

# TOWARDS EFFECTIVE PARTNERSHIP

# UNTIE AID

*Aid tying includes all practices by which the recipient country's choices are already prescribed. Therefore when aid is given on a tied basis, it is like giving a medicine far below a prescribed dose that not only prolongs the disease, but also increases its severity and eventually the doctor will gain more medical fee and the pharmacist will gain from selling more medicine.*

*Deepen Babadur Bista, Nepal*



## EXECUTIVE *SUMMARY*

It is two years since the adoption of the DAC Recommendation on Untying Assistance to Least Developed Countries. Limited as its scope of application is, it nevertheless represents a great achievement in terms of taking concrete measures to increase the effectiveness of aid.

Donors and developing country governments alike must scale up their efforts in order to meet the challenge of the Millennium Development Goals.

Clearly, greater resources are required to meet the goals but increasing resources is only one of a series of measures that donors must take. Increasing the effectiveness of aid will also release more resources for development. Aid can be made more effective by increasing donor coordination—which must go beyond consultation to substantive partnership—and by untying the provision of aid from the obligation to procure from donor country suppliers.

In adopting the Recommendation, donors acknowledged that aid is more effective if it is untied. Therefore, failing to implement it will dent the credibility of the donor policies towards partner countries. This research aims to assess the extent to which the Recommendation has had an impact on donor practice in four countries—France, Italy, Spain and the USA.

Our research found that although there has been some movement as a result of the Recommendation, the changes thus far have been limited. Only France of the countries studied has enacted reforms to its aid regime to meet the requirements of the Recommendation. In Italy and Spain, officials are aware of the Recommendation but have been slow to implement changes. In the US, the Recommendation appears to have had only very limited impact on both law and practice.

The DAC High Level Meeting in Paris on April 22/23 is an opportunity for the donors themselves to assess their progress on implementing the Recommendation and to discuss what further actions need to be taken in respect of further untying.

Food aid and technical cooperation are not formally included in the recommendation coverage. However, they account for a growing proportion of aid and so our research also includes a limited assessment of donor practice in these areas for future consideration.

## RECOMMENDATIONS

Given that poor people are entitled to access public resources whether they are domestic or international we recommend that donors:

- Immediately untie all their bilateral aid to all developing countries including technical cooperation and food aid (including food transport).
- Make better use of untied forms of aid e.g. budgetary support.
- Simplify their bidding procedures and ensure better coordination with the donor community and with partner countries.
- Enhance transparency of procurement procedures and data including by making better use of the OECD untied aid tenders bulletin board<sup>1</sup>.

On local sourcing we recommend that donors

- Introduce measures to support the sourcing of goods and services from developing countries including through the award of significant price preferences and support for joint ventures and for effective public procurement regimes in developing countries
- Support approaches that foster local ownership
- Support awareness raising measures and capacity building in developing countries.

<sup>1</sup> [http://webdomino1.oecd.org/dcd/UntiedCWS.nsf/viewHtml/index/\\$FILE/Public\\_Index.htm](http://webdomino1.oecd.org/dcd/UntiedCWS.nsf/viewHtml/index/$FILE/Public_Index.htm)

## INTRODUCTION

### **Untying aid can:**

- Allow more competitive tenders thus ensuring better value for money and increasing the value of aid.
- Reduce dependency on companies and consultants based in developed countries by encouraging bids from local industry thus ensuring more sustainable development and generating employment in developing countries.
- Help lift poor and marginalized people out of poverty by increasing local ownership of development strategies.

### **“Untying aid might be economically damaging”**

It is claimed that aid tying protects one donor’s firms against another donors’ use of tied aid. However, the reality is that protectionism in the North can reduce competitiveness, efficiency and, in the long run, economic growth. Furthermore, studies demonstrate that the benefits of tied aid are not evenly shared among donor firms, resulting in a net subsidy from public funds to a limited group of exporters<sup>1</sup>. This is particularly true in some small European countries, where the limited resource base (i.e. sufficient number of companies able to bid) and the restriction to home supplies usually results in uncompetitive bids. This also undermines the ability of the administration to negotiate prices and ensure the best value for money. In 2001 a report by the Danish Auditor General found that DANIDA is often forced to resort to price fixing to ensure that domestic prices do not exceed that of the international market<sup>2</sup>.

<sup>1</sup> DFID briefing paper, July 2001

<sup>2</sup> Conclusions from the Danish Auditor General Report, 2001.

<sup>2</sup> DAC (2001) Recommendation on Untying Official Development Assistance to the Least Developed Countries, OECD, <http://www.oecd.org/pdf/M00002000/M00002076.pdf>

Eradicating poverty requires a fundamental change in current aid practices. Donor policies need to be designed that go beyond a projection of national interest and look to address the priorities of poor and marginalized people.

ActionAid Alliance believes that tied aid—aid given on condition that the recipient will use it to purchase goods and services from suppliers based in the donor country—is incompatible with effective partnership in the fight against poverty and it does not create the conditions for sustainable development.

Tied aid reduces a country’s options for the procurement of goods and services leading to much higher prices, often at a 20% premium. Therefore, by untying aid donors can unlock more resources for development.

