

19 EDITION

Export Promotion or Development Policy?

A Comparative Analysis of Soft Loan Policies
in Austria, Denmark, Germany and the Netherlands

Livia Fritz, Werner Raza,
Manuel Schuler, Eva Schweiger



19 EDITION

Export Promotion or Development Policy?

A Comparative Analysis of Soft Loan Policies
in Austria, Denmark, Germany and the Netherlands

Livia Fritz, Werner Raza,
Manuel Schuler, Eva Schweiger

March 2014

OFSE'''
Austrian Foundation
for Development Research

Export Promotion or Development Policy?

A Comparative Analysis of Soft Loan Policies

in Austria, Denmark, Germany and the Netherlands

1st edition – Vienna: Südwind Publishing company, 2014

ISBN: 978-3-902906-05-2

The authors are exclusively responsible for any remaining errors or omissions as well as for the views expressed in this report.

All rights, particularly to translation, reproduction, and distribution, reserved.

No part of this publication may be reproduced in any form or by any means, electronic or mechanical, including photocopy, recording, and distribution, without prior permission from the publishers.

Imprint

published by: © Austrian Foundation for Development Research – ÖFSE

Austria, 1090 Vienna, Sensengasse 3

Phone: +43 1 317 40 10; Fax: +43 1 317 40 10-150

e-mail: office@oefse.at

Internet: www.oefse.at; www.centrum3.at

Authors: Livia Fritz, Werner Raza, Manuel Schuler, Eva Schweiger

Copy-editing & Layout: Ingrid Pumpler, Alexandra Erös

Printed by: druck.at

ISBN: 978-3-902906-05-2

Bibliographische Information der Deutschen Bibliothek

Die Deutsche Bibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über <http://dnb.ddb.de> abrufbar.

financed by

 Austrian
Development Cooperation



Contents

List of Figures, Boxes and Tables	XI
Abbreviations	XV
Acknowledgements.....	1
PART I: Introduction and Definitions.....	3
1. Introduction.....	5
1.1. Context	5
1.2. Research Questions and Aim	7
1.3. Methodology.....	9
1.3.1. Desk Research and Literature Review.....	9
1.3.2. Field Research.....	12
1.4. Structure of the Publication.....	16
2. Preparing the Grounds: Definition of Key Terminology	19
2.1. The Concept of Official Development Assistance	19
2.1.1. Economic Welfare and Development as the Main Objective	22
2.1.2. Concessional in Character and a Minimum Grant Element of 25 %.....	22
2.2. Measures to Express Concessionality of a Loan: Grant Element vs. Concessionality Level	24
2.3. Soft Loans, Tied Aid Credits, Associated Financing: Almost the Same but not Quite?	27
PART II: Historical Evolution and Institutional Structure of Tied Aid	33
3. The DAC's Development Agenda	35
3.1. The Aid and Development Effectiveness Debate	36
3.1.1. Evolution and Principles: From Rome to Busan via Paris and Accra.....	38
3.1.1.1. Excursus: The Idea of Partnership in Development Co-operation.....	40
3.1.2. Paris Declaration on Aid Effectiveness as a Benchmark	42

3.1.3. Untying Aid: A Long-lasting Matter of Concern.....	46
3.1.4. Policy Coherence for Development (PCD).....	52
3.2. Critical Remarks	57
4. An Introduction to the International Regulatory Framework.....	63
4.1. The Participants Group and “their” Arrangement.....	65
4.1.1. Purpose and General Provisions of the Arrangement.....	65
4.1.2. The Masters of the Arrangement	66
4.1.3. Legal Status of the Arrangement.....	68
4.2. WTO Legislation	70
4.3. Development Assistance Committee (DAC)	72
5. Historical Genesis of the Arrangement on Officially Supported Export Credits: Evolution and Status Quo of the Tied Aid Disciplines	73
5.1. Contextualization: an Export Credit Race on the Rise.....	75
5.2. The Early “Consensus”: Establishing a Level Playing Field	77
5.3. Packages Adopted and Alternatives Discussed up to Helsinki.....	78
5.3.1. The Wallén Package (1987)	83
5.3.1.1. An Inquiry into the Logic of Concessionality.....	84
5.3.2. Failure of the Wallén and Negotiation of the Helsinki Package	85
5.4. Agreement on the Helsinki Tied Aid Disciplines.....	90
5.4.1. The Helsinki Package (1991/1992)	90
5.4.1.1. Country Eligibility.....	91
5.4.1.2. Project Eligibility	91
5.4.1.3. Minimum Concessionality Level	93
5.4.2. Exemptions from the Helsinki Disciplines.....	93
5.4.2.1. De Minimis Projects: Small Transactions as Circumvention Strategy?	94
5.4.3. The Consultations Group and the Development of the Ex Ante Guidance for Tied Aid (1996, 2003, 2005)	98
5.4.4. Financial Terms and Conditions for Export Credits According to the Arrangement.....	100
5.4.4.1. Repayment Terms	101
5.4.4.2. Interest Rates	101

5.4.4.3. Credit Risk Premiums	102
5.5. Recap and Concluding Remarks	102
6. Aid Considerations and the Role of the Development Assistance Committee	105
6.1. Pushing Development Interests –in and through the DAC/FA	106
6.1.1. Concerns over Limited and/or Negative Development Impact of Tied Aid Credits	107
6.1.1.1. Approaching the Issue: ODA Stretching and Debt Servicing Capacity.....	108
6.1.1.2. Distorting Aid Distribution Patterns.....	111
6.1.2. “Development Safeguards” in Historical Perspective.....	112
6.1.2.1. Strengthened Role of Aid Agencies.....	114
6.1.2.2. Development of a Consensus on Objective Development Criteria for Pre-Mixed Financing.....	116
6.1.2.3. Aid Quality: Improved and Mandatory Aid Quality Assessment	117
6.1.2.4. Greater Importance of Development Content in Consultation Procedures	120
6.1.3. Communicating Aid Considerations: the DAC/FA’s Relation to the Participants.....	121
6.1.3.1. Monitoring the Participants Group	121
6.1.3.2. Forms of Interaction between the Two Groups	124
6.1.4. “(Re-)Claiming its Territory”: Adoption of Complementary Guidelines by the DAC	125
6.1.4.1. Guiding Principles for the Use of Aid in Association with Export Credits and Other Market Funds (1983)	126
6.1.4.2. DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance (1987)	127
6.1.4.3. New Measures in the Field of Tied Aid (1992)	129
6.1.4.4. Global Untying and Good Procurement Practices: Mutual Concern and Ongoing Struggle?	131
6.2. Tracing Development Policy Aspects in Today’s Arrangement	136
6.2.1. The Key Tests – Capable of Assessing Aid Quality?	136
6.2.2. Explicit and Implicit References to DAC Principles.....	138
6.2.3. Grasping the Participants’ Notion of Development.....	140
6.3. Assessment of the DAC/FA’s Influence on the Participants Group.....	142
6.4. Recap and Concluding Remarks	147

7. Statistics on Tied Aid Credits	149
7.1. Introduction to the DAC Statistical Concept.....	151
7.2. Evolution of Quantitative Importance of Tied Aid	152
7.3. Donors.....	157
7.4. Recipient Countries and Regions.....	160
7.5. Sectors.....	165
7.6. Summary of the Findings of the Statistical Data.....	171
7.7. Reading and Interpreting the DAC Statistics	172
7.8. Problems of Statistical Recording of Development Assistance	175
7.8.1. The Tying Status of ODA and "De Facto" Tying.....	175
7.8.2. Reporting of Credits According to their Motivation.....	176
7.8.3. The Term "Concessional in Character" in the ODA Definition	177
8. Critical Assessment of the Institutional Framework for Tied Aid	181
8.1. Assessment of the Arrangement Terms.....	181
8.1.1. Assessment of Eligibility Criteria	182
8.1.2. Assessment of Minimum Concessional Levels.....	183
8.2. Assessment of Tied Aid Credit Policies against the Principles of the OECD's Development Agenda	184
8.2.1. The OECD – Living up to Policy Coherence (for Development)?	185
8.2.2. In Line With the Paris Principles on Aid Effectiveness?	187
8.2.2.1. Harmonization.....	188
8.2.2.2. Ownership.....	190
8.2.2.3. Alignment.....	191
8.2.2.4. Aid Quality Matters: Assessing the "Demonstrated" Development Quality of Tied Aid Credit Projects.....	194
8.2.3. In the Spirit of Partnership? Global Partnership and the Role of Recipient aka Partner Countries.....	196
8.2.4. Untying : Is the OECD Coherent in Its Quest for an Untying Regime?	197
8.2.4.1. Provisions for Least Developed Countries	198
8.3. Concluding Remarks: Of Conflicting Policy Goals and Magic Bullets.....	199

PART III: Soft Loan Policies of Four European Donor Countries201

9. Introduction..... 203

10. Austria..... 205

10.1. Country Facts and Figures.....205

 10.1.1. Economy and Foreign Trade205

 10.1.2. Austria's Donor Profile.....205

 10.1.2.1. ODA Performance205

 10.1.2.2. Institutional Setting of Austria's Development Cooperation206

10.2. Profile of the Program.....207

 10.2.1. Objectives of the Soft Loan Program208

 10.2.2. Legal Basis of the Soft Loan Program208

 10.2.3. Financing of the Soft Loan Program209

 10.2.4. Institutional Environment209

 10.2.5. Complementary Programs213

 10.2.6. Guidelines for the Austrian Soft Loan Program213

 10.2.6.1. Soft Loan Eligibility Criteria.....213

 10.2.6.1.1. Soft Loan Eligibility of the Recipient Country213

 10.2.6.1.2. Soft Loan Eligibility of Products and Projects215

 10.2.6.1.3. Eligible Sectors216

 10.2.6.2. Terms and Conditions for Soft Loan Eligible Countries.....217

10.3. Program Performance218

 10.3.1. Development of Austrian Soft Loan Financing.....218

 10.3.2. Recipient Countries.....219

 10.3.3. Sectors222

10.4. Program Implementation.....223

 10.4.1. Procurement in Soft Loan-Financed Projects.....223

 10.4.2. Application Procedure for Soft Loan Financing.....224

 10.4.3. Questionnaire.....224

 10.4.4. Project Appraisal.....226

 10.4.5. Engagement of other Actors During the Application Process226

 10.4.6. Project Approval Process227

10.5. Monitoring and Evaluation	228
10.5.1. Monitoring	228
10.5.2. Evaluation	229
10.6. Accountability and Transparency	230
10.7. Conclusion and Outlook	231
11. Denmark	235
11.1. Country Facts and Figures	235
11.1.1. Economy and Foreign Trade	235
11.1.2. Denmark's Donor Profile	236
11.1.2.1. ODA Performance	236
11.1.2.2. Institutional Setting of Denmark's Development Cooperation	238
11.2. Profile of the Program	241
11.2.1. Background and Objectives	241
11.2.1.1. Program Objectives	243
11.2.2. Policy Framework and Legal Foundation	243
11.2.2.1. Danida Business Finance in the Overall Development Strategy 2012: The Right to a Better Life	243
11.2.2.2. Strategic Framework for Priority Area: Growth and Employment 2011-2015	244
11.2.2.3. Strategic Framework for Priority Areas: Natural Resources, Energy, and Climate Change (2013)	244
11.2.2.4. Act No. 64 of 7 February 2013	245
11.2.2.5. The Finance Act: § 06.32.05.18	245
11.2.3. Institutional Environment	247
11.2.4. Guidelines for Danish Mixed Credits	250
11.2.4.1. Requirements and Eligibility Criteria	250
11.2.4.1.1. Country Eligibility	251
11.2.4.1.2. Project Eligibility	251
11.2.4.1.3. Concessionality Requirements	252
11.2.4.1.4. Procurement Guidelines	252
11.2.4.1.5. Miscellaneous	253
11.2.4.1.6. Specific Requirements for Small Projects (SDR < 2 million)	254
11.2.4.2. Terms and Conditions	254

