



UNTYING THE POOR

Campaign Briefing Paper

Tied aid is overseas aid that can only be spent on goods and services bought from the donor country. While this benefits private companies in the donor country, it distorts the value and reduces the effectiveness of the aid to the recipient country. Tied aid is a form of national export subsidy in which a donor country's private companies -- and not a recipient country's poor -- are the biggest winners.

Can Untying Aid Provide A Better Deal?

Yes. By allowing greater competition in the provision of aid services, a recipient country can benefit from buying from suppliers that compete best on price, quality and service. Untying can also contribute to building local capacity which adds value to the aid being given.

Problems with Tied aid

Commercialisation

Tying places commercial interests at the forefront of the aid program. Transnational corporations and companies based in high income countries are the real winners. This has the result of discouraging local commercial participation in development projects and an over-reliance on high income countries companies knowledge, technologies and equipment.

Self Determination

Tying excludes the recipients of the project and thereby undermines the right to self determination. *Article 1* of the International Covenant on Economic, Social and Cultural Rights in the International Bill of Human Rights states that:

All people have the right of self-determination. By virtue of that right they freely determine their political status and freely pursue their economic, social and cultural development.

Tying aid is a form of external control over others economic, social and cultural development and is therefore counter to the right to self determination.

Inappropriate Aid

Tying aid is about promoting goods and services from the donor -- which undermines the humanitarian purpose of overseas development assistance. It results in inappropriate aid which does not address the real needs of the worlds poor.

Economically inefficient

Tied aid is estimated to cost on average between 20-25% more than if the goods or services were procured through international competition or local sources.

Australia's Position:

The Australian government directs aid to projects that most benefit Australian companies – rather than those that recipient countries may need most. In this way, overseas aid becomes a means of furthering commercial and foreign affairs interests, rather than addressing the **real** needs of the poor.

Approximately 50% of Australia's aid is tied, however, it is very hard to find accurate statistics and some estimate it to be as high as 80% with informal tying included in the equation.

In 1997, the Government commissioned an independent inquiry into the aid program, known as the 'Simons report'. It concluded that tied aid undermines effectiveness and is a 'bad economic policy' of 'interventionism, protectionism and subsidies'.¹ Despite this, the Federal government continues to use the aid program as a means of helping sell domestic goods and services in overseas markets. The Government further rejected the recommendation made in the Simons report that an independent study of the economic impact on the tying Australian aid be carried out. It was rejected on the grounds that such a study would be 'too expensive, time-consuming and inconclusive'.² However, recent studies have shown that tying is not only detrimental economically to the recipient country, but has a negative impact on the economy of the donor country too. It is a lose-lose practice.

Placing the profits of Australian private companies ahead of poverty reduction is a misuse of public funds. We do not propose that Australian companies should be excluded from delivering overseas aid, but that Australian companies should only deliver aid projects when they're the best choice to do so -- determined through an open, fair, accountable and transparent selection process.

International moves to untie aid

The Development Assistance Committee (DAC) of the OECD has been discussing the concept of untying aid since 1963. In April 2001, the High Level meeting of the DAC endorsed a recommendation on untying aid to the *least developed countries*. This is the first international agreement on untying, however, it excludes substantial parts of the aid program such as "technical assistance" (which is provided by expert consultants based in the donor's or other high income countries), and food aid.

As only 11.4%³ of Australia's ODA is targeted at *least developed* countries, the DAC decision will not affect the Australian aid program to a great extent. Additionally, there are several problems with excluding technical assistance in the decision to untie.

These include that tied technical assistance:

- Produces greater dependence on outside expertise
- Can be used to increase donor influence over policies and projects
- Ensures a steady supply of lucrative contracts for consultants in donor countries⁴.

In 1999 technical assistance aid projects accounted for 28% of total development assistance world wide. Australia's rate is above this average with 30% of its bilateral aid funding being directed into technical assistance projects.