The acute lack of transparency in the tied aid mechanism creates conditions for commercial and political pressures to thrive, both in the donor and the recipient countries. This can lead to pressure for inappropriate goods and services at the expense of focus on the poorest countries or on priority sectors to tackle poverty.

In April 2001 the DAC agreed to untie aid to Least Developed Countries (LDCs) “to the largest extent possible”<sup>2</sup>. The agreement came into force on 1st January 2002. The Recommendation calls on donors to procure specified goods and services from worldwide sources for “covered” programs and activities in the LDCs. Sectors which are considered “covered” include transport, power, telecommunications, agriculture, wastewater treatment, information technology and construction in any sector.

Food aid, transport of food aid and technical assistance (i.e. training, institution building, consulting services, intellectual capacity building) are excluded from this Recommendation, as is aid to NGOs.

This report examines the impact of that agreement by examining the extent to which it has been implemented by selected DAC members.

France, Italy, Spain and the United States were selected for the research as they account for a significant proportion of world aid and are among the biggest aid tiers. The report also includes case studies of tied aid in Southern countries to demonstrate the inefficient nature of tied aid regime.

The document is divided into three sections: Section 1 describes these countries’ situations regarding aid untying before January 2002. Section 2 outlines measures introduced after this date applying DAC’s Recommendation on aid untying. Section 3 presents an analysis of further perspectives for aid untying—food aid and technical cooperation.

Each of these sections is illustrated by concrete cases of international aid practices brought up during conversations, interviews and consultations with various public or private stakeholders: government or national parliament members and representatives from private businesses or NGOs.

### **“Tied aid sustains public support for aid”**

Tied aid is justified as a necessary measure to sustain public support for aid. However, the fact is that cuts in development budgets usually respond to budgetary or economic constraints in OECD countries, rather than to changing levels of public support for aid.

In Europe, recent opinion polls suggest that taxpayers’ support for aid will diminish unless there is a greater impact on poverty and greater effectiveness.

## INTERNATIONAL CONTEXT

### THE DAC **AGREEMENT**

The DAC Agreement that was finally reached in 2001 after thirty years of negotiations is an acknowledgment that tied aid represents poor value for money and undermines development assistance. The Agreement states that DAC members are untying their aid to:

- “ • foster co-ordinated, efficient and effective partnerships with developing countries;
- strengthen the ownership and responsibility of partner countries in the development process;
- demonstrate responsiveness to the requests from partner countries and others to increase the use of untied aid in order to promote aid effectiveness; and
- contribute to broader efforts with partner countries to promote their integration into the global economy<sup>3</sup>. ”

Given the expected benefits, it seems inconsistent for it to apply to a limited set of countries. Furthermore, entire categories of aid are excluded from the terms of the agreement including technical cooperation (TC) and food aid. Therefore, according to optimistic estimates, only a tenth of total ODA would be untied<sup>4</sup>. In addition, the recommendation is not binding and donors have not announced a timeframe for untying although our research shows that some limited progress has been made by some donors.

### MONTERREY **CONSENSUS**

Following the entry into force of the agreement, further discussions on aid untying took place in the context of the United Nations Financing for Development (FfD) Conference in March 2002. This conference represents the first international attempt to agree what actions are needed to achieve the Millennium Development Goals<sup>5</sup>. These goals were agreed by the UN in 2000 and require countries North and South to make a massive and sustained effort between now and 2015 to eradicate poverty. As well as committing to increase aid volumes donors made a series of commitments in respect of aid effectiveness including agreeing to “support and enhance recent efforts and initiatives such as untying aid”<sup>6</sup>.

### EUROPEAN **UNION**

EU donors have made more specific commitments in respect of deepening their cooperation and increasing their aid effectiveness including by continuing discussions “in view of further untying<sup>7</sup>”. This led, in November 2002, to the presentation of the European Commission Communication “Untying: Enhancing the effectiveness of aid<sup>8</sup>”, during the General Affairs and External Relations Council.

This proposal includes further measures to substantially untie Community aid and makes recommendations to Member States to ensure that their procurement regimes are compatible with Community law, notably the public procurement directives and competition rules. The Commission proposes also to address the untying of food aid and food aid transport, which represents an important percentage of tied aid that is currently outside the DAC agreement.

This Communication is addressed page 12 of the report.

<sup>3</sup> DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries, para 1 <http://www.oecd.org/pdf/M00002000/M00002076.pdf>

<sup>4</sup> *Déliement de l'aide publique au développement: le cas de la France*, Chantal Verger, Paris, mars 2003.

<sup>5</sup> Millennium Development Goals <http://www.undp.org/mdg/>

<sup>6</sup> Monterrey Consensus para 43 at <http://www.un.org/esa/td/>

<sup>7</sup> European Council conclusions on the International Conference on Financing for Development, Barcelona, March 14, 2002.

<sup>8</sup> European Commission Communication, *Untying: Enhancing the effectiveness of aid*, 18.11.2002 COM (2002) 639 final.