11.2.4.2.1. Composition of Danida Subsidy in a Mixed Credit	254
11.2.4.2.2. Loan Conditions	256
11.2.5. Complementary Programs	257
11.2.5.1. Danida Business Partnerships	257
11.2.5.2. Investment Fund for Developing Countries (IFU)	258
11.2.5.3. The Fast-Track Scheme: an EKF – DBF Cooperation.....	258
11.3. Program Performance	259
11.3.1. Statistical Issues	259
11.3.2. Development of Mixed Credit Financing.....	260
11.3.3. Recipient Countries.....	262
11.3.4. Sectors	265
11.3.5. Danish Untied Mixed Credits	266
11.4. Program Implementation.....	267
11.4.1. Application and Project Approval Process.....	267
11.4.1.1. Application and Screening Procedure	269
11.4.1.1.1. The Appraisal Report: Testing against Development Criteria ...	271
11.4.1.2. Approval Process	274
11.4.1.2.1. Composition of the Internal and External Grant Committee	275
11.4.1.2.2. Working Procedures	275
11.4.2. Tender Process	276
11.5. Monitoring and Evaluation	277
11.5.1. Monitoring and Evaluation at Project Level	277
11.5.2. Evaluation at Program Level.....	278
11.5.2.1. Evaluations of the Danish Mixed Credit Program 1998 and 2002	278
11.5.2.2. Meta-Evaluation 2004: Private and Business Sector Development Interventions.....	279
11.6. Accountability and Transparency	280
11.6.1. Involvement of the Parliament.....	280
11.6.2. Transparency and Availability of Information.....	282
11.6.3. Stakeholder Consultation	282
11.7. Conclusion and Outlook.....	284

12. Germany	289
12.1. Country Facts and Figures	290
12.1.1. Economy and Foreign Trade	290
12.1.2. Development Cooperation	291
12.1.2.1. Financial and Technical Cooperation	291
12.1.2.2. Programming of Bilateral Cooperation	292
12.1.2.3. Country and Sector Concentration	293
12.2. Profile of Financial Cooperation	295
12.2.1. Legal Background/History	295
12.2.2. Institutional Environment	296
12.2.3. Terms and Conditions	300
12.2.4. Financial Instruments	301
12.2.4.1. Overview	301
12.2.4.2. Federal Budget Funds	303
12.2.4.3. FC Development Loans	304
12.2.4.4. FC Promotional Loan	306
12.3. Performance of Financial Cooperation	308
12.3.1. Development of Financial Cooperation	308
12.3.2. Recipient Countries	311
12.3.3. Sectors	312
12.3.4. Share of Financial Cooperation to Total ODA	313
12.4. Planning and Implementation of FC Funds	314
12.4.1. Intergovernmental Agreement and Project Pre-Selection	316
12.4.2. Decision-Making and Project Selection Process	318
12.4.3. Implementation-Planning and International Competitive Bidding	320
12.4.4. Payment Terms, Guarantees and Insurance	322
12.5. Monitoring and Evaluation	324
12.5.1. Reviewing Project-Related Progress	324
12.5.2. Independent Ex-Post Evaluation	325
12.5.2.1. Approach and Methodology	325
12.5.2.2. Logframe and Field Missions	326
12.6. Transparency and Accountability	327
12.6.1. Involvement of the Parliament	328

12.6.2. Auditing of Financial Management	328
12.6.3. German Institute for Development Evaluation	330
12.6.4. Civil Society and Availability of Information	330
12.7. Conclusion and Outlook	333
12.7.1. Developmental Orientation	334
12.7.2. Rationale of ODA Reporting	335
12.7.3. (Un)tied German Financial Cooperation?	336
13. The Netherlands	339
13.1. Country Facts and Figures.....	339
13.1.1. Key Objectives of Dutch Development Policy.....	339
13.1.2. A New Agenda for Aid, Trade and Investment.....	341
13.2. Profile of Programs.....	341
13.2.1. Historical Overview.....	342
13.2.2. Legal Background.....	348
13.2.3. Institutional Environment	349
13.2.4. Government Funds	354
13.2.4.1. Facility for Infrastructure Development (ORIO)	354
13.2.4.2. Infrastructure Development Fund (IDF)	356
13.2.4.3. Dutch Good Growth Fund (DGGF)	357
13.3. Scheme Performance.....	359
13.3.1. ORET Budget and Expenditures.....	359
13.3.2. ORET Grant Scheme.....	360
13.3.3. LDC Infrastructure Fund.....	360
13.3.4. Share of ORET/MILIEV of Total ODA	362
13.3.5. ORIO Grant Scheme	362
13.4. Implementation of Programs.....	363
13.4.1. Project Eligibility and Application	364
13.4.1.1. Project Appraisal Process and Decision-Making.....	365
13.4.1.2. Project Implementation, Tendering and Contract Management.....	369
13.4.1.3. Payment Terms, Guarantee and Operations and Maintenance Phase	371
13.5. Monitoring and Evaluation	372
13.5.1. Monitoring and Evaluation Plan	372

13.5.2. Impact Evaluations	373
13.6. Transparency and Accountability	374
13.6.1. Role of the Parliament	374
13.6.2. Civil Society	375
13.6.3. Transparency	376
13.7. Conclusion and Outlook	377
PART IV: Comparative Analysis of Case Studies and Conclusions	381
14. Comparative Assessment of Case Study Countries	383
14.1. Comparative Analysis of the Case Study Results: a Tabular Presentation	383
14.2. Comparative Conclusions of the Case Studies	397
14.2.1. Program Characteristics	397
14.2.2. Importance of the Program in the Field of Development Cooperation	401
14.2.3. Institutional Setting	402
14.2.4. Objectives of the Programs	403
14.2.5. Country Eligibility Criteria	405
14.2.6. Sector and Project Eligibility Criteria	406
14.2.7. Ex-ante Assessment of Expected Development Impact	409
14.2.8. Project Approval	411
14.2.9. Stakeholder Involvement	413
14.2.10. Role of Recipient Countries	414
14.2.11. Monitoring and Evaluation	416
14.2.12. Transparency and Accountability	417
15. General Conclusions and Outlook	421
15.1. Conclusions – Between Institutional Heterogeneity, Hybridity and Development	421
15.2. Outlook – What Future for Soft Loans?	427
ANNEX	433
Bibliography	435
Interview List	456
Authors	459



List of Figures, Boxes and Tables

List of Figures

Figure 3.1:	Paris Principles	42
Figure 3.2:	Extract from the Paris Declaration – Indicators 5a and 5b	44
Figure 4.1:	Dimensions of Official Trade Finance	64
Figure 5.1:	Change of Concessionality Levels after Agreement on the Wallén Package.....	86
Figure 5.2:	De Minimis Notifications (1991-2005)	96
Figure 7.1:	Classification of Tied Aid Based on the Overall Concessionality Level (OCL) and Amount.....	150
Figure 7.2:	Quantitative Evolution of Tied Aid and Export Credits compared to ODA.....	152
Figure 7.3:	Evolution of Tied Aid and Official Export Credits to Developing Countries.....	153
Figure 7.4:	Overview of the Volume and Number of Tied Aid Notifications (million USD)	154
Figure 7.5:	Overview of the Volume of Tied Aid and Helsinki-Type Tied Aid (1991-1995) (million USD)	155
Figure 7.6:	Composition of Tied Aid and Untied Aid Notifications	156
Figure 7.7:	Donors According to the Volume of Helsinki-Type Tied Aid and Tied Aid per Donor Country (1995-2005)	157
Figure 7.8:	Relative Shares of the Cumulated Volume of De Minimis Tied Aid by Notifying Country.....	159
Figure 7.9:	Recipient Regions of Total Tied Aid Notifications	160
Figure 7.10:	Recipient Regions of Total Helsinki-Type Tied Aid Notifications.....	160
Figure 7.11:	Geographic Distribution of the Volume of Tied Aid by Recipient Region According to Time Periods.....	161
Figure 7.12:	Absolute Helsinki-Type Tied Aid and Total Tied Aid by Recipient Country.....	162
Figure 7.13:	Total Tied Aid According to World Bank Analytical Classification.....	163
Figure 7.14:	Helsinki-Type Tied Aid According to World Bank Analytical Classification	164
Figure 7.15:	Non-Helsinki-Type Tied Aid According to World Bank Analytical Classification	164
Figure 7.16:	Total Tied Aid by Sector	165
Figure 7.17:	Sectoral Distribution of Tied Aid – Changes Over Time.....	166

Figure 7.18:	Share of De Minimis Tied Aid by Sector	170
Figure 7.19:	Share of Helsinki-Type Tied Aid by Sector	170
Figure 10.1:	Quantitative Evolution of Austrian ODA (1998-2012)	206
Figure 10.2:	Model of the Institutional Environment of the Austrian Soft Loan Program.....	210
Figure 10.3:	Volume (Commitments, million USD) of Austrian Soft Loans reported to the DAC as AF Grants (2001-2011).....	219
Figure 10.4:	Cumulative Volume of AF Grants by Recipient Country (2001-2011)	220
Figure 10.5:	Annual Distribution among Country Groups According to World Bank Classification 2001	221
Figure 10.6:	Annual Distribution among Country Groups According to World Bank Classification 2006.....	221
Figure 10.7:	Annual Distribution among Country Groups According to World Bank Classification 2011	222
Figure 10.8:	Sectoral Distribution of Soft Loans (2001-2011)	223
Figure 11.1:	Denmark's Main Trading Partners.....	236
Figure 11.2:	Denmark's External Trade in Goods by Commodity Categories 2012	236
Figure 11.3:	Total ODA Flows and ODA as of GNI.....	237
Figure 11.4:	Share of Tied Commitments	238
Figure 11.5:	Danida's Priority Countries.....	241
Figure 11.6:	Main Actors and their Relations in a Danish Mixed Credit.....	247
Figure 11.7:	Composition of Danida Subsidy.....	255
Figure 11.8:	Budget for DBF Grants.....	260
Figure 11.9:	Total Mixed Credit Commitments Tied	261
Figure 11.10:	Number of Project Approvals per Year	261
Figure 11.11:	Main Recipients (2000-2012)	262
Figure 11.12:	Annual Distribution among Country Groups According to World Bank Classification 2000.....	264
Figure 11.13:	Annual Distribution among Country Groups According to World Bank Classification 2006.....	264
Figure 11.14:	Annual Distribution among Country Groups According to World Bank Classification 2012.....	265
Figure 11.15:	Main Sectors (2000-2012).....	266
Figure 11.16:	Timeline from Application to Project Approval and Implementation.....	268
Figure 12.1:	KfW Commitments by Priority Development Sector 2012.....	294

Figure 12.2:	Institutional Set-up of the German Bilateral Financial Cooperation.....	298
Figure 12.3:	Financing Pyramid – Financial Cooperation Funds.....	302
Figure 12.4:	Different Instruments of Financial Cooperation.....	303
Figure 12.5:	Short History of Financial Cooperation.....	304
Figure 12.6:	Origin of FC Funds (2007-2012)	309
Figure 12.7:	Number of FC Projects (2007-2012)	311
Figure 12.8:	Main Recipients of Financial Cooperation (2007-2012)	312
Figure 12.9:	Key Sectors of Financial Cooperation (2007-2012)	313
Figure 12.10:	Share of FC/Federal Budget Funds to Total ODA (2003-2012).....	314
Figure 12.11:	Planning and Implementation of Financial and Technical Cooperation.....	315
Figure 13.1:	Institutional Set-up	351
Figure 13.2:	Share of ORET/MILIEV/LDC Infrastructure Fund of Total ODA (1992-2005).....	362
Figure 13.3:	ORIO Projects per Sector (2009-2012).....	363
Figure 13.4:	Application Assessment Timeline	366
Figure 13.5:	Project Result Chain Linked to Criteria.....	367
Figure 13.6:	Procurement Process.....	370
Figure 13.7:	Project Result Chain Focusing on Short- and Long-Term Effects of Projects.....	373
Figure 15.1:	Four Scenarios for the Future of Soft Loans.....	429

