid they provide (Lahiri & Raimondos Moller, 2000; Round & Odedokun, 2003) and lobbying is frequently used to garner aid contracts by domestic firms (Greenhill, 2006). Given these pressures, officials in charge of aid policy decision-making often disburse aid to the benefit of special interest groups and constituents (Hopkins, 2000).

A study by Pincin on 22 DAC donor countries from 1979-2009 underscores the role domestic interest groups play in shaping bilateral aid disbursement policy. In it the author studies to what extent electoral competition driven by competing special interests impacted the level and percentage of tied aid during the period 1979-2009 (Pincin, 2013). Pincin finds that as the number of decision makers increases measured as the level of electoral competition within a governing coalition, tied aid increases both in absolute levels and in proportion to total aid. Conversely, he also finds that tied aid decreases with a decrease in legislative competition or a high number of excess seats held by the governing coalition above the minimum required for a majority. Pincin cites the special interest effect, as a possible explanation for the results, where well-informed special interest groups in donor countries which may benefit from tied aid are able to lobby effectively. The author also cites the principal-agent problem as an additional explanation given that the benefits of untying aid would largely accrue to recipient countries not those providing aid funding. Additional case studies analyzing the tied aid policies of DAC

member states Japan and South Korea underscore Pincin's point on the role of interest groups in furthering the use of tied aid by donor states (Chan-1992, Cheung et. al-2016, Riddell-2007).

Faced with the reality of special interest influence in tied aid policy, donor countries confront a dilemma of sorts in determining how to disburse aid under the 2001 Recommendation. On one hand, state aid agencies are accountable to government decision-makers who often draw up the funding that goes towards the aid budget (Pincin-2013). These decision makers are in turn accountable to their constituents, where special interest and lobby groups exert influence. In this case, donor countries then have a strong incentive to maintain tied aid policies. On the other hand, donor states also face pressures from the international community through the research and advocacy that have touted the negative effects of tying aid particularly on recipient countries (Clay et al. 2005, Greenhill 2006). This message was amplified by the two high level meetings—the Paris Declaration on Aid Effectiveness in 2005 and the Accra Action Agenda in 2008—that further emphasized the message of untying aid to donors and included new measures such as improving donor reporting on compliance with the 2001 Recommendation (Carbone, 2014). These activities have also placed a burden on DAC donors to align their aid with the targets and aspirations of the international development community which would result in aid being untied. Furthermore, certain donor states such as the UK and the Scandinavian countries with a past record of having relatively more progressive policies in international development (Carbone, 2014) may have a particularly strong incentive to untie aid in order to strengthen their reputation as leaders in development-friendly engagement among their fellow DAC members. A loss of such reputation in favor of domestic considerations could result in vocal backlash from civil society groups and members of the development community, as was the case with the international mineral extraction industries that succumbed

to the Extractive Industries Transparency Index in alignment with the international norm of transparency (Berret and Okamura, 2016). In seeking to understand what drove mineral extraction companies to comply with an initiative that subject them to public scrutiny on environmental grounds, the authors conclude that the firms adhered to this to limit the risk to their reputations and the social cost of breaking the norm of transparency, while also yield both social benefits and material benefits from the international community (David-Berret and Okamura, 2016). David-Berret and Okamura's work along with other studies point to the significance of reputation in the international arena and the currency it holds not only for international industries but countries as well (Wylie, 2009).

Within this context, formally untying aid while keeping aid de facto tied serves to mitigate the two conflicting pressures stemming from domestic special interests in tied aid and the international development community's call to untie aid, embedded in the 2001 Recommendation. In untying aid at the contractual level, donor states are then able to publicly align with the goals expressed by the Recommendation and certain donors widely recognized as key supporters of development initiatives advance their reputation in this light. By the same token, donors are still able to appease domestic special interests by leveraging their influence in structuring the aid bidding market to give domestic firms an upper hand in securing aid contracts. As a result, aid remains de facto tied even when it is not formally so (La Chimia, 2004).

An example of similar actions taken by countries to balance domestic and international considerations lies in Kono's analysis of US trade policy (Kono, 2006). The author argues that the use of optimal obfuscation, or replacing transparent policies with less transparent, indirect policies helps politicians, "protect their markets while maintaining a veneer of liberalization" in trade (Kono 2006, 1). Kono cites this tactic as a consequence of electoral competition present in

democracies, which gives weight to certain trade policies based on how easily they can be articulated to voters as constituents. Fraught with the priorities of voters often in conflict with their own market interests, politicians publicly reduce tariffs while still maintaining barriers through installing more indirect non-tariff barriers (Kono, 2006). In this way, the reduction of more public tariffs, serves as a symbolic nod to trade liberalism, aligning with values of the voters and democracy at large.

