

# Aid untying: Making budgets go further

## FACTS AND FIGURES

- In 2010 24% of bilateral aid (USD 26 billion) was still tied (based on reports from donors).
- Donors with shares of tied aid significantly above this DAC average include Korea (67%), Greece (60%), Portugal (57%), the EU (52%), Austria (45%), Italy (42%), Spain (35%), Switzerland (32%) and the US (31%).

**T**here is strong evidence to show that tying aid (limiting procurement to donors' own enterprises) increases costs by around 20% on average, and by even more for large projects and food aid. Important shares of technical co-operation and project aid are still tied.

Untying aid means getting the best value for taxpayer money and for funds countries depend on for their development by ensuring competition among suppliers for the goods and services financed by aid. The issue is quite simple: would you prefer one supermarket in your town – or four to drive down prices through competition?

## WHAT IS TO BE GAINED BY UNTYING?

The fact is that despite commercial pressures to tie aid, competitive international businesses actually stand to gain much more from opening up new markets. This is especially true with aid coming under growing budget pressure. Competition in procurement saves, on average, 20%, thereby “stretching” aid budgets. Untying also facilitates ownership: how can developing countries own their development programmes if aid is tied to donor suppliers?

## WHAT NEEDS TO HAPPEN?

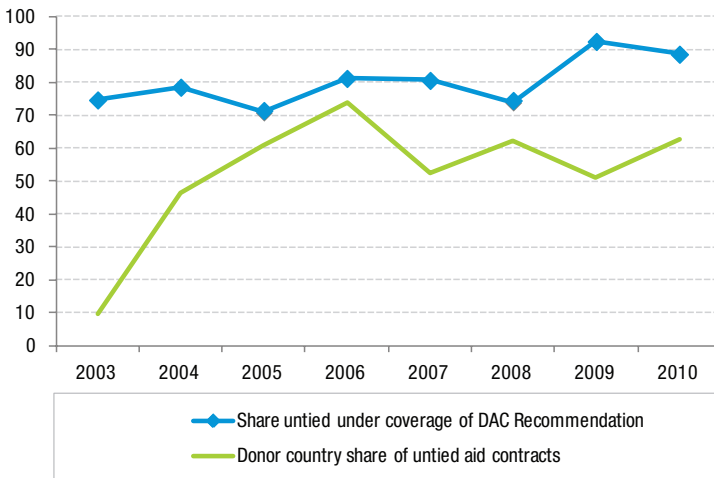
Despite good progress in untying, many countries still lag well behind. More donors need to live up to the untying commitments they have made, focusing on the areas where they still have sizeable amounts of tied aid. There are also many cases where very high shares of supposedly untied aid are won by donor suppliers, which raises the question of how “untied” aid reported as such really is. Greater transparency and consistency in reporting is essential to build confidence in untying.

Donors also need to deal with issues that are holding back untying. For instance, in situations where major competitors do not untie aid, donors should look for ways to tackle the specific problem – for instance, by using reciprocity approaches or other means of exclusion – rather than tying aid to domestic suppliers, which penalises the suppliers that compete on a level playing field.

## ACTIONS THAT WILL MAKE A DIFFERENCE

- Work with developing countries to strengthen their procurement systems and remove donor requirements that hold back developing country suppliers.
- Work with developing countries to make their enterprises more effective in competing with donor counterparts for the procurement of aid-financed projects.
- Create incentives for procuring services and materials locally and regionally.

### Untied aid on the increase, but more of it going back to donor suppliers



Source: OECD DAC-CRS and contract awards questionnaire.