List of Boxes

Box 1:	Basic Characteristics of a Tied Aid Credit.....	28
Box 2:	Export Credit Agencies (ECAs).....	29
Box 3:	Dimensions of Policy Coherence for Development According to Picciotto.....	55
Box 4:	“Trade Considerations”	76
Box 5:	The Wallén Package in a Nutshell	84
Box 6:	The Concept of Commercial Viability	92
Box 7:	DAC Members’ Views on the Commercial Viability Key Tests.....	138

List of Tables

Table 1:	Calculation of the Grant Element Using a 10 % Discount Rate	26
Table 2:	Calculation of the Concessionality Level Using a 4 % Discount Rate	26
Table 3:	DAC Definitions of Tying Status of ODA, Other Official Flows and Officially Supported Credits	31
Table 4:	Relative Shares of De Minimis, Highly-Concessional, and Helsinki-Type Tied Aid of Total Tied Aid (1995-2005)	158
Table 5:	Volumes of Helsinki-Type and Non-Helsinki-Type Tied Aid, De Minimis, Highly-Concessional, and Other Non-Helsinki-Type Tied Aid.....	168
Table 6:	Main Types of Resource Flows.....	173
Table 7:	Selected Parameters of ODA Loans (Commitments)	178
Table 8:	List of Key Regions and Priority Countries of Austrian Development Cooperation.....	207
Table 9:	Soft Loan Target Countries	214
Table 10:	Terms and Conditions for Soft Loan-Eligible Countries	218
Table 11:	Budgetary Outlook Danida Business Finance	246
Table 12:	Untied Mixed Credit Projects Approved (2002-2012)	267
Table 13:	Bilateral Development Cooperation in the Context of Country Programs	293
Table 14:	Total Volume of Commitments (2003-2012).....	308
Table 15:	Total Commitments (2002-2012), in EUR million.....	310
Table 16:	History of Selected Dutch Government Funds.....	344
Table 17:	DGGF Annual Expenditure (2014-2017)	358
Table 18:	Total ORET/MILIEV Program Budgets and Expenditures World-wide (1992-2005).....	359
Table 19:	ORET/MILIEV Official Grant Percentages (1992-2005)	360
Table 20:	LDC Infrastructure Fund, Investments (in Number and Value), 2002-2008.....	361



Abbreviations

AA	Federal Foreign Office (Germany)
AAA	Accra Agenda for Action
AC	Advisory Committee
ADA	Austrian Development Agency
AF	Associated Financing
AFFG	Ausfuhrfinanzierungsförderungsgesetz / Export Finance Promotion Act
AGE	Arbeitsgemeinschaft Entwicklungspolitik der Deutschen Wirtschaft
AK	Arbeiterkammer / Austrian Chamber of Labor
AöR	Anstalt öffentlichen Rechts
AQuA	Aid Quality Assessments
ASCM	Agreement on Subsidies and Countervailing Measures
ATP	Aid and Trade Provision
AusfFG	Ausfuhrförderungsgesetz / Export Promotion Act
AWZ	Parliamentary Committee for Economic Cooperation and Development
BaFin	Federal Financial Supervisory Authority
BDI	Federation of German Industries
BEB	DG BEB – Foreign Economic Relations
BMeiA	Bundesministerium für europäische und internationale Angelegenheiten / Federal Ministry for European and International Affairs
BMF	Bundesministerium für Finanzen / Federal Ministry of Finance
BMWA	Bundesministerium für Wirtschaft und Arbeit
BMWFJ	Bundesministerium für Wirtschaft, Familie und Jugend
BMWi	Federal Ministry of the Economy and Technology
BMZ	Federal Ministry for Economic Cooperation and Development
BRICS	Brazil, Russia, India, China and South Africa
CDF	Comprehensive Development Framework
CDI	Commitment to Development Index

CGDEV	Center for Global Development
CIRR	Commercial Interest Reference Rate
CMC	(Former) Danish Committee for Mixed Credits
CPA	Country Programmable Aid
CPIAs	Country Policy and Institutional Assessment
CRS	Creditor Reporting System
CSR	Corporate Social Responsibility
CSO	Civil Society Organization
CSU	Christian Social Union in Bavaria
DAC	Development Assistance Committee
DAC/FA	DAC Working Party on Financial Aspects of Development Assistance (OECD)
DBF	Danida Business Finance
DCD	Development Co-operation Directorate (OECD)
DDR	Differentiated Discount Rate
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DEval	German Institute for Development Evaluation
DFI	Development Finance Institution
DfID	Department for International Development
DGB	Confederation of German Trade Unions
DGGF	Dutch Good Growth Fund
DIHK	Association of German Chambers of Commerce and Industry
DKK	Danish Krone
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Export Credit Agency
ECG	Export Credit Group
ECG	Working Party on Export Credits and Credit Guarantees (OECD)
ECI	Export Credit Insurance
EFK	Exportfinanzierungskomitee / Export Financing Committee
EKF	Eksport Kredit Fonden / Export Credit Fund

EU	European Union
EUR	Euro
EVD	Agency for International Business and Cooperation
EZA-G	Entwicklungszusammenarbeitsgesetz / Federal Development Cooperation Act
FC	Financial Cooperation
FDP	German Free Democratic Party
FIDIC	International Federation of Consulting Engineers
FMO	Netherlands Development Finance Company
FRIDE	a European think-tank for global action
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GIZ	German Development Agency
GNI	Gross National Income
GTAI	Germany Trade & Inward Invest Agency
GTZ	German Development Agency GTZ (nowadays GIZ)
HDI	Human Development Index
HIPC	Highly Indebted Poor Country
HIRC	High Interest Rate Countries
HLF	High Level Forum
HLM	High Level Meeting
ICB	International Competitive Bidding
IDA	International Development Association
IDF	Infrastructure Development Fund
IFU	Investment Fund for Developing Countries
ILO	International Labor Organization
IMC	Interministerial Committee
IMF	International Monetary Fund
IOB (IOV)	Policy and Operations Evaluation Department of the Ministry of Foreign Affairs
KfW	Kreditanstalt für Wiederaufbau

KOO	Koordinierungsstelle der Österreichischen Bischofskonferenz für internationale Entwicklung und Mission
KWG	German Banking Act
LCL	Less Concessional Loan
LDCs	Least Developed Countries
LICs	Low Income Countries
LIRCs	Low Interest Rate Countries
LLDCs	Landlocked Developing Countries
LMICs	Lower Middle Income Countries
MDCs	More Developed Countries
MDGs	Millennium Development Goals
MfA	Ministry of Foreign Affairs
MILIEV	Program for Environment and Economic Self-sufficiency
MoF	Ministry of Finance
MPGE	Minimum Permissible Grant Element
NCM	Nederlandsche Credietverzekering Maatschappij
NEC	Natural Resources, Energy, and Climate Change (Danida)
NEI	Netherlands Economic Institute
NGO	Non-Governmental Organization
OCL	Overall Concessionality Level
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organization for Economic Co-operation and Development
OeEB	Oesterreichische Entwicklungsbank
OeKB	Oesterreichische Kontrollbank AG
OeNB	Oesterreichische Nationalbank
ÖFSE	Austrian Foundation for Development Research
OOF	Other Official Flow
ORET	Development Relevant Export Transaction Program
ORIO	Facility for Infrastructure Development
PBC	Parliamentary Budget Committee

PCD	Policy Coherence for Development
PD	Paris Declaration on Aid Effectiveness
PG	Participants Group
PPO	Danida's program and project database
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
PSI	Private Sector Investment Program
PvdA	Dutch Labor Party
PWC	PricewaterHouseCoopers
SDR	Special Drawing Right
SMEs	Small and Medium Enterprises
SPD	Social Democratic Party
SRHR	Sexual and Reproductive Health and Rights
TA	Technical Assistance
TC	Technical Cooperation
TFDP	DAC Task Force on Donor Practices
ToR	Terms of Reference
TSA	Danida's Technical Service Advisory
UMICs	Upper Middle Income Countries
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UNIDO	United Nations Industrial Development Organization
UN-OHRLLS	United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and the Small Island Developing States
USD	US Dollar
VBI	German Association of Consulting Engineers
VNO-NCW	Dutch Employer Organization
VVD	People's Party for Freedom and Democracy
WB	World Bank

WIFO	Österreichisches Wirtschaftsforschungsinstitut / Austrian Institute of Economic Research
WKO	Wirtschaftskammer Österreich / Austrian Chamber of Commerce
WP-EFF	Working Party on Aid Effectiveness (OECD)
WP-STAT	Working Party on Development Finance Statistics (OECD)
WRR	Dutch Scientific Council for Government Policies
WTO	World Trade Organization



Acknowledgements

This report presents the results of an ÖFSE research project, which started in March 2012 and thus extended over a period of two years. The team consisted of Werner Raza (project leader), Livia Fritz, Manuel Schuler and Eva Schweiger. The members of the team produced a number of background reports and case studies, which in revised form have been synthesized into this document.

It goes without saying that any such effort would not be possible without the support of many persons and organizations. First and foremost, we would like to thank Klaus Steiner, Head of Unit “Quality Management and Evaluation” in the General Directorate for Development Cooperation in the Austrian Ministry of European and International Affairs, for his encouragement and expert advice. Mastering the statistical material would not have been possible without the profound expertise of Hedwig Riegler, former Head of Statistics in the Austrian Development Agency, and Michael Obrovsky (ÖFSE – Austrian Foundation for Development Research). We also gratefully acknowledge the support of Silvia Maca, Head of Department “Export Financing, International Export Financing Policy and Risk Management Export Promotion” in the Austrian Ministry of Finance, who together with her colleagues discussed the project with us and gave us her critical assessment.

Numerous experts and colleagues provided valuable inputs and advice, helped us in identifying interview partners or served as interview partners themselves. We would like to thank in particular Peter Wolff (German Development Institute, Bonn), Paul Hoebink (Centre for International Development Issues, Nijmegen), Lars Engberg-Pedersen (Danish Institute for International Studies, Copenhagen), Poul Buch-Hansen (former Director of Development Associates A/S, Copenhagen), as well as Martin Dorschel (KfW Development Bank, Frankfurt am Main) and Wiert Wiertsema (Both Ends, Amsterdam).

Finally, it is our particular duty and pleasure to extend warmest thanks to Ingrid Pumpler and Alexandra Erös, both at ÖFSE, who took on the enormous task of copy-editing and laying out this voluminous report with extreme care and untiring patience.

Needless to say, the authors are exclusively responsible for any remaining errors or omissions as well as for the views expressed in this report.

...

PART I

Introduction and Definitions



1. Introduction

1.1. Context

The first decade of this century saw the international community declare the Millennium Development Goals (MDGs), which have symbolized international aid efforts ever since. Along with this declaration of intent came pledges to not only increase the volumes of aid, but even more importantly to improve its effectiveness through better management and delivery. The OECD-hosted *Working Party on Aid Effectiveness* (WP-EFF) organized a series of High Level Forums in Rome (2003), Paris (2005), Accra (2008) and Busan (2011) and put aid effectiveness and ways of fostering it at the top of the international aid agenda (Tujan 2011: 340). The declarations made at these meetings influence our understanding of how *good* development co-operation should look today, they shape ideas and practices “*that constitute the field of development cooperation*” (Ruckert 2008: 96).

As the international community approaches the 2015 end-date of the MDGs, debates at the UN level on a prospective new, post-2015, development agenda have intensified. Inextricably linked to the discussions on a revised goal-set are financial considerations over the types of resources that public and private actors should provide in support of the international development policies, possibly including more general global concerns such as climate change, migration and others. These questions are linked to the OECD-wide discussions on the future conceptualization and measurement of Official Development Assistance (ODA) – a central concept that due to *inter alia* the ‘embellishment’ of reported flows by certain donors has lost some of its appeal over the years.