Drawing from these considerations, I argue that the untying of aid under the 2001 Recommendation serves as a symbol rather than a genuine policy change, in support of pro-poor, development friendly targets in an effort to adhere to calls for greater aid efficiency by the international development community while still responding to the priorities of domestic special interests in favor of tied aid. I hypothesize that given the prevalence of domestic special interest groups in favor of maintaining tied aid, DAC donor states with a relatively stronger record of development-friendly initiatives will see a higher proportion of tied aid as de facto following the 2001 Recommendation.

## **Methodology**

Following the theory on domestic interest influence in democratic governments as it relates to tied aid policy following the 2001 Recommendation, I state the following hypothesis:

Holding constant the influence of domestic special interest groups through electoral competition, DAC donor states with a relatively stronger support of development-friendly initiatives will see a rise in the proportion of informal tied aid relative to formal tied aid following the 2001 Recommendation.

My analysis is conducted on a sample of eight member countries of the OECD Development Assistance Committee (UK, Finland, Australia, Denmark, France, Germany, US and Portugal). These countries are democratic in structure with high levels of electoral competition relative to non-democratic countries based on indicators from the legislative and executive index scores of the World Bank Database of Political Institutions (Kono-2006, Thorsten et al.-2001). These indexes measure the party fragmentation of the legislative system and the level of electoral competition in electing an executive by the governing legislature. They measure a country's electoral system on a scale ranging from 1-7 where 1 indicates no elections were held and 7 indicates elections where the largest party gained less than 75% of the vote. Through Pincin's work which highlights special interest group influence as stronger with electoral competition in democracies, this serves as a proxy for the volume of diverse or "special" interests being represented in the governing coalition<sup>1</sup> (Pincin, 2013). As all of the countries in my sample received the same score of 7 on each index, I hold constant the electoral competition variable and accordingly the measure of special interest group prevalence for the analysis.

To test the hypothesis, I conduct a statistical correlation test on the percentage change in the share of informally tied aid as a fraction of total tied aid,  $\Delta Informal\text{-to-TotalTiedAid}$  relative to the level of support for development-friendly initiatives, *DevelopmentSupport*, in years following the 2001 Recommendation: 2009, 2010 and 2013. Informally tied aid is measured as the dollar value of donor bilateral aid contracts awarded to domestic firms in proportion to the total value of contracts awarded per year. Formal tied aid is defined as the value of total bilateral

---

<sup>1</sup> Note that the legislative and executive index measure does not fully capture the variation across countries with respect to the prevalence and ease with which special interest groups can exert influence in the governing coalition. In this light, the measure serves as a rough proxy for special interest group influence and future research should incorporate additional or alternate measures that reflect the nuance of interest group access and influence in governments across democratic countries.



commitments contractually tied in each year. Total tied aid is captured as the sum of informal tied aid and formal tied aid for each year. Accordingly, I derive the share of informal tied aid as a fraction of total tied aid through dividing the informally tied aid value by the total tied aid value.

I then conduct a correlation analysis on the share of formal tied aid *FormalTiedAid*, and the level of support for development-friendly initiatives, *DevelopmentSupport* and an additional correlation test on *DevelopmentSupport* and share of informally tied aid, *InformalTiedAid*.

To capture *DevelopmentSupport*, I draw from the Commitment to Development Index (CDI) by the Center for Global Development. The CDI measures how ‘development-friendly’ the world’s richest countries’ policies are. The Index consists of eight categories; Aid, Finance, Technology, Environment, Trade, Security, and Migration; which measure and rank countries according to how well their policies in these areas support developing nations in building prosperity, good governance and security. In addition, to measuring countries’ development policies, the Index also adjusts for size and economic weight to measure countries based on their propensity to help. Accordingly, I utilize the CDI measure by taking the overall average of the Index scores excluding the Aid category, for each DAC country in the sample for each year. I omit the Aid category because it utilizes untied aid levels among other indicators, in generating the Aid score, which is highly correlated with the formal tied aid variable, *FormalTiedAid*. I associate their scores with the CDI scores in the same years to see whether or not the high untied aid countries have changed tied aid over time from formal to more informal, indirect methods.

