



## The Issue of Exploitation of LICs through Tied Aid

To begin to examine the issue of Low Income Countries (LICs) being exploited through the distribution of tied aid, we must first exactly define what that term means. According to the Organisation for Economic Cooperation and Development (OECD), tied aid is foreign/development aid (loans, financing packages etc) which must be spent on procuring the goods and services involved from the donor country – or a group of selected countries specified in the aid agreement. This would be best illustrated through an example: if the HIC (High Income Country) Country A gave tied aid worth £10 billion to LIC Country B, Country B would have to spend the entirety of that aid money on goods and services (which are usually specified) from Country A or a group of countries selected by Country A. This, of course, significantly restricts the way in which tied aid can be spent, which in turn reduces its usefulness.

Given that at least 20% of all aid remains formally tied, the issue of tied aid is of significant importance both directly and also in regards to the wider phenomenon of aid that is to some extent tied, such as development agencies spending their (technically untied) funding on goods and services procured from outside the country that is being aided. And this tied aid comes with many disadvantages, most notably the cynical attitude with which this aid is often donated, being often primarily used to develop the economy of the donor state, as opposed to genuine consideration of the impacts of that aid on the country to which it is being sent. A paragraph that was on the USAid website until 2006 read as follows:

*“The principal beneficiary of America’s foreign assistance programmes has always been the United States. Close to 80% of the US Agency for International Development’s contracts and grants go directly to American firms.*”

Tied aid clearly acts as a form of business investment. Even the nations which receive aid, such as top recipients including Israel, Egypt, Jordan and Kenya, are rarely the lowest-income countries, but rather those where the aid can have the greatest impact on geopolitics and trade. Additionally, the products and services procured using the aid money are often inferior given the supply constraints, for example agricultural supplies from some developed nations to India during the 1960s were of lower quality than that which could be domestically – or regionally - produced. Thirdly, tied aid allows the aid donor to assert the agenda regarding use of the aid, which often leads to an overreliance on imports on the part of the aid recipient and a lack of focus on the issues that really matter - if the most significant problem in the LIC, for example, is the need to reduce unemployment, then aid to develop the energy sector is not especially useful and can lead to a significant burden on the part of the LIC with regards to repayments. Tied aid is often simply ineffective.

Most compellingly, tied aid has been shown to be significantly less effective than untied aid. The benefits of untied aid are often profound, given that the benefits are often twofold, given that the money spent does not only go into improving the local situation, but also into supporting local people. Take, for example, a hypothetical hospital being constructed in an LIC. If domestic expertise and labour are used, then not only does the project provide a hospital for the community but also boosts the local economy. Additionally, the local community will also gain significant expertise regarding the construction of medical



facilities, which can be applied elsewhere. And given that, even with technically untied aid, only a fraction is actually spent within the country itself due to conservative and outdated policymaking (such as only 37% of the untied aid provided to Afghanistan between 2001 and 2011 being spent in Afghanistan itself), there is clearly significant scope for improvement. It is clear that NGOs and governments I'm going to have to be braver in the coming years to allow for more aid to be genuinely untied.

However, we have been making these commitments for years. HICs first agreed to phase out tied aid in 2001, yet now – in 2022 – this has not yet been accomplished. In fact, as populism sweeps much of Europe and North America, leaders increasingly justify aid spending on the basis that it is promoting national interests abroad, appealing often sketchy electorates. Additionally, there are some challenges that need to be overcome with untied aid. There is significantly less financial guarantee on the part of the aid donor for untied aid, given that the money will no longer return to the donor state in some form or another. Additionally, there is often difficulty with finding the necessary skills and resources in LICs themselves, and local corruption is also a significant challenge. However, given the continuing cynicism regarding tied aid, and the proven benefits of untying aid on the local communities that receive the aid, it is clear that the United Nations (and specifically our Political Committee) must take a lead on dealing with this challenge going forward.

#### **Points to consider**

- What is your country's current position on donating aid in the first instance?
- Has your country made any significant policy changes in the past connected with untying aid (for example the vague 2001 commitment)
- Is tied aid ethical? Can it be justified as effective? Is it the only possible way of keeping aid coming to LICs in the face of increasing public opposition in HICs?
- Can the UN Political Committee strike a bargain to phase out tied aid and ensure that aid is no longer donated cynically, but actually with the interests of the LIC at heart?
- Which countries are going to be most difficult to win over?

#### **Useful links**

- [The Advantages and Disadvantages of Tied Aid in International Trade \(shareyouressays.com\)](https://www.shareyouressays.com)
- [What is Development Aid - Foreign Aid & Development | Anera](#)
- [As a system, foreign aid is a fraud and does nothing for inequality | Kenan Malik | The Guardian](#)
- [Afghanistan: proof that untied aid really works | Afghanistan | The Guardian](#)
- [Rwanda demands end to tied aid | Aid effectiveness | The Guardian](#)