In light of the changes to be expected in both international development policy and finance, this study inquires into the field of soft loan financing – a means of intervention that has so far remained largely outside the realm of academic research. By specifically investigating the historical genesis of soft loan instruments as well as current potential transformational forces, both *de jure* tied and formally untied forms of financing are examined from the perspective of development policy.

For decades soft loans have formed part of foreign trade and development finance policies in most DAC donor countries. These have been widely used to finance exports and investment projects in richer developing countries and were mainly tied to procurement of goods and services in the donor country. Throughout the 1980ies concerns grew that these concessional credits were used as a backdoor subsidization of national industries. Tied soft loans have thus been successively brought under

regulation through the *Arrangement on Officially Supported Export Credits* as part of the OECD's export promotion framework, the latter aiming at the elimination of trade distorting practices.

In spite of these institutional roots in the export promotion field, tied soft loans claim a place amongst not only the instruments of development finance, but of official development assistance. Donors justify the legitimacy of their respective programs, while being in contradiction with the OECD's liberal trade philosophy, through postulated development goals and highlight the leverage effect of mixing public and commercial funds. As a result of the Arrangement's disciplines, tied soft loans are mainly used to finance commercially non-viable projects in public sectors, such as health, water and sanitation, education or infrastructure. The resulting focus on the provision of public goods which are considered to be key to development gives tied soft loans their assumed development relevance. Given the officially stated motivation of contributing to *economic development and welfare* in developing countries and complying with the 25 % grant element threshold set by the Development Assistance Committee (DAC), the concessional part of a tied soft loan becomes ODA-eligible and contributes to a donor's overall ODA performance.

The described status between export promotion and development policy makes tied soft loans subject to tensions stemming from the polyvalent interests of the actors involved. Whether the ambitious aim of achieving dual goals with a single instrument leads to efficiency losses with regard to the achievement of both goals remains largely unaddressed in official statements of the programs. However, following Jan Tinbergen, who demonstrated that each policy goal needed its own policy to be efficiently achieved (Tinbergen 1986: 14), this assumption behind tied aid programs requires profound examination.

Recent debates on aid and development effectiveness – as they are reflected in the Declarations of DAC High Level Meetings in Paris, Accra and Busan – are closely intertwined with a formal consensus on the untying of aid as well as the call for Policy Coherence for Development (PCD). Hence, part of the ideas of what encompasses *sound* development policies is a widely recognized *consensus* among the DAC members that “[...] removing the legal and regulatory barriers to open competition for aid funded procurement [...] generally increases aid effectiveness by **reducing transaction costs and improving the ability of recipient countries to set their own course**. It also allows donors to take greater care in aligning their aid programmes with the objectives and financial management systems of recipient countries”¹.

In light of these developments, the defining features of tied soft loans need to be critically examined. The latter have increasingly come under pressure to justify their very existence, which has pushed several OECD countries to either end their tied soft

1 OECD/DAC: <http://www.oecd.org/dac/untied-aid/untyingaidtherighttochoose.htm>; emphasis added

loan schemes (mainly mixed credits), untie these or at least evaluate their programs (Clay et al. 2009). The first part of this study provides a conceptual analysis of the international design of tied soft loans in the context of recent debates on an overhaul of the concept of ODA and on development finance more generally. The emphasis lies on the question of the extent to which the *Arrangement of Officially Supported Export Credits*, which gives tied soft loans their basic design, is in line with today's political framework for the OECD's development policy. Based on an analysis of the genealogy of the rules governing tied aid credits², this *hybrid* instrument and its potential relevance for development policy will be assessed along the DAC's standards and guidelines.

In the second main part of this study, after having considered the international framework for traditional tied soft loans, attention is shifted to the differences in implementation at the national scale. This appears necessary for at least two reasons: 1) Actually, the international regulatory framework leaves considerable room for maneuver to the national implementing agencies, in particular with regard to the development orientation of the institutional setting as well as of potential projects. 2) Over time new forms of soft loan financing have been practiced, which are not covered by the existing framework, mainly because they are de jure not conditional upon the procurement of goods and services from the donor country. While tied soft loan programs had been in place in the majority of OECD countries up to the late 1980ies/early 1990ies, the programs and their successors have evolved into different directions over the past two decades, particularly since the adoption of the tied aid disciplines under the Helsinki Package of the *Arrangement on Officially Supported Export Credits*. As a result profound analysis of national implementation strategies of Arrangement terms and analogous programs is required in order to substantiate and potentially differentiate the findings derived from the international institutional and regulatory framework. For this purpose, the second part of this study is dedicated to analyzing and comparing soft loan programs (and one grant facility respectively) of four selected OECD donor countries with regard to their development orientation.

1.2. Research Questions and Aim

The overall research aim is to assess the relevance of soft loans as an instrument of development policy and finance, respectively, by means of a comparative analysis of soft loan programs of four OECD donor countries. Due to the hybrid nature of tied soft loans, corresponding policies draw on two fields of reference – export promotion and development policy – and claim to bridge these. In PART II of this study, the emphasis will be put on examining the coherence of tied soft loans in their basic design (i.e. the tied aid disciplines of the *Arrangement on Officially Supported Export*

² "Tied aid credit" is the *terminus technicus* used in the *Arrangement on Officially Supported Export Credits*.

Credits) with the reference field of development policy or more precisely, the DAC's guidelines and principles for development policy. PART III aims at an analysis of the extent to which development "safeguards" are built into the design and practice of national soft loan policies in four European donor countries. On the basis of the case study analyses, the programs will be compared with regard to their development orientation. Ultimately, possible future scenarios for the development of the field of soft loan financing shall be inquired in the context of the dynamically changing international politico-economic landscape.

The main research question and sub-questions of the study are:

- (1) To which extent are development policy aspects integrated into the design of soft loan policies at the international level, particularly in the Arrangement on Officially Supported Export Credits? Are tied soft loans consistent with the OECD's standards and principles for development policy?
 - 1.1. *Which role did development policy aspects and interests play in the historical genesis of the Arrangement on Officially Supported Export Credits in general and its tied aid disciplines in particular?*
 - 1.2. *To what extent are the resulting tied aid disciplines, which give tied soft loans their basic design, coherent with the OECD's standards and guidelines for development policy?*
- (2) To which extent and in which ways are development policy aspects integrated into national soft loan programs in selected OECD countries?
 - 2.1. *How are development policy aspects articulated in the institutional set-up, decision-making processes, project evaluation procedures as well as transparency and accountability principles of the national soft loan programs?*
 - 2.2. *Which commonalities and differences exist between national soft loan programs in particular with regard to program characteristics and objectives, institutional arrangements and development orientation?*

The relevance of this study *inter alia* lies in the importance of bringing transparency into the field of tied soft loans, which have been widely neglected by academic research so far. It is to be understood as a door-opener, laying the scientific foundations for further in-depth research. Also, against the background of the untying targets agreed upon by the "international development community" – or rather the member states of the DAC – this study makes a valuable contribution in that it examines one important element of the tying toolkit, namely tied soft loans. While other forms of tied aid, especially tied food aid – as such exempted from the DAC Untying Recommendation –, have received considerable academic attention, tied soft loans remain largely

below the academic radar. So far, many questions on the development orientation of tied soft loans as well as of untied successor programs in some countries have remained unanswered by the existing literature.

1.3. Methodology

The study adopted an applied approach aiming at gathering policy relevant findings with regard to the development orientation of soft loan financing. Overall, a mix of qualitative and quantitative methods was chosen to collect and interpret data stemming from a variety of sources, both primary and secondary. Apart from the analysis of the existing academic literature, the study relies on primary sources, such as official and policy documents, homepage content, OECD archive footage as well as transcripts of expert interviews. Likewise, statistical data analyzed were extracted from different sources, including the Participants' notification system (archive footage), the DAC's aid statistics databases as well as national statistical databases in the case study countries.

1.3.1. Desk Research and Literature Review

In a first step, information on soft loan financing at both the international and the national level was gained – to the extent available – by means of extensive desk research. In particular, the conceptual framework analyzed in Chapter 3 of this study draws on literature analysis of OECD publications, NGO reports and the existing academic literature.

Yet, when doing some first research in (digital) libraries and relevant journals in order to get an overview of the state of research on (tied) soft loans, we were puzzled to find only very little academic literature: some OECD publications on the occasion of the Arrangement's anniversaries (OECD 1998, 2008, 2011b), a few academic papers dealing with export credits thereby briefly touching upon tied aid credits (Evans 2003; Hall 2011; Levit 2004; Moravcsik 1989; Morrissey 1998; Rosefsky 1993) and some books, the majority of which were written by (former) OECD representatives and none of which were available in Austrian Libraries. Therefore, a review of the academic literature on tied soft loans in general and even more so from a development perspective provided unsatisfying results.

By far the most comprehensive publication on the genesis of tied soft loans is John Ray's book "Managing Official Export Credits: The Quest for a Global Regime", published in 1995. This contribution is insightful in the full sense of the word – John Ray headed the Division of Financing and Other Export Questions in the Trade Directorate (today Trade and Agriculture Directorate) of the OECD and provides the reader with observations made from inside the organization.

In line with the wide neglect of tied soft loans by academia, there are only few relevant publications on tied soft loans in Austria. The most notable contribution concerning the topic in question is a study commissioned by the Oesterreichische Kontrollbank (OeKB) and conducted by the Austrian Institute of Economic Research (WIFO) in 1992 (Bayer/Stankovsky/Url). A follow-up study was done by Url (2003), which has not been publicly released. Both studies take the perspective of national donor industries and their situation regarding competitiveness. Furthermore, there are some individual diploma theses available, which approach the issue from a donor economic angle (Handrich 1992) and provide a case study of an Austrian company using soft loan finance (Egger 1997). A more recent diploma thesis focuses on the treatment of environmental aspects in project assessment by the Austrian Export Credit Agency (OeKB) (Breuss 2005).

In contrast, the academic literature dealing with the incentives for and consequences of tying aid is rather extensive, but one-sided³. Most authors dealing with tied aid in general (and not tied soft loans in particular) are neoclassical economists who make use of macro-economic modelling to show the overall welfare-loss in the tied compared to the untied scenario (Jepma 1991; also Chilchiniski 1983; Bhagwati et al. 1983; Kemp/Kojima 1985; Schweinberger 1990; Jepma 1991; Hatzipanayotou/Michael 1995; Lahiri/Raimondos 1995; Brakman/van Marrewijk 1995; all quoted in Clay et al. 2008). Explanations for ODA allocation from a microeconomic perspective are given by Michaelowa (1998), for instance.

With the exception of some publications in the wake of the 2001 Untying Recommendation (e.g., Arrowsmith/La Chimia 2009⁴; La Chimia 2004; Petermann 2013), there seems to have been peaceful silence surrounding the issue of tied soft loans since around 2000. While large projects supported by traditional export credits have repeatedly been caught in the crossfire of NGO criticism for their negative environmental and societal impacts, tied soft loans have largely been neglected by civil society. In contrast to, or maybe as a result of, the limited academic and civil society interest in tying practices, the OECD itself has published several reports on the issue.

As the conceptual first part of this study was in the process of being finalized, Jan-Henrik Petermann's dissertation "Between Export Promotion and Poverty Reduction" (2013) was published by Springer publishing. Although not specifically focusing on tied soft loans, he investigates the "foreign economic policy of untying Official Development Assistance" in general. The almost 500-page publication shows the relevance of the research topic and illustrates the timeliness of studying tying practices.

³ Jan-Henrik Petermann's review of key literature comes to similar conclusions (Petermann 2013: 38-41). The author states that political science has so far largely neglected the (un)tying issue (ibid.: 39).

⁴ Arrowsmith/La Chimia (2009), for instance, explore the possibility of integrating untying or rather anti-tying provisions into the legal EU and WTO frameworks governing public procurement (see also Petermann 2013: 38).