If the hypothesis holds, the model will show a positive and significant relationship between percentage change in the share of informal tied aid as a fraction of total tied aid,  $\Delta$ *Informal-to-TotalTiedAid* and *DevelopmentSupport*, captured by the CDI Score. In addition, the

model will find either a negative and significant relationship or no relationship between a CDI score, *DevelopmentSupport*, and the share of formal tied aid, *FormalTiedAid*. Lastly, the model will indicate a positive and significant relationship between the CDI score, *DevelopmentSupport*, and the proportion of informally tied aid, *InformalTiedAid*.

## Results

The statistics for changes in informal tied aid share and formal tied aid share are shown in Table 1 below along with the three-year CDI score average for each DAC country. The remaining tables show the correlation coefficients for the each of the variables tested in this study:  $\Delta$ *Informal-to-TotalTiedAid* to *Development Support*, *DevelopmentSupport* to *FormalTiedAid*, and *DevelopmentSupport* to *InformalTiedAid*.

Table 1: Changes in share of informally tied aid and total tied aid among eight DAC donor countries during 2009-2013 (years 2009, 2010, 2013)

|                  | $\Delta$ informal tied aid % | $\Delta$ formal tied aid % | CDI Score (Average) |                 | $\Delta$ informal tied aid % | $\Delta$ formal tied aid % | CDI Score |
|------------------|------------------------------|----------------------------|---------------------|-----------------|------------------------------|----------------------------|-----------|
| <b>Australia</b> | -0.28696                     | -1                         | 5.54402             | <b>Germany</b>  | -0.72581                     | -0.26268                   | 5.09576   |
| <b>Denmark</b>   | -0.09354                     | 0.17333                    | 5.93102             | <b>Portugal</b> | 0.06                         | 0.79459                    | 5.34285   |
| <b>Finland</b>   | -0.02256                     | 0.12841                    | 5.68862             | <b>France</b>   | 0.48498                      | -0.19435                   | 5.06957   |
| <b>UK</b>        | 0.13588                      | 0                          | 5.62232             | <b>USA</b>      | -0.00224                     | 0.08125                    | 4.83597   |

|   | <i>Development Support (CDI Score)</i> |
|---|--|
| $\Delta$ informal-to-total tied aid share | 0.182237                               |

Table 2: Positive correlation between changes in share of informally tied as fraction of total tied aid and Commitment to Development Index Score. P-value > .05 and .1

|  | <i>Formal tied aid</i> |
|--|------------------------|
| <i>Development Support (CDI Score)</i> | 0.414307               |

Table 3: Positive correlation between share of formal tied aid and Commitment to Development Index score. P-value > .05 and .1

|  | <i>Informal tied aid</i> |
|--|--------------------------|
| <i>Development Support (CDI Score)</i> | 0.369061*                |

Table 4: Positive correlation between share of informal tied aid and Commitment to Development Index score.  $0.1 > P\text{-value}^* > .05$

The results show a positive but statistically insignificant relationship between the percent change in the share of informally tied aid as a fraction of total tied aid  $\Delta$ *InformalTiedAid*, and the level of support for development-friendly initiatives, *Development Support*, captured by the CDI score, with a p-value of .447. The findings also suggest a positive but statistically insignificant relationship between the share of formal tied aid, *FormalTiedAid*, and the Commitment to Development Index score, with a p-value of .18. Additionally, the results reveal a positive relationship between the CDI score and informal tied aid that is insignificant at the five percent level but statistically significant at the 10 percent level.

In all, the results do not confirm my hypothesis that holding constant domestic interest group influence, countries with a higher CDI score will see a rise in informal tied aid relative to total tied aid. However, given the lack of statistical significance with respect to the additional variables analyzed, it remains unclear what the true nature of the relationship is between changes

in informally tied aid share, formal tied aid share and the CDI score. Notably, the correlation coefficient for *DevelopmentSupport to FormalTiedAid* has a 95% confidence interval range that included zero, indicating that there may possibly be no significant relationship for between the two variables.