## RESEARCH FINDINGS

### Before 2002<sup>9</sup>

#### **Protocol-linked assistance**

This aid is linked to ODA even though it aims to enable French businesses to acquire strategic positions regarding exports. It is therefore, in view of its nature, strictly tied aid, described by the OECD in these terms: "With protocol-linked assistance, aid tying means a constant concern with fostering commercial penetration and local investment by French firms."

#### FRANCE

Prior to 2002 and in spite of political speeches favouring public aid untying to developing countries, France has not really implemented an aid untying policy. As a result, statistics reveal that France is somewhat behind other OECD countries.

This explains DAC's stern comments when it examined France's public aid to development in 2000<sup>10</sup>.

"Theoretically, French bilateral assistance is tied aid, even if the wording of the origin clause that formalises this feature permits the financing of goods and services originating from franc zone countries or other assisted countries, on terms that may vary according to the instruments used."

Furthermore, untied aid concerns operations that are untied only because of their very nature (budgetary aid, financing local costs . . .)—in particular, debt relief operations, which account for a large part of aid untying.

According to France's report to the DAC for 2001, 67% of France's bilateral public aid to development was untied, 24% was partially untied and 9% was tied, which puts France way behind other DAC members concerning strict aid untying for LDCs compared with the average for DAC countries, which that same year 2001 reached 79% (of aid to LDCs was untied)<sup>11</sup>. Among the major bilateral donors, only Italy, Canada and Australia's aid untying performances were worse.

To conclude, DAC noted that, in spite of the fact that a report promoting aid untying was submitted to the Prime Minister back in 1996, nothing had been done to untie French public development aid. As a result, the OECD had recommended to France that it actively implements its aid untying policy.

#### SPAIN

According to OECD data published in 2001, Spain's tied aid rate is amongst the highest of all DAC members: it amounts to around 50% of bilateral aid. Furthermore, these percentages neither include technical cooperation nor subsidies for NGOs nor costs due to administration and management.

In Spain, tied aid has generally been identified with credits from the Fondo de Ayuda al Desarrollo (FAD—Fund for Development Aid),

In the early 80s the Governments of France (GoF) and Bangladesh (GoB) made an agreement, whereby four broad sectors were identified for GoF involvement in terms of aid as well as technical and other assistance. Urban Water Supply was one among these. Consequently a protocol between the two governments was signed, to the effect that a preliminary study would be carried out. It was stipulated that a consulting firm of French origin would be commissioned for the task. The protocol for "Feasibility Study, detailed engineering study for long term water supply project" (the Study) was signed in March 1990 for a grant of 760 000 US\$. Another protocol was signed between GoF and GoB for an additional funding of 200 000 US\$ in December 1991. The GoF stipulated in its protocols that a firm of French origin must procure all electro-mechanical works. It becomes clear from the Study, with hindsight, that the GoF had always wanted benefits in all electro-mechanical works. Electro-mechanical works would have to be contracted to a French firm.

<sup>9</sup> See table "Tying Status of ODA by DAC members" in Annex.

<sup>10</sup> Report, summary and conclusions of the DAC's revision of France's cooperation policy for development, OECD, 14 March 2000.

<sup>11</sup> Tying Status of Bilateral ODA Commitments, France, 2001, Statistics, DAC, OECD.

which is Spain's main financial instrument for cooperation and is managed by the Ministry of Economy. However, from a broader point of view, the tied aspect of Spain's ODA can also be seen in other instruments, such as food aid.

FAD credits are soft loans that the Spanish State makes to other states to carry out particular projects by contracting goods and services offered by Spanish companies. 70% of the goods and services supplied by the FAD credits must be Spanish, leaving the acquisition of 15% of goods and services to the beneficiary country and 15% to third countries.

Aid was tied with the explicit aim of promoting the interests of Spanish businesses, i.e. basically of promoting exports and investments by Spanish companies.

Furthermore, in the last few years, new tied aid instruments have been created, such as the programme converting debt into investments, which is mostly tied.

## ITALY

In 2001, Italian tied aid was 92.2% of total bilateral commitment, representing by far the highest percentage among DAC donors and much higher than the average DAC percentage of 17.8%.

Regarding the kind of activities, which are financed by tied aid, commodity aid, provided both in grants and in loans, is mostly tied. Only Italian companies are eligible to participate in the bids, and goods must be produced in Italy.

However, if technical cooperation is included in the Italian figures, it tends to improve the Italian average relative to other donors since the share of TC in Italian aid is relatively low (in contrast to other donors whose share of TC is relatively high and who tend to tie this form of aid). Furthermore, much Italian aid is disbursed via multilateral channels which are rarely tied 100%, so taking total aid figures of which the bilateral aid is a part, also reduces the total share of tied aid in the Italian ODA figures.

Notwithstanding these facts, it is clear that DAC Recommendation or not, Italy chooses to tie much of its aid and continues to seek a financial return for Italian business in aid contracts that are concluded bilaterally. This can be detrimental to development because it introduces competing needs—those of poor people versus those of Italian industry—into aid contracting and can thus steer aid away from uses most appropriate to achieving developmental objectives and towards aid that suits the needs of Italian business.