Astonishingly, the academic literature on the OECD itself has also proved to be limited and was not very helpful in identifying, for instance, power (im)balances between different Directorates (in this case the Trade and Agriculture Directorate and the Development Co-operation Directorate respectively) and groups subordinate to them. Literature on the very functioning of the Organization reaching beyond a mere description such as given in official OECD publications would have been useful in understanding the dynamics between the two divisions being researched. This lack of academic literature on the OECD is even the more puzzling considering the Organization's political influence as well as in light of one of its fundamental pillars: transparency. Similarly, Jakobi and Martens (2010c: 269) say: *"In fact, the organization is probably most prominently known for the data it produces despite the fact that we know little about how it is produced"*.

Although the OECD produces vast amounts of data that are widely cited and used, surprisingly, only little is known about how this data is produced in the first place. The DAC and its ODA statistics figure as prominent examples for this discrepancy between being a "knowledge producer" on the one hand and being the subject of research on the other hand. Practically the entire donor community relies on publications and statistical records produced by the DAC, but hardly any academic literature has so far dealt with the inner workings of the DAC, asking about dynamics behind drafting DAC policies, or how in-and outside influences and "ideological motivations" are shaping them. Some of the few publications on the OECD in general, touching also upon the DAC, are the books/volumes by Mahon/McBride (2008), Martens/Jakobi (2010a), and Woodward (2009).

The lack of relevant literature was challenging at various stages of the research project and unfortunately did not always allow for cross-checking of statements gained from interviews and comparing them with findings in the established literature. Closing these considerable gaps lies beyond the scope of this study. However, this study sets itself the modest goal of at least identifying relevant future research topics on the OECD that could considerably enhance our understanding of the processes shaping policy outcomes, e.g. in the form of OECD recommendations and their (potential) transfer into national policies.

In addition to the unsatisfying situation concerning the literature, initial research was made difficult by incoherent wording, insufficient differentiation between "traditional" export credits and tied soft loans and loopholes in statistical recording due to the legal frameworks (or political calculus) in certain countries. Accordingly, the findings presented in this study have to be interpreted in light of these constraints.

1.3.2. Field Research

Data on the international framework was mainly gathered in June/July 2012. During a research stay in Paris, the OECD archives were consulted and expert interviews were conducted. Information for the case study analyses, including field-visits to Denmark, Germany and the Netherlands, were collected between September and December 2013. Changes which have occurred in the meantime are considered only to a limited extent in this study.

While the conceptual framework analyzed in Chapter 3 of this study mainly draws on literature analysis of OECD publications, NGO reports and academic literature, the subsequent chapters of Part II follow a historical approach borrowing from both document and qualitative content analyses (see Mayring 2004: 266-270). From a historical vantage point it becomes possible to see the interlinkages between the two fields of reference, which have shaped the design of tied soft loans over the past decades. Essentially, this constitutes an attempt to understand the concerns that have driven the actions of the two main groups regulating tied aid credits – the Participants Group and the DAC. By combining the findings of this document analysis with the expert interviews with OECD officials, who dealt in one way or another with tied aid financing, development policy aspects in the Arrangement will be assessed and DAC positions on the issue over time will be examined.

Expert Interviews

In view of the limited academic literature on soft loans in general and tied aid credits in particular, expert interviews appeared to be an appropriate method of collecting information on the instrument and a way of entering the complex interface of export promotion and development policy. With the help of (semi-structured) expert interviews information was gained on both the genesis and status quo of tied soft loan policies and the national implementation practices in the case study countries. Furthermore, interviews provided an insight into the interviewees' perception of the usefulness of soft loans as an instrument of development policy. In order to get a comprehensive picture of soft loan financing, experts with varying institutional backgrounds were selected. With regard to the export promotion and development policy perspective a balanced choice of the interview partners was made. Interviews with employees of governmental institutions, financial organizations, Non-Governmental Organizations (NGOs) and academia in the case study countries were at the core of the methodological mix applied in Part III of this study.

All interview extracts have been made anonymous. In order to distinguish statements taken from different interviews, numerical codes have been attributed, i.e. Interview I, II, A1, A2, etc. Where critical for the interpretation of the quote, the institutional background of the respective interview partner is mentioned to place the statement in its

respective context (Flick 2009: 140). A list of all interview partners is provided in the Annex.

Collection and Analysis of OECD Archive Footage

As briefly mentioned above, Part II of the study relies heavily on OECD archive footage in order to properly and comprehensively address the first set of research questions.

*“[...] A]rchive sources are an important, and all too often neglected, source of useful information about development processes and practice, **the evolution of and shifts in policy formulation**, debates amongst development practitioners and analysts, and so on. Archives can provide what a reliance on contemporary-focused documents and other participatory research methods can sometimes leave out: **the long-term context of a particular programme or policy**” (Jennings 2006: 241; emphasis added).*

By considering the main research goals of Part II of finding out about the role of development aspects and motivations in the genealogy and the contemporary design of tied soft loans, analyzing documents from the OECD archives appeared to be the most valuable method, despite the heavy workload associated with the processing of the collected documents. Furthermore, as tied soft loans are subject to “rule sets” of two separate groups linked to different degrees to the OECD’s Trade and Agriculture Directorate and Development Co-operation Directorate, respectively, analyzing archive material was expected to *“[...] break down the image of the organization as monolithic entity and reveal the divisions and contested notions that lie at the heart of institution[s]”* (Jennings 2006: 249). This leads Jennings to conclude that *“[t]he archive reaches into the inner most sanctums where dissent, debate and discussion exist. The archive allows the private voice to emerge from behind the public face”* (Jennings 2006: 244; emphasis added).

Following this role attributed to archive documents, the analysis of the retrieved files was expected to give an insight into the interests and political dynamics that have shaped today’s regulatory framework for tied soft loans. It needs to be considered as an attempt to de- and subsequently reconstruct the existing set of rules, which is understood as the result of long-lasting and difficult negotiations between different interest groups.

Documents from the years 1978 to 2005 were retrieved, in hope that this would allow us to trace tied soft loans back to their roots and to assess the role of development aspects in their evolution. Furthermore, special attention was paid to the period immediately before and after the adoption of the so-called Helsinki Package in 1992 up to the release of the first *Ex Ante Guidance for Tied Aid* in 1996. Prior research had demonstrated that these were the major innovations in the regulatory framework with regard to potential development content of the rule set. Content wise, the research

was restricted to the work of three major bodies: the Export Credit Group (ECG), the DAC Working Party for Financial Aspects of Development Assistance (DAC/FA) and the Participants Group (PG). This selection was made on the basis of prior knowledge of the institutional setting gained through both, OECD publications and first interviews. Documents prior to 1990/1991 were stored on microfiche and retrieved from the archives staff on our request. These were skim read in the archives and directly scanned. Due to time constraints, a first sorting out of documents available on microfiche was done already in the archives by reviewing the agenda of the respective meetings. Consequently, no claims to completeness⁵ are made. From 1991 onwards OECD documents have been digitalized, which made the research process easier and allowed to proceed via word search functions in OLIS and retrieve the relevant documents electronically. Put in place in 1990 (see DAC/FA/M(90)1(Prov.): 4), OLISnet⁶ provides the possibility of searching with the help of key words and key word chains such as “tied aid credits – development”. Following this first step, which allowed us to gain an overview of the main topics discussed within both the Participants Group and the DAC/FA, documents were selected on grounds of their expected explanatory power. To a certain extent, a “gather as much as possible” philosophy was followed because returning to the archives at a later stage of the research was not an option. The flip-side of this strategy was that the great amount of material retrieved considerably complicated the subsequent analysis and interpretation.

Initially, more than 1500 documents of three groups – the DAC Working Party on Financial Aspects of Development Assistance (DAC/FA), the Export Credit Group (ECG) and the Participants Group (PG) – were retrieved. A first screening of the documents as well as hints by interviewees, however, resulted in putting the research focus on the Participants Group and the DAC/FA, largely leaving aside parallel discussions in the ECG.

All of the documents retrieved follow, to varying degrees, the purpose of documenting discussion processes and outputs within the respective groups and are not per se produced for an “external” audience. The fact that they are rather “inward-bound” is reflected in the highly technical language used. Wolff argues that “[a] major part of official documents [...] are intended only for a defined circle of legitimate or involved recipients” (Wolff 2004: 284). This idea is reflected in classification levels attributed also to OECD documents. This means that they are categorized according to their

⁵ Furthermore discussions within other Working Parties or groups, for instance, the Development Committee Task Force on Non-Concessional Flows, touching upon the borderline of export and tied aid credits were not considered in our analysis.

⁶ OLIS is “a restricted online portal providing remote access to committee information and discussion groups where they can mingle with the secretariat and their counterparts abroad” (Woodward 2009:53). According to the OECD homepage, “[n]ational delegates use OLIS to interact with the Secretariat in preparation for Committee meetings. Other policymakers use the service to research the OECD information banks – including publications, statistics, document archive and committee work-in-progress”. For further information on OLIS please see <http://www.oecd.org/general/olis.htm>

degree of “confidentiality”. Classification levels of documents range from “secret” ones, which are strictly confidential and accessible only for members of the respective group, to “unclassified official” documents, which can be accessed by the wider public either by searching the archives in case of microfiche documents or on the OECD database⁷ in the case of digitalized documents. In between, there lies a range of “confidential” and “restricted” documents. With the exception of documents classified “secret”, the classification level attributed to documents changes over time. After a period of seven years, OECD documents can be accessed for research purposes. As a result of these regulations, most documents used here date back to the year 2005 and prior. After 2005 only official documents were accessible. Notably, these classification policies seriously restricted the availability of statistical information on project notifications made by the Participants. In addition, a considerable number of documents from Participants’ meetings that we requested have been held confidential to the present day and, therefore, could not be retrieved – a peculiarity of the Participants Group. It needs to be kept in mind that the documents used hereafter constitute only pieces of the puzzle. The lack of information on contextual circumstances, a characteristic of most of the documents, combined with the very specific use of wording, which had been developed by groups of experts in a very specialized field and which were not streamlined across groups, represented a major challenge to interpreting them.

The extensive amount of archive material consisting mainly of Aide-Memoires, Chairman Proposals and Notes by the Secretariat were coded and analyzed with the help of Atlas.ti, a QDA software that supports qualitative data analysis and is especially suited to process large amounts of data.

Choice of Case Study Countries

As part of a comparative case study analysis the soft loan policies and programs of Austria, Denmark, Germany and the Netherlands are assessed with regard to their development orientation. The selection of the case studies is based on the following three main criteria:

- Criterion 1:** *European financiers with large funding volumes (Austria, France, Germany, Spain, the Netherlands)*
- Criterion 2:** *Open economies that pursue export-oriented policies (Austria, the Netherlands, Denmark, Germany)*
- Criterion 3:** *States that are generally considered pioneers in the field of development assistance (the Netherlands and Denmark)*

⁷ The OECD database of official documents can be accessed at <http://search.oecd.org/officialdocuments/>

By assessing the three criteria we opted for a sample of the following four countries: Austria (1,2), Denmark (2,3), the Netherlands (1,2,3), Germany (1,2).

As part of its export promotion policies, *Austria* – a small and open economy – offers tied soft loan financing in accordance with the Arrangement on Officially Supported Export Credits. Prevailing low interest rates as well as the current split of competences have triggered discussions on the future of this hybrid instrument. The latter are taken as a point of departure for an inquiry into the functioning of the soft loan system in place. *Denmark* is amongst the countries with a proven commitment to development cooperation. In addition, it is a country that shares some characteristics with Austria (small, export-oriented economy), which makes it particularly interesting from an Austrian perspective to learn about the Danish policies in the field of soft loan financing. *The Netherlands* – a small and open economy as well – constitute a peculiar case in the chosen sample. The comparability of macroeconomic indicators and the country's export orientation notwithstanding, the Dutch programs differ in two essential characteristics: they are provided in grant form and they are in their majority officially untied. Furthermore, the Dutch development finance system currently is under reconstruction, possibly indicating one conceivable avenue for developments in the field of soft loan financing more generally. Due to the country's economic and political weight in Europe, *Germany* figures as an important point of reference in economic and development policy discourse (especially so for small open economies such as Austria). Thus, its chosen path of providing de jure untied soft loan financing is well worth studying. Furthermore, recent criticisms voiced by DAC peers with regard to Germany's reporting of loans as ODA and the associated debate about "concessionality in character" gave further relevance to an assessment of German Financial Cooperation.