## **Discussion**

The inconclusive evidence from the findings can in part be attributed to some key limitations in conducting the analysis. Firstly, due to severe constraints in attaining data on DAC tied aid disbursements, the initial sample size in this study was reduced from a count of 22 DAC countries over a decade to eight countries over three years. In addition, the tied aid and procurement contract data utilized in this study were obtained through the OECD Creditor Response System. The data from the Creditor Response System is self-reported by representatives from the donor country aid agencies and there were frequent gaps in the reporting of tying status by some donors. As such, discrepancies were evident with data on formal tied aid and untied aid shares as a few countries had untied and tied aid percentages that did not add up to 100%. This in turn could have implications for the accuracy of the formal tied aid estimates that were used in this study.

The conceptual limitations of this study fall within the scope of the analysis. In largely focusing on informal and formal tied aid dynamics, the case of genuine untied aid is left out in the analysis, potentially presenting a less comprehensive picture of how DAC donors are essentially progressing in their commitments. In addition, there was limited capability to control for variations in tied aid levels among DAC members before the 2001 Recommendation. Due largely to the inaccessibility of data before 2001, this study could not include considerations on how variations in formal tied aid shares before the Recommendation could have potentially

impacted the progress of some DAC members in formal aid untying after 2001. Moving forward, more robust research should aim to include analysis on the genuine untied aid case and the impact of varying formal tied aid proportions among DAC states prior to the 2001 Recommendation.

## **Conclusion**

The evidence against the developmental effectiveness of tied aid has driven a push in the international community to untie more aid, as the 2001 Recommendation to Untie Aid demonstrates. Despite the formal high level commitment made by members of the Development Assistance Committee, progress in aid untying has been heterogenous at the bilateral level. In addition, recent evidence suggests there to be a concurrent increase in informally tied aid practices where donors utilize indirect mechanisms rather than contractual obligations to grant domestic firms aid procurement contracts which results in aid being de facto tied.

The heterogenous progress in aid untying and rise in use of informal mechanisms for tied aid appear in line with previous research on the political motivations for tying aid. These studies highlight the role of interest group influence due to high electoral competition within government in democracies as increasing the likelihood for donor aid to be tied (Pincin, 2013). Under such a circumstance, donors are faced with a conflict of interest from the domestic and international spheres. On one hand aid donor agencies are beholden to domestic constituencies and special interest groups which benefit from tied aid practices. On the other hand donor agencies also seek to promote international development in an efficient and productive manner, in which research suggests tying aid prevents.

Accordingly, the claims of this paper posit that formal untying of aid by donors along with the use of informal aid tying mechanisms evident in the pervalence of de facto tied aid serves to mitigate these seemingly conflicting interests among bilateral aid donors, implying that given the influence of special interest groups, donor countries with a high premium on promoting effective development efforts will see a relative rise in their share of informally or de facto tied aid following the 2001 Recommendation to Untie Aid. To test this claim, I conduct a correlation coefficient analysis under the following sub-hypotheses:

- A positive and significant relationship between percentage change in the share of informal tied aid as a fraction of total tied aid, and the level support for development-friendly initiatives
- A negative and significant relationship or no relationship between the level of support for development friendly initiatives and the share of formal tied aid Last
- A positive and significant relationship between the level of support for development-friendly initiatives and the share of informally tied aid

The findings fail to support the stated claim, indicating a positive but statistically insignificant relationship between the percent change in informally tied aid as a fraction of total tied aid and level of support for development-friendly initiatives. In addition, the results show a positive but statistically insignificant relationship between the share of formal tied aid and level of support for development-friendly initiatives, as well as a positive relationship between the level of support for development-friendly initiatives and the share informal tied aid that is insignificant at the five percent level but statistically significant at the 10% level.

While no definitive conclusions can be drawn from this study on what factors are responsible for the varied levels of progress among DAC donors in untying aid following the

2001 Recommendation, this study contributes to the existing literature by providing a new perspective in which to explore the potential impact of the interplay between domestic and international politics on tied aid policy and aid effectiveness. However, more work can be done to develop a comprehensive understanding of how DAC donors have progressed in their commitments to untie aid. Future research on this question should include analysis on the relationship between informally tied, formal tied and untied aid as well as the potential impact on post-2001 untying progress of the varying levels of formal tied aid among DAC states prior to the 2001 Recommendation.

