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Untying and Aid Efficiency

Since its creation in 1961, the Development Assistance Committee (DAC) has focused on ways to improve the efficiency of official development assistance (ODA). In this effort, one of the major issues has been the extent to which donors should “untie” their aid, that is, allow worldwide procurement of goods and services or “tie” it by restricting procurement to the donor country.

Donor attitudes towards the tying of aid have changed dramatically during the past several decades. Initially, many donors favored tying aid because it purportedly strengthens public and business support for foreign assistance. To some, “aid” is an expression of donors’ values and willingness to cooperate on a personal level with citizens of developing countries. Tying links the aid to the national identity of the donor. In addition, tied aid is viewed as an export promotion tool, ensuring that companies from donor countries will win contracts for exports to aid recipients.

Recently, however, the international donor community has considered untying as a more efficient way to deliver development assistance. Untying increases “value for money,” promotes worldwide competition, and removes a trade distortion to world commerce. The movement towards untying has been endorsed by the G-7 at the Summits in Okinawa and Genoa, and the DAC Recommendation was welcomed as a major deliverable at the Third United Nations Conference on the least developed countries in May 2001.