## US

"The principal beneficiary of America's foreign assistance programs has always been the United States. Close to 80 % of USAID's contracts and grants go directly to American firms. Foreign assistance programs have helped create major markets for agricultural goods, created new markets for American industrial exports and meant hundreds of thousands of jobs for Americans"<sup>12</sup>.

### **The Buy American Act**

The Buy American Act states that American money aid and grants as well should be used to purchase goods and services which are USA produced, using USA carriers, USA delivered and so on. This act has mainly come about as a lobby from US Multinational Corporations (MNCs) and Transnational Corporations (TNCs) to the Senate. The policy is ardently followed by USAID and implemented in all its projects.

## **UGANDA**

Italian Technical Assistance in the form of functional improvement at Lacor Hospital – Post Ebola being co-sponsored by the Italian Cooperation and AISPO (Associazione Italiana per la Solidarietà tra i Popoli, Milan). All the doctors provided under this arrangement have been drawn from AISPO, which is based in Milan.

Source: country case study on tied aid, Uganda, Charles Abola, April 2003.

<sup>12</sup> In *Direct Economic Benefits of U.S. Assistance Programs*, USAID, website <http://www.usaid.gov>

USAID funded a \$60 million health project NGO Service Delivery Program (NSDP) in Bangladesh. Although local consultants are available to do the job and sometimes better for the project, because of their familiarity with the region as well having worked previously in the same field, international consultants and US companies are still brought in to do the job. The policy of USAID is to first give priority to US Consultants and providers of US technical assistance, which means consultants who are American citizens or citizens of other countries but working for American organisations, is given preference and priority in being selected. This is in accordance with the “Buy American Act”.

Source: Shahidur Rahman. *Case study on USAID's tied assistance in the health sector in Bangladesh*, ActionAid Bangladesh, Dhaka, March 2003.

USAID's policies and procedures are detailed in its “Automated Directives Services” (ADS) handbooks which are publicly available on the USAID website. The ADS series is guided by language in the Foreign Assistance Act of 1961 (as amended), the Federal Acquisition Regulations (FAR) and USAID Acquisition Regulations (AIDAR). The FAR must be followed by all US government departments and agencies, and the AIDAR is essentially the Agency's specific interpretation of the FAR. Under these limiting sets of regulations, USAID has developed its current practice of awarding funding.

## CONCLUSIONS ON PRACTICES PRIOR TO THE DAC AGREEMENT

The results of our research demonstrate that at least prior to the DAC agreement both in theory and in practice, tied aid represented a significant proportion of the total aid of these four DAC members. In each case, donors tended to favour national beneficiaries rather than relying on recipient countries' capacities and expertise. Moreover, in the case of the USA for example, the law requires that aid is tied to national suppliers.

Given that the DAC agreement was reached precisely because DAC members acknowledge that tying aid reduces its effectiveness, and given that all donors committed in the Monterrey Consensus to increasing their aid effectiveness including by aid untying, and given that all are equally committed to untie to the same extent, we could expect to see changes in all DAC member practices following the implementation of the DAC agreement.

## After adoption of the DAC recommendation

### FRANCE

As of 1 January 2002, France started implementing the Recommendation: the Agence Française de Développement (AFD) untied project aid to LDCs.

France also decided to go beyond this effort; it decided in February 2002 to untie all of the project aid managed by the AFD, i.e. not only aid to LDCs. The decision also provided for the possibility of retroactivity for as yet unsigned contracts or amendments enabling the clause of origin to be removed from current contracts. Furthermore, France also decided in February 2002 that technical cooperation involved in investment projects would be untied, whatever the amount involved.

In line with what was called for in the DAC Recommendation, the AFD notified DAC about its offers for untied aid by filling out the appropriate table designed by the OECD that can be accessed on the Internet. At the end of the year, France notified DAC about contract awards having led to prior notifications.

Although the effects of aid untying are still difficult to establish, the DAC notification has already enabled companies from third countries to respond to calls for tenders for French aid.

## SPAIN

Recently, according to the Ministry of Economy, Spain has started to apply the OECD's Recommendation on untying aid to LDCs, in Afghanistan for instance<sup>13</sup>, and has sporadically approved projects financed by the FAD that were totally untied, such as was the case for Argentina<sup>14</sup>. Similarly, for reconstruction projects funded through FAD credits, as was the case for the reconstruction of Central America following Hurricane Mitch, there is more flexibility regarding the percentage of goods and services that can be bought locally in the beneficiary country, usually exceeding the 15% stipulated in this type of credit.

An issue raised in Spain is that, in view of the budgetary importance of FAD funds for ODA, the discussion about aid untying could reopen the debate between the Ministry for Foreign Affairs and the Ministry of the Economy concerning the control of certain resources of Spain's cooperation policy.

## ITALY

In August 2002, the Interministerial Committee for Economic Planning (CIPE) acknowledged the DAC Agreement and commissioned the Ministry of Foreign Affairs to evaluate, for each of the 49 LDCs considered, the untied share of soft loans aimed at financing local costs and purchases in third countries, when those loans are provided to the Government of one of the listed LDCs.

The next Steering Committee should approve a new regulation for soft loans, which will clearly refer to DAC recommendations, but 18 months after the DAC agreement entered into force, this has not yet been accomplished.

