SMART DEVELOPMENT IN PRACTICE

The tied aid "round trip"

Tied aid refers to aid that must use goods and services from the donor country.[1] In practical terms, this means food aid, and all contractors and vehicles used to implement aid, must be imported from the country that is providing the aid. Under the Foreign Assistance Act of 1961, if a USAID mission wants to purchase goods or services locally, it must request a waiver of the law on a case-by-case basis.[2]

Many countries tie their aid, but the United States ties more of its aid than any other donor. The US tied 54 percent of its aid in 2006, although this was down from 68 percent in 2005.[3] The growth of two new US aid programs that provide untied aid—the MCC and PEPFAR—will likely continue this untying trend.

How tying reduces aid's impact

Untying aid is considered a positive trend because tied aid has two major disadvantages:

#1. It's inefficient.

"Buying American" when you are transporting something halfway around the world is a recipe for inefficiency. **Studies suggest that tying aid raises the cost to US taxpayers by 50 percent over purchasing the food locally.[4]**

When aid is tied, it makes a "round trip": US development aid is sent overseas, where it is implemented by US companies using US consultants and US goods. When the aid is implemented, most of the value flows right back to the US instead of promoting growth in the developing country.

For example, US food aid is tied—it must be purchased and packaged in the US and 75 percent must be shipped on US carriers.[5] Tying the transport of food aid to US carriers is particularly expensive. As a result: **transportation, not food, eats up 65 percent of the budget for US food aid.[6]** And because food aid is tied to US transportation, importing food staples from the US can take as long as four to six months[7] when neighboring countries often have surpluses of the same crops that are faster and cheaper to transport.

Oxfam America

Bun Phenpheak, local coordinator for a Cambodian program that helps farmers sell their own rice. Food aid that is bought from local farmers is cheaper for US taxpayers, and it also helps farmers earn their way out of the next famine.

Archana Palaniappan / Oxfam America

In addition to food aid, technical assistance is often tied. The result is that experts from the donor country do not always coordinate their programs with the recipient government's national plans, which can cause duplication of efforts and inefficiencies. Technical assistance from the US is coordinated with the country's programs only 53 percent of the time, which is lower than average, although that figure has improved from 41 percent in 2005.[8] In either case, the recipient country is left with aid whose value for fighting poverty is diluted by its inefficient route.

#2. It's bad politics.

Inefficiency is not the only reason that tied aid does not achieve foreign aid goals. Aid should be first about poverty alleviation, but tying development aid sows doubt about US motives. Tied aid makes our well-intentioned foreign aid system appear self-serving, and it sends the message that foreign aid is designed to invest in the US, not the recipient.

"USAID is notorious for using US inputs, especially consultants. 'All the money goes home' is a popular saying with USAID."

—a Ugandan responding to a survey about aid donors[9]

What does the US stand to gain by untying its aid?

By untying aid, President Obama and new Congress would send a strong signal to American taxpayers that the US government will spend taxpayer dollars as efficiently as possible and that our foreign aid budget will not tolerate waste.

Untying aid would also send a strong signal to the world that the US intends to reaffirm its values by demonstrating that our development aid is given for the right reason: to help people in developing countries earn their way out of poverty.

---

[1] Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC), "The United States: DAC peer review" (Paris: OECD, 2006), 32, www.oecd.org/dataoecd/61/57/37885999.pdf.

[2] Section 604 of the Foreign Assistance Act of 1961 (PL 87-195) is the legislation that covers the "Buy American" policy in US foreign aid.

[3] The "2008 Survey on monitoring the Paris Declaration" donor survey reports a dramatic increase in US untied aid from 7 percent in 2006 to 74 percent in 2008. However, the survey is a subset of only 31 countries, and the leap is largely credited to reporting improvements and not policy changes. The more reliable figure of 46 percent comes from the DAC's Creditor Reporting System and was last reported in 2006.

[4] Clay Edward, Barry Riley and Ian Urey, "The development effectiveness of food aid and the effects of its tying status", (Paris: Development Center of the OECD, 2005).

[5] General Accounting Office, Report to the Chairman, Committee on Agriculture, US House of Representatives, "Cargo preference requirements: Their impact on US food aid programs and the US Merchant Marine", NSIAD-90-174, June 1990, 1.

[6] Thomas Melito, testimony before the Senate Committee on Agriculture, Nutrition, and Forestry, 110th Cong., 1st sess., March 21, 2007, www.gao.gov/new.items/d07616t.pdf.

[7] Government Accountability Office, "Foreign assistance: Various challenges impede the efficiency and effectiveness of US food aid," Report to the Senate Committee on Agriculture, Nutrition, and Forestry, April 2007, 19.

[8] OECD DAC, "2008 Survey on monitoring the Paris Declaration" (Paris: OECD, 2008), 93, www.oecd.org/dataoecd/58/41/41202121.pdf.

[9] "Smart Development: Why US foreign aid demands major reform" (Boston: Oxfam America, 2008), 24.