## References

- Aryeetey, E., Osei, B. & Quartey, P. 2003. "Does tying aid make it more costly? A Ghanaian case study." *Institute of Statistical, Social, and Economic Research, University of Ghana*.
- Bertoli, A; Andrea Cornia, G; Manaresi, F. (2007) "Aid Performance and Its Determinants: A Comparison of Italy with the OECD Norm." *Banca Nazionale del Lavoro Quarterly Review*, Banca Nazionale del Lavoro, 60:242, 271-321.
- Birdsall, Nancy., Vyborny, Kate. 2008. "A Little Less Talk: Six Steps to Get Some Action from the Accra Agenda." *Center for Global Development*.  
[https://www.cgdev.org/sites/default/files/16551\\_file\\_Birdsall\\_Vyborny\\_Accra\\_FINAL.pdf](https://www.cgdev.org/sites/default/files/16551_file_Birdsall_Vyborny_Accra_FINAL.pdf) (September 20, 2016).
- Carbone, Maurizio. 2014. "Much ado about nothing? The European Union and the global politics of untying aid." *Contemporary Politics*, 20:1, 103-117, DOI:10.1080/13569775.2014.882572.
- Chan S. 1992. "Humanitarianism, mercantilism, or comprehensive security? Disbursement patterns of Japanese foreign Aid." *Asian Affairs: An American Review* 19(1): 3-19.
- Cheung, Soyoan; Eom Ho, Young; Jung Joo, Heon. 2016. "Why Untie Aid? An Empirical Analysis of the Determinants of South Korea's Untied Aid from 2010-2013." *Journal of International Development*, 28, 552-568, DOI:10.1002/jid.3195
- Chinnock, J. and Collinson, S. 1999. "Purchasing Power: Aid Untying, Targeted Procurement and Poverty Reduction." *London: Action Aid*.
- Clay, Edward, Barry Riley and Ian Urey. 2005. "The development effectiveness of food aid and the effects of its tying status." *Paris: Development Center of the OECD*.
- Clay, E.J., Geddes, M. and Natali, L., 2009. "Aid untying: is it working? An evaluation of the Implementation of the Paris Declaration and of the 2001 DAC recommendation of untying ODA to the LDCs." *Copenhagen: Danish Institute for International Studies*.
- Clay, E., Geddes, M., Luisa, N. and te Velde, D. 2008. "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 I Report." Copenhagen.
- David-Berret, Elizabeth; Okamura, Ken. 2016. "Norm Diffusion and Reputation: The Rise of the Extractive Industries Transparency Initiative." *Governance: An International Journal of Policy, Administrations and Institutions*, 29:2, 227-246. DOI:10.1111/gove.12163
- Ellmers, B., 2011. "How to Spend It: Smart Procurement for More Effective Aid." *Eurodad*.  
[http://eurodad.org/files/integration/2012/09/Procurement\\_report\\_summary.pdf](http://eurodad.org/files/integration/2012/09/Procurement_report_summary.pdf) (30 October 2016).



- Greenhill, Romilly. 2006. "Real Aid: Making Technical Assistance Work." *Johannesburg: Action Aid International*, [http://www.actionaid.org/sites/files/actionaid/real\\_aid\\_2.pdf](http://www.actionaid.org/sites/files/actionaid/real_aid_2.pdf) (7 December 2016).
- Hopkins, R. F. 2000. "Political economy of foreign aid, in: Finn Tarp (Ed.)" *Foreign Aid and Development: Lessons Learnt and Directions for the Future* (New York: Routledge), pp. 423–449.
- Jepma, C. J. 1991. "The Tying of Aid." *Washington, DC: Development Centre of the Organization for Economic Co-operation and Development*.
- Kneteman, Christie. 2009. "Tied Food Aid: Export Subsidy in the Guise of Charity." *Third World Quarterly*, 30:6, 1215-1225, DOI: <http://dx.doi.org/10.1080/01436590903037507>.
- Kono, Daniel. 2006. "Optimal Obfuscation: Democracy and Trade Policy Transparency." *American Political Science Review*, 100:3, 369-384.
- La Chimia, Annamaria. 2004. "International Steps to Untie Aid: The DAC/OECD Recommendation on Untying Official Development Assistance to the Least Developed Countries." *Public Procurement Law Review*, 13:1, 1-29.
- Lahiri, S., Raimondos-Moller, P. 2000. "Lobbying By Ethnic Groups and Aid Allocation." *The Economic Journal*, 110:462, C62-C79.
- Nowak-Lehmann, D., Martinez-Zarzoso, I. and Klasen, S. 2008. "Aid and Trade: A Donor's Perspective." *Discussion Paper 171, Ibero-America Institute of Economic Research, Gottingen*.
- Odedokun, M., Round, J. 2004. "Aid Effort and Its Determinants." *International Review of Economics and Finance*, 13:3, 293-309, DOI: 10.1016/j.iref.2003.11.006
- OECD 2016. "Detailed Aid Statistics: Tying Status of Bilateral ODA." *OECD International Development Statistics* (database). DOI: <http://dx.doi.org/10.1787/data-00080-en> (27 October 2016).
- OECD-DAC 2005. "Declaration of the High-Level Forum on Aid Effectiveness (Paris Declaration) » [http://www.oecd.org/document/18/0,3343,en\\_2649\\_3236398 DOI: \\_35401554\\_1\\_1\\_1\\_1, 00.html](http://www.oecd.org/document/18/0,3343,en_2649_3236398_D01_35401554_1_1_1_1,00.html).
- Pincin, Jared A. 2013. "Political Power and Aid-Tying Practices in the Development Assistance Committee Countries." *Oxford Development Studies*, 41:3, 372-390, DOI: 10.1080/13600818.2013.812724.
- Radelet, Steven. 2006. "A Primer on Foreign Aid." *Center for Global Development*. <http://www.cgdev.org/publication/primer-foreign-aid-working-paper-92> (October 2, 2016).
- Riddell R. 2007. "Does Foreign Aid Really Work?" *Oxford University Press: Oxford*.