Among the changes to the procedures in line with a gradual untying, local companies are now allowed to participate directly in bids to cover local procurement when it involves "functionally independent" activities (i.e. those activities whose failure would not affect the implementation of other project components). However Italy's commitment is not towards gradual untying but towards untying on 1st January 2002. On current evidence Italy is failing to implement the DAC agreement satisfactorily.

## US

Despite having signed up to international agreements and commitments on untying the US Government maintains a dogged intransigence on the issue of aid untying expressed clearly through the lack of transparency on levels and the extent of tying. The US no longer provides data on the tied status of their aid. The latest available figures reported to DAC are from 1996. In these figures, the US estimated that 71.6% of bilateral aid commitments were tied to the purchase of US goods and services. These figures were repeated in the USAID Agency Performance Report published in April 1999 and again in the Reality of Aid 2000 edition.

The US claims to have problems extracting figures from its current data and information systems. Some efforts are underway to "create a framework for reporting" and design "policy details on what the agreement to untie aid to the LDCs means for USAID"<sup>15</sup>. However, the slowness of the pace with which USAID is moving indicates a more systematic refusal to commit to transparency, accountability and more effective development.

In addition to the lack of transparency, the US government had been at the forefront of efforts to limit aid untying. It is the US government, which lobbied the strongest for food aid and technical cooperation exemptions within the current OECD aid untying policy.

A recent report on USAID by the US Government Accounting Office<sup>16</sup> (GAO) calls on USAID

<sup>13</sup> Project for Afghanistan's reconstruction: the project has not yet been identified but preferred sectors are health, education, energy, transport etc and the total budget amounts to 11.9 million Euros.

<sup>14</sup> In October 2002, this country received 100 million Euros of totally untied aid from the FAD. The fundamental reason for this that, in accordance with OECD rules, Argentina may not receive export credits.

<sup>15</sup> *Aid Untying: status report on the US*, Emira Woods, Interaction, Washington, March 2003.

<sup>16</sup> Government Accounting Office Report on Foreign Assistance, April 2002, <http://www.gao.gov>

to improve reporting practices. Yet even this report calling for greater transparency and accountability does not make an explicit call for tracking and advancing aid untying.

## CONCLUSIONS POST-DAC RECOMMENDATION

From our research it appears that two of the DAC members whose practice we investigated—France and Spain—have taken at least some initial steps to implement the agreement. Italy too has at least noted its commitment to implement the agreement. Only the US appears to have taken no steps towards the agreement’s implementation. However, in all cases, evidence of impact is non-existent for example in terms of published records of tenders published and contracts awarded. Indeed we were unable to extract any recent data from any of the institutions or government representatives we interviewed for any of the countries regarding the status of progress on aid untying to LDCs in line with the agreement nor were we able to establish whether monitoring plans existed at a national level for measuring progress towards this goal. Our research leads to the inescapable conclusion that very little has changed since the entry into force of the agreement, particularly in Italy and the US and largely in Spain too where there appears to have been no systematic untying of aid even if there are isolated examples of untied aid having been awarded.

## Further perspectives

### FOOD AID

Food aid is not among the categories of aid that DAC members are required to untie in the agreement although the agreement does invite members to consider untying in this and other areas that are not formally covered. However, because of the significance of food aid in terms of quantity—in recent years, the volume of relief food aid increased both in absolute terms and as a share of total food aid deliveries—it merits further examination.

So far, attempts to introduce disciplines for the provision of food aid through international institutions have proven to be relatively inefficient. The Food Aid Convention, which aims at stabilising global food aid flows, faces declining commitments of major donors and a decrease of aid in periods of high world market prices, while aid flows increase strongly when prices are low.

The potential negative effects of providing imported food aid on domestic production and traditional diets are recognised by the diverse organisations engaged in its provision but operational mechanisms to avoid the practice are lacking.

ActionAid Alliance believes that food aid should not make people dependent on the external supply of food through creating loss in their agricultural as well as other livelihood practices. In our experience, tied food aid makes people more vulnerable in the long term by making them dependent on imported foodstuffs, which affects local food price and production.

### FRANCE

As far as food aid is concerned, France, which is trying to promote local sourcing, is clearly in favour of untying aid because it believes that food aid should not be used to commercial ends. To try and achieve food security, the first objective for aid in this sector is food self-sufficiency. The transport of food aid is also untied, even though it is not covered by the scope of the Recommendation.

### **Emergency food relief in Malawi**

The USAID situation report of the year 2003 states that as of January 2003, the total humanitarian assistance to the Southern African region stood at more than \$278 million, mostly through the USAID/FFP. Of this, Malawi received, or was pledged 141,895 metric tonnes of food in 2002, and a further sum of \$4,640,990 in non-food assistance (USAID Office of U.S. Foreign Disaster Assistance (OFDA), 2003)

According to the USAID/FFP programme, a metric tonne of maize grain landed in Malawi costs about \$500. This includes the value of the grain (\$260/mt the rest being the transportation and insurance costs). This compares starkly with a regional cost of around \$280/mt all-inclusive.