Notably, as a result of their partially de jure untied character not all of the programs analyzed fall within the scope of the Arrangement on Officially Supported Export Credits. In this respect, the choice of case studies encompasses a variety of institutional arrangements and reflects the heterogeneity prevalent in the field of soft loan and concessional financing.

1.4. Structure of the Publication

This study consists roughly of four parts, combining explorative with analytical chapters.

In **PART I**, which comprises Chapter 1 and 2, key terminology is defined and the foundations for the subsequent analysis are laid.

PART II – Chapter 3 to 8 – turns to the historical evolution and institutional structure of tied aid in general and of tied soft loans in particular. The latter will be traced back to their roots in the export credit race of the early 1980ies. This will allow to grasp the deep linkages of the instrument with traditional export credits and the initial aim of

gaining competitive advantage for domestic companies via tied aid practices. It is only in the light of these early motivations and the resulting concern about trade distortion that the contemporary set of rules governing (tied) soft loan financing can be understood. Looking back at the history of tied soft loans will demonstrate that at the international level they have been designed from a liberal economics' perspective striving first and foremost to eliminate trade distortions. In parallel, this part aims at exploring the role and influence of the DAC in the making of today's rules governing tied soft loans and the resulting indications of development aspects in the Arrangement on Officially Supported Export Credits. After the statistical analysis of the evolution and geographical as well as sectoral distribution of tied soft loan flows (notifications), the compatibility of the existing rule set with principles of development cooperation as stipulated by the DAC will be assessed.

Following this inquiry into the international framework which gives tied soft loans their basic design, in **PART III**, comprising Chapter 9 to 13, the implementation of and deviations from these international guidelines at the national level will be examined. For that purpose, soft loan policies of four European donor countries (Austria, Denmark, Germany and the Netherlands) will be analyzed and the development orientation of the respective programs will be assessed. In the analysis of the respective case studies, attention will be given above all to the extent to which development policy actors are involved and development aspects are considered at both institutional and policy levels as well as in the implementation of programs, i.e. to the level of project selection and approval.

PART IV – Chapter 14 and 15 – will provide a comparative analysis of the case studies with regard to their development orientation and will present the main conclusions of the study. Ultimately, taking recent developments in the wider context of international development finance into account, potential future scenarios for the field of soft loan financing will be explored.



2. Preparing the Grounds: Definition of Key Terminology

“Words mean what I say they mean”

(The Red Queen, Alice in Wonderland; quoted in Raffer 1998: 1)

Today's development finance reaches far beyond the Cold War image of aid, which could be described as one of wealthy northern states transferring aid flows either directly or via multilateral channels to southern developing countries, and has come to encompass a myriad of private and public actors not necessarily divided along the north-south line. While Official Development Assistance (ODA), both bilateral and multilateral, still holds a prominent position in the field of development finance, increasingly claims have been made that other and more innovative forms of financing for development are needed if profound changes are to occur in the international system (Atkinson 2004; Ketkar/Ratha 2009; OECD 2005: 30). Despite the acknowledgement of the fact that ODA constitutes only one component of the broader field of development finance, as a result of its research questions this study will focus on official bilateral aid flows. Soft loans claim their place not only among the instruments of development finance but of official development assistance. As a result the criteria established by the DAC for determining official development assistance as well as the development policy standards set at the OECD level constitute the most appropriate tangible benchmark against which tied soft loans can be assessed.

The fact that tied soft loans, or the concessional element thereof, are eligible as Official Development Assistance, is the most visible sign and direct link between the two sets of goals united in this policy instrument and illustrates the instrument's *position* in-between two policy areas – export promotion and development policy. In a first step, this chapter thus defines the concept of Official Development Assistance. In a subsequent step, a working definition of “tied aid credit” and “tied soft loan” will be given and its relation to other key terms, namely “soft loan” and “associated financing” will be explained.

2.1. The Concept of Official Development Assistance

Understanding the concept of Official Development Assistance and the way the ODA numbers, which give the concept its political meaning, are produced is critical for any analysis of the relevance of tied aid credits as an instrument of development policy. Clearly, accounting modalities do frame behavior and the resulting numbers are used

not only by academics and evaluation bodies to discuss aid effectiveness (Severino 2010: 128, 129), but they also build the basis for international targets, such as the 0.7 % of gross national income (GNI) target, which considerably shape today's development discourse. According to Renard and Cassimon (2001: 1) this *"political importance of statistics makes them [...] liable to efforts at 'embellishment'"*.

The Development Assistance Committee (DAC) was created in 1961 as a separate institutional branch within the OECD and was given the mandate to *"[...] perform the core functions of research and coordination among member states in the field of international development"* (Petermann 2013: 211). The DAC is responsible for the formulation of quality standards and the sharpening of definitions of various types of Official Development Assistance. Its Secretariat manages statistical reporting on aid commitments and disbursements and provides scientific analyses of development issues, recommendations for national policy making, monitoring and evaluation. An essential instrument of mutual monitoring used by the Committee is the so-called peer review process. Furthermore, as early as in 1962 the so-called "OECD Development Center" was created to supplement the exchange of views and foster debate between various stakeholders (Petermann 2013: 211).

The DAC is not only one of the main driving powers of international development discourse, but also dominates international development co-operation in quantitative term. Its 22 member states plus the European Commission make for approximately 90 to 95 % of all ODA allocated worldwide (Petermann 2013: 211; Ruckert 2008: 100). The core measurement used to describe a country's commitment to international development is the share of national income devoted to ODA, ODA as percentage of GNI.

Since its inception in 1961, it has been one of the main tasks of the committee to measure resource flows to developing countries, both concessional and non- or low-concessional ones, stemming from public and private sources. In view of the general mandate of the DAC, special attention, however, has been given to the official and concessional part of these flows, labeled Official Development Assistance, in short ODA⁸. ODA was first defined in 1969, when the older concept of "Official Flows" was separated into two new categories: Official Development Assistance (ODA) and Other Official Flows (OOF). These common roots of what is known today as OOF and ODA will be important in the context of tied aid credits. In 1972, the definition of ODA was slightly revised, when the minimum grant element was increased from 20 to 25 %. Ever since, both the basic criteria as well as the method of computation have remained unchanged (Ray 1995: 59 et seq.).

⁸ In the DAC's usage of the term, ODA is largely synonymous to "aid", whereas in the Participants' wording "aid" refers to official state support, regardless of whether it comes from the aid budget and is ODA reportable or not. See [http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm](http://www.oecd.org/dac/stats/officialdevelopmentassistance/officialdevelopmentassistancedefinitionandcoverage.htm)

In short, Official Development Assistance comprises grants or loans to developing countries and territories defined by the *DAC List of ODA Recipients*. These grants or loans are carried out by the *official sector* (official agencies, including state and local governments, or their executive agencies). The main objectives of ODA transactions are *the promotion of economic development and welfare of developing countries*. They are provided at concessional financial terms, which means that they have to convey a “*minimum grant element of 25 percent and be concessional in character*” (DCD/DAC(2010)40/REV1: 11; emphasis added).

The concept of ODA has become the “[...] *key measure used in practically all aid targets and assessments of aid performance*”⁹. The DAC’s “*double monopoly on data production and performance evaluation*”, to speak in Raffer’s terminology, has hardly ever been seriously challenged¹⁰ (Raffer 1998: 2). The political importance attached to the concept is probably most prominently illustrated by the self-obliged target of the international donor community of investing 0.7 % of GNI in development assistance to be met by 2015. Understanding the *nature* of the ODA concept, which has become far more than a statistical term, is thus crucial if one wants to follow basically any debate on development co-operation, be it at the national, regional or international level.

The DAC defines ODA the following way:

“[T]hose flows to countries and territories on the *DAC List of ODA Recipients* and to multilateral institutions which are:

- (i) **provided by official agencies** including state and local governments, or by their executive agencies; and
- (ii) each transaction of which:
 - a. is administered with the promotion of the **economic development and welfare of developing countries** as its main objective; and
 - b. is **concessional in character** and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).”¹¹

The conditions subsumed in criterion (i) of the above definition are rather straightforward and compliance therewith is relatively easy to assess. Likewise the Statistical Reporting Directives provide a list of ODA eligible multilateral organization and inter-

⁹ OECD/DAC: <http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm>

¹⁰ Alternative approaches to measuring aid flows have been proposed, for instance, by Chang et al. (1999) (World Bank) in form of the so-called Effective Development Assistance. This idea is also investigated by Cassimon/Renard 2001. Furthermore, the Center for Global Development (cgdev) produces on a yearly basis the so-called Commitment to Development Index (CDI) as an alternative measurement. “The index rates governments on aid, trade, investment, migration, environment, security, and technology, and averages the seven for an overall score”. For further information please see the homepage of the Center, <http://www.cgdev.org/initiative/commitment-development-index>

¹¹ OECD/DAC, <http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm>

national Non-Governmental Organizations in the annex. Furthermore, the OECD lists developing countries and territories which are eligible as recipients of ODA. The DAC categorizes countries in four groups according to their gross national income (GNI) per capita in USD. The current list, last updated in 2011¹², defines countries or territories with per capita incomes below USD 12,275 (in 2010) as potential ODA recipients (OECD/DAC 2012a).

In contrast to these rather clear-cut criteria on the eligibility of recipient countries or institutions, the criteria defining the eligibility of the transaction/flow itself (above subsumed under (ii)) are ambiguous and require further examination. While this section has demonstrated *where* flows must go in order to qualify as ODA, it will now be shown *which* flows are reportable.

2.1.1. Economic Welfare and Development as the Main Objective

This criterion which rests on underlying motivations and intentions is often the decisive one in determining the ODA-eligibility of a transaction and is informally also referred to as “motivational test” (Consultation Meeting X). In order to ensure that the decision is not merely subjective and “arbitrary” certain additional criteria were adopted, for instance, military aid is excluded, assistance to refugees, in contrast, is reportable (OECD/DAC 2008¹³). Despite these clear-cut limits on ODA, the criterion comes down to a matter of intention and thus leaves broad discretionary powers to decide whether a transaction is administered with contributing to the development of the recipient as main objective. In particular, the official definition does not give any guidance on how to proceed in the case of multiple officially stated goals as in the case of tied aid credits. For the time being, it appears that the institutional framework is used as a proxy of the motivation for making a transaction. Thus, it is likely to depend on the mandate of the agency administering the flow, whether the latter is considered to be trade/commercially or aid/developmentally motivated (Consultation Meeting X).

2.1.2. Concessional in Character and a Minimum Grant Element of 25 %

Criterion ii) b) of the DAC’s ODA definition states that a transaction must *be “concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)”* (OECD/DAC 2008).

The rationale underpinning the concept of ODA is that it should reflect a donor’s budgetary effort *“in favour of a developing country”* (OECD/DAC 2008). The DAC approach is based on a calculation of the *“opportunity costs to donors of using funds for aid loans* as opposed to other uses, e.g. domestic investment” (DCD/DAC/FA

¹² Currently, some DAC members have increasingly expressed their interest in discussing the possibility of a revision of the DAC’s list of ODA eligible countries and territories. See for instance OECD/DAC 2014.

¹³ For the whole list excluded/reportable activities, please see the factsheet, available at <http://www.oecd.org/dac/stats/34086975.pdf>

(2002)2: 3). Thus, the grant element “[...] is **not intended to reflect any measure of the benefit to recipients, for instance, compared to other financial sources**” (DCD/DAC/FA(2002)2: 4, original emphasis). This budgetary effort is to be assessed with the help of the grant element calculation.