¹ AusAID (1997) *One Clear Objective: Poverty Reduction through Sustainable Development. Report of the Committee of Review*. p. 184

² in Tomar, R., (1998) *The Future of Australia's Overseas Aid Program: Government Response to the Simons Report*. URL - <http://www.aph.gov.au/library/pubs/rn/1997-98/98rn40.htm>

³ 1999 - 2000 - AusAID: AusAID Statistical Summary 1999 - 2000. 26.5% Low income; 31 % lower middle income; 1% upper middle income countries.

⁴ Information sourced from Action Aid website 2001 URL: www.actionaid.org

The UK government has recently released a white paper titled: Reducing World Poverty - Making Globalisation Work for the Poor in which it committed to untying all of its aid by April the 1st 2001. The following is the section from the paper, explicitly drawing the UK Governments position on tied aid:

Tied aid is one of the most damaging carry-overs from the past. It is damaging for three reasons. The first is value for money. It is estimated that tying aid to the purchase of goods and services from the donor country reduces the value of that aid by around 25 per cent.

Second, it is grossly inefficient. It leads to developing countries being supplied with incompatible pieces of equipment provided by different development agencies, each with separate requirements for spares and back-up. For example a country committed to reform the effectiveness of its health sector is required to divide up procurement to fit the differing requirements of perhaps half a dozen development agencies rather than procure the most cost-effective supplies available.

Third, it encourages a donor driven approach to development. It signals that development agencies' major concern is not development, but their national contracts. This practice is inconsistent with the new approach to development co-operation encapsulated in the Poverty Reduction Strategy process.

It is for all these reasons that the UK Government has worked hard to reach international agreement on aid untying. To show our commitment to this objective and encourage others to follow the UK lead, we have in the meantime decided to untie all UK development assistance from 1 April 2001. Building on our commitment to aid untying, we will vigorously pursue successful completion of the agreement being negotiated with the OECD to untie financial assistance to the least developed countries from 1 January 2002. We will work for early and complete EU-wide untying of member states' bilateral aid, and will press this strongly both with the Commission and with other member states.

We will also work to strengthen procurement capacities in developing countries. Sound local procurement can bring real development benefits, by strengthening the local private sector and other local institutions. In addition, local procurement very often brings better value for money: goods that are more appropriate to local needs, services available on the spot, and reduced shipping costs and airfares.

Increased Debt Through Tying:

The debts of the poorest 'low-income' countries are owed to Northern governments, or 'multilateral' institutions like the IMF. But this is not always because Third World governments borrowed the money in the first place. More often private debt was transformed into public debt through government guarantees and 'support' for private business. The poorer the country, the more likely it is that debt repayments are being extracted directly from people who neither contracted the loans nor received any of the money.

In Summary:

Tying aid is a form of external control over others economic, social and cultural development and is therefore counter to the right to self determination. Tying is occurring at the expense of sustainable and community-inclusive humanitarian assistance.

To genuinely address the needs of the poor, the following must be at the backbone of development assistance:

- Affected communities must be involved in project design and implementation
- Communities must be informed, and presented with real choices about aid projects
- Guarantees must be given in case of project failures to ensure the provision of services
- Communities must be involved in project monitoring and evaluation, and be encouraged to notify donor agencies of problems, even after the project is 'complete'.
- Ecological sustainable development (ESD) must be at the forefront of all projects
- The right to self determination must be upheld at all stages of the project design and implementation.

The goals of the *Untying the Poor* project.

Policy

- To research AusAID's tied policy and process
- Compile the research into a report/working paper
- To establish an **Untying Aid** working group
- To demand the Australian government cease the system of "corporate welfare" represented by tying Australian aid and to support multilateral untying.

Education

- Greater community awareness of aid issues -- especially tied aid.
- To encourage the public to demand the untying of Australia's overseas aid.
- Build alliances with other NGOs working on aid issues

A coalition of social justice, environmental, women's, development, debt relief and religious groups is forming to bring the issue of tying into the spotlight of OECD countries. Tying aid is about promoting goods and services from the donor – which undermines the humanitarian purpose of overseas development assistance. We would appreciate your support in joining the campaign.

Please contact **Melita Grant** (National Campaigns Coordinator, AIDWATCH) on

Ph: 61-2-93875210

Fax: 61-2-9386 1497

Email: aidwatch@mpx.com.au

Web site: www.aidwatch.org.au