<sup>17</sup> [http://www.aeci.es/9-Proyectos/ayuda\\_h-e/index.htm](http://www.aeci.es/9-Proyectos/ayuda_h-e/index.htm)

<sup>18</sup> Seguimiento PACI 2001.

## ITALY

Italian food aid is provided through the Ministry of Agricultural Resources' agency for the disbursement of subsidies to the farming sector, which manages the amounts committed annually by the Government for emergency food aid (about 36 M Euro/year for the period 2000-2003). The quantity and quality of the supplies are contained in bilateral agreements between Italy and the receiving countries. Procurement is tied to the EU market with the possibility to source in the receiving country or in other countries when the specific kind of requested food is not available in the EU. Italian food aid is therefore very far from being untied let alone in line with best practice in terms of assuring food security.

## US

Food aid remains a controversial and highly political portion of the US development assistance portfolio. Appropriations designated for food aid must be used to purchase food produced in the U.S and transport 75% of these goods through U.S. shipping companies.

Current U.S. food assistance programmes began after the Second World War in an environment of agricultural surpluses and a looming Cold War challenge to win over emerging nations. Two specific programmes started during that period and continue to provide much of the world's emergency food aid. These are Title II of Public Law 480 of 1954, administered by the USAID (commonly known as the Food for Peace Programme (FFP)) and Section 416 (b) of the Agricultural Act of 1949, administered by the U.S Department of Agriculture (USDA). Despite the declining global contribution of food to overall development assistance, the U.S continues to be the largest donor of both emergency and non-emergency food aid. Although the PL480 programme procures its food with an annual congressional appropriation, the quantity of emergency food aid available under the Section 416 authority is totally dependent on U.S agricultural surpluses.

There are two legal requirements, which specifically dictate the provision of food aid by the U.S. These are the Value added Mandate (all foods shipped must be processed, fortified or bagged) and the Cargo Preference Act (75% of all food aid must be shipped under US flag carrier).

In President Bush's 2002 Presidential Management Agenda released in August 2001, the administration noted that food aid needed restructuring. In the agenda, the administration highlighted several problems in the provision U.S. food aid including: decreased value of aid due to high administrative and transportation costs, the disjuncture between food aid needs and volume of aid flows, and the inefficient provision of food in disaster situations when cash relief would be more efficient. The report did not, however, extend this analysis to look at the consequence of untying food aid.

In addition to this cost-ineffectiveness, delays and gaps in the delivery of foods from US suppliers to distant emergency sites were cited as a major bottleneck with USAID programmes. NGOs were often told to allow for a 4-5 month lead-time before shipments reach the field.

## SPAIN

In practice Spanish food aid is mostly tied. It almost always entails supporting the export of national products. This type of aid is basically delivered through the Technical Cabinet of the Spanish Cooperation Agency, which in 2001 provided this type of aid amounting to approximately €4.5 million, mostly delivered in kind<sup>17</sup>.

In total, the Spanish Government's contribution in food aid amounted to €5.7 million in 2001<sup>18</sup>.

## FOOD AID **CONCLUSIONS AND RECOMMENDATIONS**

The Food Aid Convention (FAC) was established in 1967 under the auspices of the International Grains Council to improve the predictability of food aid flows. The Preamble of the 1999 Food Aid Convention states as its aims to enhance the capacity of the international community to respond to food emergency situations and to improve world food security.

The Convention contains best endeavour clauses on the management and design of food aid programmes. These include that food aid should only be provided when it is the most effective and appropriate means of assistance and that the particular needs of women and children should be met. Harmful effects on local production and eating habits of the beneficiaries should be avoided. In addition, donors shall give consideration to purchase food in the recipient country itself (local purchasing) to assist a deficit area in this country or from other developing countries (triangular transactions).

Food aid was excluded from the scope of the DAC recommendation because it was too contentious and because DAC members appear to believe that it is best addressed via the Food Aid Convention. However, the failure to achieve change thus far highlights the limitations of the Convention as a tool for reform.

Only food aid provided by the WFP itself or by organisations adhering to the Code of Conduct should be considered as genuine food aid. All other aid flows should be considered as subsidised exports and phased out under the disciplines of the WTO. This would make the FAO Committee on Surplus disposal superfluous. The Food Aid Convention should be transformed into a commitment of the major donors to provide the WFP with sufficient resources to run its programmes. These should preferably be cash transfers<sup>19</sup>.

The exclusion of food aid from the DAC recommendation may encourage the provision of donor country food supplies when locally available produce could be purchased. It is vital to untie food aid and the failure on the part of some donors to do so demonstrates a lack of political will towards increasing aid effectiveness to the detriment of poor and marginalized people who may be the recipients of food aid and to tax payers who finance it. We therefore urge DAC members to jumpstart discussions on the untying of food aid and food aid transport.