The grant element measures the “softness” of a loan and reflects three factors: the interest rate, grace period (the interval from the commitment date of the loan to the date of the first payment of amortization), and maturity (interval from the commitment date to the date of the last payment)¹⁴. It is defined by the DAC as the “*difference between face value of the loan and the present value of the stream of repayments on that loan [...], expressed as a percentage of the face value*” (Kuhn et al. 1995: 36). The present value of the borrower’s payments is calculated on the basis of a uniform 10 % discount rate, applied to all currencies (DCD/DAC(2010)40/REV1: 9 et seqq.).

Both the 25 % grant element threshold as well as the 10 % discount rate were recommended by the DAC Working Party on Financial Aspects of Development Assistance and adopted at the DAC High Level Meeting in 1972 as part of a *Recommendation on Terms and Conditions of Aid* (DCD/DAC/FA(2002)2: 2). In the DAC Glossary it is explained that the 10 % discount rate¹⁵ “[...] was selected as a proxy for the marginal efficiency of the domestic investment, i.e. **as an indication of the opportunity cost to the donor**¹⁶ of making the funds available. Thus, the grant element is nil for a loan carrying an interest rate of 10 percent; it is 100 per cent for a grant; and it lies between these two limits for a soft loan¹⁷”.

Today, with long-term interest rates in most OECD member countries well below 10 %, attaining the 25 % grant element has become much easier (OECD/DAC 2008). Therefore, it is increasingly being questioned whether the required grant element presently calculated automatically ensures that flows are also “concessional in character” – as such being the third ODA-eligibility criterion mentioned in the above definition, but not benchmarked and hence difficult to assess. Not only have external observers increasingly drawn attention to the potential erosion of the ODA concept (for instance Chang et al. 1999; Raffer 1998; Renard/Cassimon 2001; Vanheukelom et al. 2012), but also critical voices have been raised from within the DAC. In April 2013 an open letter by Richard Manning, former DAC Chairman, was published in the Financial Times, in which he sharply criticized the DAC’s practice of recording loans by saying: “*The OECD is now quietly allowing large volumes of loans to be counted as ODA even though they **do not meet any reasonable definition of being***”

¹⁴ DAC Glossary of Key Terms and Concepts, <http://www.oecd.org/dac/dac-glossary.htm>

¹⁵ Analysis of the archive documents has shown that the choice of the appropriate discount rate has repeatedly been accompanied by discussions among the members of the DAC (see, for instance DAC/FA/M(82)(Prov.); DAC/FA(86)12); DCD/DAC/2002)4; DCD/DAC/STAT(2012)18/REV1).

¹⁶ This very assumption of the discount rate being an appropriate proxy for the opportunity cost to the donor also requires critical examination.

¹⁷ DAC Glossary of Key Terms and Concepts, <http://www.oecd.org/dac/dac-glossary.htm>; emphasis added

'*concessional in character*', which is the basis of the OECD's definition of aid" (Manning 2013¹⁸). Implicitly he criticizes those donors which argue that not only subsidized loans can be reported as concessional, but any loan given on more favorable terms than what the developing country could get on the market. Hereby, it is irrelevant whether this entails a budgetary effort of the donor (see also the reaction of Jon Lomoy, Director of the DCD-DAC to the letter by Richard Manning¹⁹).

Furthermore, Richard Manning urges to rethink the underlying discount rate and calls for a revision of the "*definition of concessionality that reflects the real cost of capital and requires real fiscal effort*" (Manning 2013). In a similar vein the DAC Working Party on Statistical Aspects (WP-STAT) is currently investigating the issue²⁰. One way of bringing the budgetary effort reflected in the grant element closer to the characteristic of "concessional in character" would be to adopt the Participants' method of computing their concessionality level on the basis of a market-based discount rate, the so-called DDR. This rate represents "*a proxy for the funding cost to the donor for making the funds available*" (DCD/DAC/STAT(2012)18/REV1: 2).

The concept of ODA as it is defined today – based motivations and built on concessionality – as well as its shortcomings will be crucial for the subsequent analysis of the developmental relevance and *potential* effectiveness of tied aid credits as an instrument of development policy.

2.2. Measures to Express Concessionality of a Loan: Grant Element vs. Concessionality Level

The grant element used by the DAC and the concessionality level applied by the Participants Group are two different measures to demonstrate the "softness" of a credit. Both measures reflect the same financial terms, i.e. the interest rate, maturity, and grace period of a commitment. The method to calculate the grant element and the concessionality level is the same. The difference lies in the discount rate applied. The DAC applies a fixed discount rate of 10 % for the calculation of the **grant element**, which was selected as "[...] *a proxy for the marginal efficiency of domestic investment i.e., as an indication of the opportunity cost to the donor of making the funds available*" (DCD/DAC/STAT(2012)18/REV1: 2). The Participants use a market-based

¹⁸ Manning goes as far as to suggest that the UN should take the lead in measuring international concessional flows, should the OECD not undertake the necessary steps to improve its statistics and regain credibility. The letter can be accessed under <http://www.ft.com/intl/cms/s/0/b3d73884-a056-11e2-88b6-00144feabdc0.html#axzz2U1AjlUfN>. Following Manning's letter the Guardian published an article with the title "The Value of Aid Overstated" see <http://www.guardian.co.uk/global-development/2013/apr/30/aid-overstated-donors-interest-payments?INTCMP=SRCH>

¹⁹ For Lomoy's article "Yes, it is time to revisit the concept of development assistance", see <http://insightsblog.oecdcode.org/?p=5554>

²⁰ See for instance the draft paper "Benchmarking Concessionality in Character: Draft Report, DCD/DAC/STAT(2012)20/DRAFT

discount rate, the so-called Differential Discount Rate (DDR) to calculate the **concessionality level**. The rate represents “[...] a proxy for the funding cost to the donor for making the funds available” (DCD/DAC/STAT(2012)18/REV1: 2).

The method to calculate the grant element as well as the concessionality level is as follows:

$$\text{grant element} = \text{the concessionality level} = \frac{(\text{nominal value of the loan} - \text{repayments at present value})}{\text{nominal value of the loan}}$$

The grant element and the concessionality level are expressed as the percentage of the nominal value of the loan, calculated by subtracting the present value of all expected future repayments, using a discount rate of 10 % (grant element) or the DDR (concessionality level), from the nominal value of the credit.

The present value of repayments is calculated as follows:

$$\text{present value} = \frac{\text{future value}}{(1+d)^t}$$

The higher the discount rate, the lower the present value of future repayments. Therefore, if the DDR is lower than 10 %, the grant element is higher than the concessionality level. Based on an example published by the DAC in 2012 (DCD/DAC/STAT(2012)18/REV1) the difference between the two measures using a fictitious loan will be demonstrated.

Example: Grant element vs. concessionality level

Table 1 and Table 2 are based on a fictitious loan with the same financial terms. The loan of 1000 units is committed and disbursed on the same day and has a credit period of 7 years. Its interest rate is 2.5 % p.a. and the grace period is 4 years. Repayments are made in equal installments every year as from year 4.

This example demonstrates that the discount rate applied assumes a decisive role in determining the concessional element or softness of a loan. In the given example the DAC’s grant element is calculated at 31 % and the Participants’ concessionality level at 7 % for the same financial terms. In extreme cases when the DDR which is based on current interest rates is very low, a grant element with a value of 25 % translates into a negative concessionality level.

Table 1: Calculation of the Grant Element Using a 10 % Discount Rate

Period (year)	Principal outstanding	Principal payment	Interest	Total future payments	(1+d) ^t d = 10 %	Present value of future payments
1	1000.00	-	25.00	25.00	1.10	22.73
2	1000.00	-	25.00	25.00	1.21	20.66
3	1000.00	-	25.00	25.00	1.77	14.11
4	1000.00	250.00	25.00	275.00	1.46	187.83
5	750.00	250.00	18.75	268.75	1.61	166.87
6	500.00	250.00	12.50	262.50	1.77	148.17
7	250.00	250.00	6.25	256.25	1.95	131.50
					Sum	691.87

Source: The example is based on DCD/DAC/STAT(2012)18/REV1

$$\text{Grant element} = (1000 - 691.87) / 1000 = 31 \%$$

Table 2: Calculation of the Concessionality Level Using a 4 % Discount Rate

Period (year)	Principal outstanding	Principal payment	Interest	Total future payments	(1+d) ^t d = 4 %	Present value of future payments
1	1000.00	-	25.00	25.00	1.04	24.04
2	1000.00	-	25.00	25.00	1.08	23.11
3	1000.00	-	25.00	25.00	1.12	22.22
4	1000.00	250.00	25.00	275.00	1.17	235.07
5	750.00	250.00	18.75	268.75	1.22	220.89
6	500.00	250.00	12.50	262.50	1.27	207.46
7	250.00	250.00	6.25	256.25	1.32	194.73
					Sum	927.53

Source: The example is based on DCD/DAC/STAT(2012)18/REV1

$$\text{Concessionality level} = (1000 - 927.53) / 1000 = 7 \%$$

Before turning to the analysis of the international framework regulating tied aid credits, some further clarifications on terminology have to be made. The next sub-chapter will break the ODA definition down to the concrete level of instruments and flows and explain the basic mechanisms of tied aid financing.

2.3. Soft Loans, Tied Aid Credits, Associated Financing: Almost the Same but not Quite?

*"As Confucius told the Prince of Wei some 25 centuries ago,
confused and diffuse definitions produce incoherent policies"*

(Ray 1995: 5)

Weak definitions and inconsistent terminology used by the Participants Group and the DAC Working Party on Financial Aspects of Development Assistance (DAC/FA), posed serious challenges at various stages of this research project. In order to avoid misunderstandings resulting from incoherent wording, this section provides a working definition of "tied aid credit" and explores its relation to other key terms such as soft loan, associated financing and mixed credit. In addition, the DAC's definitions of the core categories "tied" "partially (un)tied" and "untied" will be explained.

"Soft loan" can be considered a superordinate term for both tied aid credit and associated financing. The term "soft loan" per se has a very broad scope and designates any credit, the financial terms of which are more favorable than what the market would offer. They are considered to be soft because the credit is granted at concessional terms, that is, for instance, at lower interest rates (compared to market interest rates), with extended repayment periods or granting grace periods. In this broad definition any concessional credit can be subsumed under "soft loan", hence the term alone does not give any indication of the donor or recipient institution involved or the geographical situation (i.e. at home or abroad) – the sole defining criteria are the financial terms (Handrich 1992: 30, 31). Also the term per se does not allow to draw conclusions on the tying status of the loan.

Confusingly, the same term is also used in a much narrower sense. In the Austrian case, for instance, the term "soft loan" refers to the so-called "Rahmen-II-Kredite", which essentially correspond with the definition of *the Arrangement on Officially Supported Export Credits* of tied aid credits (see Box 1). In this particular case, the term "soft loan" is used largely interchangeably with "tied aid credit", with a clear preference in official material²¹ for the former over the later.

