

Aid That Doesn't Deliver

By Emira Woods | February 1, 2005

The Bush administration has pledged \$350 million to tsunami relief. It's a safe bet that at least \$248 million of that money will be spent right here in the U.S.

The U.S. government places conditions on its foreign aid that require most relief and development assistance materials and services to be purchased from U.S. companies and agencies. The last time the government revealed any data on this issue—back in 1996—72 cents out of every U.S. foreign aid dollar was spent on U.S. goods and services.

This arrangement might strike most U.S. taxpayers as a fair and just arrangement. Why shouldn't the nation's economy and its companies get something out of money the government spends on foreign aid?

For starters, this arrangement makes aid less productive. Requiring that foreign aid benefit U.S. companies often means that precious resources are used buying more expensive goods or services; while valuable time is wasted transporting these goods to the region. This hurts poor countries, including those devastated by this disaster of monumental proportions.

Countries that receive aid also have less control and decision-making on how to spend aid money. For example, countries like Malaysia or Sri Lanka, where the staple diet is rice may get shiploads of sorghum, or wheat, because these items are available from U.S. company stockpiles. What's worse, goods like sugar or roofing sheets that may have been secured in the region, injecting much-needed vigor into the regional economy, are ignored as U.S. materials are imported at top dollar.

It is ironic that the Bush administration, which in its rhetoric promotes free markets and less government involvement in the economy, turns foreign aid into corporate welfare.

Adding insult to injury, the U.S. and other rich nations agreed that by January 1, 2002 they would cut the strings and untie aid to least developed countries. This Agreement, the Development Assistance Community (DAC) Recommendation to Untie

Official Development Assistance to Least Developed Countries, was finally reached after 30 years of negotiations and was an acknowledgment that tied aid “represents poor value for money and undermines development assistance.”

However, three years later, the U.S. government may well be the worst offender. Despite having signed international agreements and commitments on lifting this kind of restriction on foreign aid, the Bush administration maintains doggedly intransigent. The Bush administration hasn't even bothered to provide any data about the issue. The latest available figures reported are from 1996, when Bill Clinton was president.

At that time, the U.S. estimated that 71.6 percent of bilateral aid commitments were tied to the purchase of U.S. goods and services. These figures were repeated in the U.S. Agency for International Development (USAID) Agency Performance Report published in April 1999. The same data was repeated in the Reality of Aid 2000 edition. No figures have been reported since the agreement went into effect.

The tsunami disaster makes improving the efficiency of humanitarian assistance an urgent matter. There has never been a better time for the U.S. to cut the strings and make sure money spent on aid actually reaches the intended beneficiaries.

Why Cut The Strings?

Tying aid promotes goods and services from the donor country and undermines the humanitarian purpose and the overall effectiveness of assistance. It results often in inappropriate aid, which does not meet the needs of the poor.

By allowing greater competition for the provision of services, a recipient country can benefit from buying



from suppliers that compete on price, quality, and service. Untying aid can also help strengthen the local and regional economies and contribute to building local productivity.

At the time of a disaster, we must remember that there are ample supplies of local expertise—carpenters, building contractors, management consultants, architects, surveyors—and many of these skilled workers are unemployed. Restoring human dignity to those affected by a disaster will mean giving them the opportunity to earn a living and feed their families. This cannot happen if U.S. companies, agencies, and contractors crowd out locals because of the practice of tied aid.

In September 2004, the United Nations' Economic Commission for Africa's *Economic Report on Africa* reported that "the donors' habit of insisting that aid funds be spent purchasing goods and services from the same donor countries is crippling Africa's chances of pulling ahead." According to the report, "tied aid" reduces the real value of the assistance by some 25 to 40 percent, given that recipient countries are forced to buy imports that are not priced competitively.

Steps In The Right Direction: The Coalition Of The Willing

The ECA report notes that four countries (United Kingdom, Norway, Denmark, and the Netherlands) were breaking away from the idea of "tied aid" with

more than 90 percent of their aid "untied." These efforts must be commended.

The tsunami offers an opportunity for the U.S. to join this "coalition of the willing." It's time that this nation's foreign aid started to deliver more benefits and stopped being a vehicle for welfare to U.S. companies.

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FOR MORE READING:

DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries (May 2001)
<http://www.oecd.org/dac/htm/Untie.htm>

UN Economic Commission on Africa, *Economic Report on Africa 2004* (September 2004)
<http://www.uneca.org/ERA2004/>

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