## TECHNICAL **COOPERATION (TC)**

The largest proportion of TC is found in the poorest countries, mainly in Sub Saharan Africa. This is logical to the extent that TC is meant to support institutional change and many governments in Africa lack administrative capacity. However, there is no reason for TC to remain tied; on the contrary, it would be both more sustainable and more effective were donors to insist on local TC and only if none were available, to seek TC from outside. According to a World Bank report "some 100,000 foreign technical experts are currently employed in Africa, tending to displace local experts". TC produces greater dependence on expatriate expertise and can be used to increase donor influence over policies and projects. Furthermore, as the WB report puts it, "it has probably weakened capacity in Africa"<sup>20</sup>.

## **CONCLUSION**

ActionAid Alliance believes that the DAC must bring technical cooperation within the remit of the Recommendation.

### **France**

Technical cooperation, which, as we have seen, is very common in France's case, is being restructured but does not seem to be going towards generalized aid untying. If quality and cost arguments are used by the French government to support its position, the main reason is the wish to maintain France's influencing capacity, at least in sensitive areas, which means the presence of staff in the field. France will however need to take into account EU legislation because of the risk of distorting competition in view of the maintenance of jobs that are only open to the French.

<sup>19</sup> in *Towards improved governance of food aid*, an ActionAid Policy paper, Tobias Reichert, March 2003.

<sup>20</sup> In *Aid and Reform in Africa*, David Dollar, July 2001 <http://www.worldbank.org/research/aid/africa/telease/aid.htm>

## LOCAL PROCUREMENT OF GOODS AND SERVICES

Untying aid is not an end in itself. Aid untying is a tool that will help implement the partnership strategy frequently referred to by donors. It must be accompanied by clear efforts to promote local ownership and reinforce local capacities thereby ensuring that aid is efficient and sustainable. In the DAC Recommendation it states, “promoting local and regional procurement in partner countries is a shared goal<sup>21</sup>”.

A practical step that donors can make immediately is to support developing countries to build procurement systems around which donors can harmonise their procedures. Once these systems exist and have the confidence of potential contractors and donors, the improved procurement systems will contribute to key development goals (by substantially lowering the cost of delivering goods and services; reducing corruption; and reducing poverty)<sup>22</sup>.

## WAY FORWARD: THE EC COMMUNICATION

Taking note of the DAC’s Recommendation and wishing to see some of its aspects taken further, the European Commission published on 18 November 2002 a Communication on “Untying: Enhancing the effectiveness of aid”. The Commission deplored in the document the limited impact of the DAC Recommendation on the amount of ODA, which is due among other things to the focus on LDCs and to the exclusion of food aid, which the Commission wants to have untied. As for the distinction made between LDCs and other developing countries, it goes against the commitments made by the EU to the ACP countries, some of which are not LDCs. Indeed, the Cotonou Agreement<sup>23</sup> signed in June 2000 by the Commission and 15 EU Member States on the one side and 77 of the current 79 Member States of the Africa, Caribbean and Pacific (ACP) group of countries on the other which provides the framework for the EU’s co-operation with the ACP until 2020 defines the procedures that govern their co-operation. Among the instruments of cooperation are price preferences for all potential contractors in ACP countries, some of which are not LDCs. The EC therefore is compelled to untie beyond the scope of the DAC agreement.

As the Commission affirms that it is essential that the means used to untie aid should not lead to any distortion of competition between the most advanced donors and those, which have not yet devised a *modus operandi*, it has committed to implement the DAC Recommendation. Furthermore, the Commission, in a communication on financing for development published in February 2002, stated that “the Member states should decide to fully untie bilateral aid amongst the 15 Member States and *vis-à-vis* all partners in the developing world, while maintaining the existing system of price preference of the EU-ACP framework”.

The Communication recalls that even though Member States’ bilateral aid is based on distinct procedures, it must be in line with the Treaty and applicable EU legislation. In particular, tied bilateral aid could violate EU legislation on competition and the internal market and violate Article 12 of the Treaty on the principle of non-discrimination.

In 1999, ActionAid and hundreds of other NGOs lobbied the Commission to investigate tied aid cases concerning the application of Community legislation on state aid (Art. 87 EC Treaty, supposing the prior notification of the Commission in accordance with Art. 88, para. 3), the consequences on internal trading (Art. 28 to 30 and 49), and the application of the Directives on public procurement. The Commission has subsequently launched infringement procedures against certain Member States.

<sup>21</sup> DAC Recommendation, para 4 <http://www.oecd.org/pdf/M00002000/M00002076.pdf>

<sup>22</sup> See for example OECD Development Centre technical paper No. 208 which presents a comparative analysis of the public procurement system in Kenya, Uganda and Tanzania. These countries have recently undertaken to make their public procurement systems more efficient and transparent in line with international procurement guidelines. <http://www.oecd.org/pdf/M00040000/M00040051.pdf>

<sup>23</sup> Cotonou Agreement, European Commission, June 2000.

## CONCLUDING *REMARKS*

### **Recommendations**

Given that poor people are entitled to access public resources whether they are domestic or international we recommend that donors:

- Immediately untie all their bilateral aid to all developing countries including technical cooperation and food aid (including food transport)
- Make better use of untied forms of aid e.g. budgetary support
- Simplify their bidding procedures and ensure better coordination with the donor community and with partner countries.
- Enhance transparency of procurement procedures and data including by making better use of the OECD untied aid tenders bulletin board\*.

