Development policy: untying of aid

2002/2284(INI) - 18/11/2002 - Non-legislative basic document

PURPOSE : to enhance the effectiveness of aid by exploring the options on untying aid. CONTENT : a consensus has emerged that the practice of tying the granting of aid, directly or indirectly to the purchase of goods and services procured by means of that aid in the donor country reduces its effectiveness. It is generally recognised that the untying of aid is an important factor in a coherent pro-poor development policy. The World Bank estimates that full untying could lower the transaction cost of aid by up to 25%. The Development Assistance Committee of the OECD (DAC) follows the same line by estimating that this reduction may reach 15% to 30% of the costs. Community aid has been untied for more than 25 years. Calls for tender are open to the fifteen Member States and to all 71 ACP countries without distinction between LDCs and other developing countries for projects financed by the EDF, to all Mediterranean partner countries under the MEDA programme and to the beneficiary countries for Asia and Latin America (ALA). This openness of calls for tender had concrete consequences under the 6th, 7th and 8th EDF (1985-2000), as it made it possible for the operators of the ACP countries to gain 23.6% of the contracts, amounting to EUR 1.415 billion. The paper examines the DAC Recommendation on untying aid of April 2001 and comes to the conclusion that it is too limited, since it focuses on the LDCs and excludes Food Aid and its transport. The impact of this limitation is worsened by the fact that almost one third of the LDCs are in conflict situations where aid delivery is very difficult. In order to untie aid further, the Commission will introduce elements of untying into the legal bases of all development related financial instruments. The approach proposed by the Commission goes beyond the scope of the current DAC Recommendation and will lead to an almost complete untying of Community Aid. The whole of EC Aid would be untied immediately towards 16 out of 23 of the DAC Members, 32 developed countries and 151 developing countries as a group for the thematic budget lines and on a regional basis for the regional instruments. In addition the whole of EC aid would be untied to all other third countries under the condition of reciprocity and the agreement of recipient country. The paper examines the situation of EU bilateral aid, including the application of Community rules on state aid, and the application of public procurement directives. It makes several recommendations, including the following: - information on the impact of full untying among all donors on the effectiveness of aid, the allocation of resources and the structures of development is insufficient. The Commission suggests initiating comprehensive work on this at European level. - information on the relationship between untying of aid and moves towards decentralisation, the harmonisation of procedures and the role of the recipient country is insufficient. The Commission proposes further work. - the Commission will propose to integrate the untying of Community aid into all relevant legal bases of development related financial instruments of the Community. - regarding contracts awarded by authority of the recipient country, where these do not act on behalf of a contracting authority of a Member State, the Commission proposes anundertaking by Member States to untie aid and systematically to insert a contractual clause in the instruments by which aid is granted, obliging the authorities of the recipient country concerned to apply award procedures based on the principles underlying the public procurement directives, namely the principles of equal treatment, transparency, mutual recognition and proportionality. - efforts concerning the untying of aid among all donors at the OECD/DAC should be extended to complete untying including food aid and food aid transport.