Thorsten, B., George, C., Alberto, G., Keefer, Philip, and Patrick Walsh. 2001. New Tools in Comparative Political Economy: The Database of Political Institutions. *World Bank Economic Review*. 15:1, 165-176 (September 2016).

Sowa, N. & White, H. 1997. "An Evaluation of Netherlands Co-financing of World Bank Activities in Ghana." *The Hague: Policy and Operations Department, Ministry of Foreign Affairs*.

"Untying aid: The Right to Choose" *Organization for Economic Cooperation and Development (OECD)*, Web. (September 25, 2016).

Wagner, D. 2003. "Aid and Trade: An Empirical Study." *Journal of the Japanese and International Economics*, 17 (2), pp. 153–173.

Wylie, Lana. 2009. "Valuing Reputation and Prestige: Canadian Foreign Policy and the International Criminal Court." *American Review of Canadian Studies*, 39 (2), pp. 112-130. DOI: 10.1080/02722010902848193.

## Appendix

| Variable                               | Definition  | Source   |
|--|---|--|
| <b>Informally tied aid</b>             | The value of donor bilateral aid contracts awarded to domestic firms in proportion to the total value of contracts awarded  | <p>Lammersen, Frans and Gordon, Ann. "Aid Untying: 2015 Report." <i>Development Assistance Committee-Organization for Economic Co-operation and Development</i>.<br/> <a href="http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2015)37&amp;docLanguage=En">http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2015)37&amp;docLanguage=En</a> (Jan 4, 2017).</p> <p>Nicol, Bill and Gordon, Ann. "Aid Untying: 2012 Report." <i>Development Assistance Committee-Organization for Economic Co-operation and Development</i>.<br/> <a href="http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2012)39/FINAL&amp;docLanguage=En">http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2012)39/FINAL&amp;docLanguage=En</a> (Nov 11, 2016).</p> <p>Nicol, Bill and Gordon, Ann. "Implementing The 2001 Dac Recommendation On Untying Aid: 2010-2011 Review." <i>Development Assistance Committee-Organization for Economic Co-operation and Development</i>.<br/> <a href="http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2011)4/REV1&amp;docLanguage=En">http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2011)4/REV1&amp;docLanguage=En</a> (Jan 4, 2017).</p> |
| <b>Formal Tied Aid</b>                 | The value of total bilateral commitments contractually tied.  | Organization for Economic Development-Development Assistance Committee Creditor Reporting System (CRS) (February 20, 2017).  |
| <b>Commitment to Development Index</b> | CDI measures and ranks countries according to how well their policies in these areas support developing nations in building prosperity, good governance and security. | Barder, Owen et. al. "Commitment to Development Index" <i>Center for Global Development</i> .<br><a href="https://www.cgdev.org/initiative/commitment-development-index/inside">https://www.cgdev.org/initiative/commitment-development-index/inside</a> (Jan 24, 2017).   |
|  |   |  |