On local sourcing we recommend that donors

- Introduce measures to support the sourcing of goods and services from developing countries including through the award of significant price preferences and support for joint ventures and support for effective public procurement regimes in developing countries.
- Support approaches that foster local ownership.
- Support awareness raising measures and capacity building in developing countries.

\* [http://webdomino1.oecd.org/dcd/UntiedCWS.nsf/viewHtml/index/SFILE/Public\\_Index.htm](http://webdomino1.oecd.org/dcd/UntiedCWS.nsf/viewHtml/index/SFILE/Public_Index.htm)

Having examined the implementation of the DAC agreement in France, Italy, Spain and the US it is clear that the albeit limited impact of the DAC agreement is still to be felt in LDCs.

Stakeholders and key players interviewed generally agree in principle that untying aid will reduce the transaction costs of development cooperation and increase aid effectiveness although we found differences of opinion in evaluating the quantifiable extent of the advantages of aid untying. It was pointed out that untying aid will improve the quality of international cooperation by weeding out the problems linked to incoherence between policies put in place by single donors. Selecting suppliers in an open market should allow the use of the most appropriate technology available, as well as the most effective development solution country by country.

Despite this consensus our research demonstrates that with the exception of France where the theory has changed if not yet the practice, there is little to show for two year's worth of agreement. We therefore urge donors to address this information gap by providing accessible and up to date information on how the Recommendation is being applied and what the impact has been.

## ANNEX

Tying Status of ODA by Individual DAC Members, 2001.

Commitments (excluding technical co-operation [TC] and administrative costs).

	Bilateral ODA				TC as % of	
	Untied	Partially untied	Tied	Total	bilateral aid	TOTAL TIED
Australia	59.3	—	40.7	100.0	67.2%	107.9%
Austria	...	...	...	...	...	...
Belgium	89.8	—	10.2	100.0	43.6%	53.8%
Canada	31.7	—	68.3	100.0	26.7%	95.0%
Denmark	93.3	—	6.7	100.0	19.0%	25.7%
Finland	87.5	—	12.5	100.0	39.5%	52.0%
France	66.6	24.3	9.1	100.0	42.1%	51.2%
Germany	84.6	—	15.4	100.0	50.5%	65.9%
Greece (a)	17.3	—	82.7	100.0	19.3%	102.0%
Ireland (a)	100.0	—	...	100.0	6.0%	...
Italy	7.8	—	92.2	100.0	18.7%	110.7%
Japan	81.1	1.4	17.5	100.0	18.4%	35.9%
Luxembourg	...	...	...	...	...	...
Netherlands	91.2	0.3	8.5	100.0	20.6%	29.1%
New Zealand	...	...	...	...	...	...
Norway	98.9	—	1.1	100.0	33.7%	34.8%
Portugal (a)	57.7	1.7	40.6	100.0	66.1%	106.7%
Spain (a)	68.9	0.1	31.0	100.0	15.3%	46.3%
Sweden	86.5	10.1	3.5	100.0	4.9%	8.4%
Switzerland	96.1	—	3.9	100.0	17.1%	21.0%
United Kingdom (a)	93.9	—	6.1	100.0	42.9%	49.0%
United States	...	...	...	...	...	...
<b>TOTAL DAC</b>	<b>(79.1)</b>	<b>(3.1)</b>	<b>(17.8)</b>	<b>100.0</b>		

(a) Gross disbursements.

(b) Reporting rate is the percentage of bilateral ODA covered by tying status reporting (excluding technical co-operation and administrative costs).

Note: This table was compiled by ActionAid Alliance based on DAC figures for 2001. It includes technical cooperation, which we consider to be tied.

## RESOURCES AND **DOCUMENTATION**

### Consultancy reports

- Déliement de l'aide publique au développement: le cas de la France, Chantal Verger, Paris, Mars 2003.
- Italian report on tied aid, a CeSPI briefing paper, Marco Zupi, Rome, April 2003.
- La ayuda ligada en España, Ana R. Alcalde, Madrid, Marzo de 2003.
- Cooperacion para el desarrollo en El Salvador. Algunas reflexiones sobre la ayuda atada, Alberto Enriquez Villacorta, San Salvador, Marzo de 2003.
- US Technical Assistance report, RESULTS, Sue Perez, Washington, February 2003.
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- Aid Untying: status report on the US, Emira Woods, Interaction, Washington, March 2003.
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- Fight against tied aid: a case of Nepal, Gopal Siwakoti, Katmandu, March 2003.
- Case study on USAID's tied assistance in the health sector in Bangladesh, Shahidur Rahman, ActionAid Bangladesh, Dhaka, March 2003.
- Syedabad water treatment plant: a stepping stone leading on to more lucrative potential for the foreign donor, Sabir Bin Shams, Dhaka, March 2003.
- Country case study on tied aid: the case of Uganda, Charles Abola, Image Consult Ltd, Kampala, March 2003.

### European Commission

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### NGOs

- In whose benefit? The case for untying aid, Jeffery Chinnock, April 1998, ActionAid [www.actionaid.org.uk](http://www.actionaid.org.uk)
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