The main definition of **tied aid credits**, as used hereafter, is provided by the minimum conditions laid down in the *Arrangement on Officially Supported Export Credits*. Throughout this study the terms *tied aid credits* and *tied soft loans* are used synonymously, the former being the *terminus technicus* which is predominant in official documents at the OECD level. Following the Arrangement's eligibility criteria for tied aid, the so-called Helsinki tied aid disciplines, tied aid credits can broadly be defined as follows:

²¹ See, for instance, the section on soft loans on the homepage of the OeKB: <http://www.oekb.at/en/export-services/financing/soft-loans/pages/default.aspx>

In short, they are **tied** to procurement in the donor countries, contain an element of **aid**, i.e. official support and are provided as **credits**, requiring – as opposed to grants – repayment of debt. In a more sophisticated definition, tied aid credits might be defined as official, state supported credits that are tied to the procurement of goods and services in the donor country, contain a concessionality level²² of at least 35 % or 50 %, which in principle is ODA eligible, and can be used to finance commercially non-viable projects in a limited pool of recipient countries. In order to assess the eligibility of a project for tied aid the Arrangement introduces the following two key tests:

- *“whether the project is financially non-viable, i.e. does the project lack capacity with appropriate pricing determined on market principles, to generate cash flow sufficient to cover the project’s operating costs and to service the capital employed, i.e. the first key test; or*
- *whether it is reasonable to conclude, based on communication with other Participants, that it is unlikely that the project can be financed on market or Arrangement terms, i.e. the second key test” (TAD/PG(2013)1: 21).*

Box 1: Basic Characteristics of a Tied Aid Credit

- concessional long-term credit
- conveys a minimum concessionality level of 35 or 50 % if the recipient is an LDC
- is tied to procurement of goods and services in the donor country
- project is commercially non-viable
- limited pool of recipients (countries with a GNI p.a. below the upper limit for *lower middle income countries* according to World Bank data)

(TAD/PG(2013)1)

As a result of the minimum criteria and common characteristics (mainly the commercial non-viability) tied aid credits are especially used to finance large infrastructure projects that would not be undertaken on market terms, mainly in economically stronger developing countries that are expected to have sufficient debt repayment capacity and are commercially attractive for exporters. The definition of commercial non-viability such as stated in the Helsinki Package can be understood as a reaction to situations of market failures²³ and entails that primarily public sector projects which are thought to contribute to the improvement of economic welfare and thus to the

²² Just as the grant element, the concessionality level assesses the “softness” of a credit and reflects its financial terms i.e. the interest rate, maturity, and grace period of a commitment. While the basic method of computation is the same as in the case of the grant element, the uses discount rate is different. Unlike for the grant element, a market-based discount rate, a so-called differentiated discount rate (DDR) is used to calculate the concessionality level (DCD/DAC/STAT(2012)18/REV1: 2).

²³ An extensive discussion of the public goods, market failure, subsidy nexus is provided by Schweiger (2013).

overall objective of development are financed. Although no sectoral restrictions are made by the international regulatory framework, statistical evidence shows that projects eligible for soft loans are most frequently to be found in sectors such as water and sanitation, health, education, infrastructure and disaster prevention (Lammersen 1998: 63). As a consequence of this sectoral concentration in traditional public sectors with widespread influence on economic welfare, the budget funds attributed to the financing of soft loan projects are ODA eligible. Despite the fact that most “soft loan” programs officially declare the development of the recipient country in general as a major goal, the definition thereof seems – for the time being – to be reduced to the interpretation of the commercial non-viability of a project.

Tied aid credits such as defined in the Arrangement might be provided as single-source financing, i.e. taken from the donor’s resources and extended to the recipient as a single flow (TD/CONSENSUS/86.53; DAC/FA(86)12: 12), but mixed financing is also possible, meaning that the government funds are combined with a commercial credit that is extended either by an Export Credit Agency or provided by the capital market. In older DAC/FA documents, which this study will repeatedly draw on, mixed financing can further be divided into pre-mixed financing and associated financing (TD/CONSENSUS/86.53; DAC/FA(86)12: 13).

Box 2: Export Credit Agencies (ECAs)

Export Credit Agencies (ECAs) are the national institutions that undertake official export promotion activities (Kuhn 1995:6), i.e. by securing export transactions and export finance. Institutional arrangements and the structure of programs and terms of cover provided by an ECA vary considerably from country to country. ECAs can be part of a ministry, an independent governmental agency or a private company acting on behalf of the government. The latter is, for instance, the case in Austria, where Oesterreichische Kontrollbank (OeKB AG) – a specialized private bank – acts as agent of the Republic of Austria (Ministry of Finance) on the legal basis of the Export Promotion Act. Independently from the institutional setting, ECAs enjoy (varying but) generally high degrees of independence from their respective governments because they operate under charters that give them clearly defined powers and responsibilities. Nevertheless, they remain accountable to their governments (which finance them) and have so-called “guardian authorities” who are responsible for the overall policy formulation regarding official support. It is these “guardian authorities” that represent ECAs in most international fora such as the OECD (Kuhn et al. 1995: 6).

For a detailed description of the products and services offered by most ECAs see for instance Gatti 2008; Grath 2012.

The DAC speaks of **Associated Financing** whenever both ODA grants and loans are combined with any other funding to create financing packages. These packages have to meet the “*same criteria of concessionality, developmental relevance and recipient country eligibility as tied aid*”²⁴.

The definition of associated financing and its relation to tied aid are laid down in the *DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance* published in 1987 and has been used up to today. Following this definition “*associated financing with developing countries associates in law or in fact two or more of the following:*

- i) *Official Development Assistance*
- ii) *Other Official Flows with a grant element of at least 25 %*
- iii) *Officially supported export credits, other official flows or other funds with a grant element of less than 25 %* (OECD/DAC 1987: para. 3)

Such associated financing transactions may occur in the form of mixed credits, mixed financing, joint financing, parallel financing or single integrated transactions (OECD/DAC 1987: 2, para. 4). The OECD’s Glossary of Statistical Terms defines, for instance, a mixed credit as “[a] credit that contains an aid element, so as to provide concessional credit terms – such as a lower rate of interest or a longer credit period”²⁵. The main common characteristic of all these forms is that “[...] either the non-concessional or the concessional component or the whole financing package, is in effect tied or partially untied and that the availability of concessional funds is conditional upon accepting the linked non-concessional component” (OECD/DAC 1987: 2).

It goes without saying that the precise terms of the tied transaction or financing package have repercussions on how the concessional element might be or not be reflected in the DAC’s ODA statistics. Part II of this study is explicitly interested in those credits that are tied to the procurement of goods and services in the donor country. While this certainly is the case for tied aid credits, mixed credits might be tied, partially untied or fully untied. The DAC/FA’s usage of the term suggests that mixed credits are thought to be most likely tied, and are as such included in the analysis provided throughout this part of the study. For the definition of tied in contrast to untied aid, the Arrangement relies on the *DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance* (OECD/DAC 1987).

²⁴ DAC Glossary of Key Terms and Concepts: <http://www.oecd.org/dac/dac-glossary.htm>

²⁵ OECD Glossary of Statistical Terms: <http://stats.oecd.org/glossary/detail.asp?ID=5974>

Table 3: DAC Definitions of Tying Status of ODA, Other Official Flows and Officially Supported Credits

TYING STATUS CATEGORY	DEFINITION AND COVERAGE
UNTIED AID	Loans and grants whose proceeds are fully and freely available to finance procurement from all OECD countries and substantially all developing countries.
PARTIALLY UNTIED AID	Loans which are contractually or in effect tied to procurement of goods and services from a restricted number of countries which must include substantially all developing countries and can include the donor country.
TIED AID	All other loans and grants are classified as tied, whether they are tied formally or through informal arrangements.

Source: Clay et al. 2009: 5; definitions based on OECD/DAC 1987

While these definitions might seem quite straightforward, in reality, the borderline between them is blurry and difficult to assess (Jepma 1991: 20). Flows declared as “untied” might be de facto tied, i.e. through hidden contract clauses, by publishing calls for international bidding on national bulletin boards and in the donor’s official language only (Consultation Meeting X). The tying of aid has been a long lasting matter of concern within the DAC and one of the main debates shaping the Committee’s work since its very inception. In the past decade a minimum consensus was formalized among DAC donors saying that all other things equal untied aid is the most appropriate way of providing assistance. This seemingly broad donor consensus, coupled with other key concepts on *good* development policy, will be used in the subsequent chapter to set up a conceptual framework against which tied aid credit and soft loan policies will be assessed.

...

PART II

Historical Evolution and Institutional Structure of Tied Aid



3. The DAC's Development Agenda

This section will present and analyze the major debates on development co-operation that were framed by the OECD's Development Assistance Committee (DAC)²⁶ in the past two decades. The aim thereof is to identify key concepts of how development co-operation and policy should be designed so as to be of maximum effectiveness in recipient/partner countries. The conceptual framework derived from these debates will be used as benchmark against which tied aid credits will be assessed. Eventually, when compared with tied aid credit policies as framed by the Arrangement on Officially Supported Export Credits, this will also allow drawing conclusions on the OECD's internal coherence in the field of development policy.

As described in greater detail in the previous chapter tied aid credits have essentially three features: they are tied, they are credits (as opposed to grants)²⁷ and they contain a minimum grant element which – paired with an assumed development motivation and a concessional character – makes them ODA-eligible.

This chapter contextualizes these features and links them to OECD debates and ideas on what constitutes *good* development co-operation and finance practices. To some extent this literature review of dominant development discourses primarily, though not exclusively, within the OECD allows formulating preliminary hypotheses on the usefulness of tied aid credits as an instrument of development policy. In addition, it lays the foundations for the subsequent analysis of the *Arrangement on Officially Supported Export Credits*.

It is under the umbrella of "*the aid effectiveness debate*" that the Paris Principles as well as untying initiatives will be examined. Although the Paris Declaration is the key

²⁶ Despite the fact that international development discourse and ideas on what makes for *good* or *bad* development practice are shaped by a myriad of actors ranging from the civil society to multilateral organizations, the emphasis in the following will be put on the OECD's DAC. First of all this is justified with the central role of the DAC in producing ideas on development (policy) and in setting widely accepted standards and norms as well with the quantitative importance of its Members' contributions to worldwide ODA volumes. Secondly, this priority setting results from the fact that tied aid credit rules have been set up by a group – the so-called Participants Group – which is linked to the OECD and the members of which are majorly OECD member states. Hence, the analysis of DAC framed debates on development policy will eventually allow assessing the degree of coherence between and within OECD policies.

²⁷ The fact that the instrument in question is a credit-based financing form (as opposed to outright grant financing) is extensively discussed in the thesis of Eva Schweiger (2013) and will not explicitly be examined here. Furthermore, the "grants vs. loan debate" was steered by multilateral organizations such as IMF and World Bank in the wake of the devastating debt crisis of the 1980ies and 90ies and entered the DAC only to a lower extent. Later, in 2000, the Meltzer report clearly advocated for the use of highly concessional financing forms, i.e. declaring a clear preference for grants over loans (see Lerrick/Meltzer 2002). In any case it appears that the answer to the question whether loans or grants are more appropriate financing forms for development can only be: it depends (for a discussion thereof see, for instance, Cohen et al. 2006; Klein/Hardford 2005; for an earlier analysis of the issue see Schmidt 1964).

document referring to aid effectiveness, this term will hereafter be applied in a broader sense, subsuming all measures (not necessarily only those reflected in the Paris Declaration) that are thought to improve the quality of official development assistance. Last but not least this means that the effectiveness of aid is dependent on the design and implementation of other policies directly or indirectly impacting on development processes. In this respect, *Policy Coherence for Development* is to be seen as both, a process leading to greater effectiveness and a result in itself²⁸.

All these debates are interwoven and in the name of coherence are thought to mutually reinforce each other so as to jointly achieve the main objective of a greater impact of invested aid resources. With regard to this, they are also to be interpreted as combined efforts to achieve the overall goals declared at the Millennium Summit in 2000.

Considering the importance subsequently attributed to the evolution of tied aid credits since the late 1970ies, this chapter also adopts a “historical” approach. Not only the status quo on aid quality and effectiveness will be addressed, but also some major steps towards the making of this broad, though not uncontested, “consensus” will be taken into account.

3.1. The Aid and Development Effectiveness Debate

“Ever since the DAC was founded in 1961, disputes about the nature and extend of appropriate measures to enhance the efficiency of bilateral ODA have been a recurrent fact”

(Petermann 2013: 211)

Despite the fact that controversies surrounding development concepts and development practices have been apparent ever since and have been discussed vividly by academia, political and civil society actors²⁹, it was above all in the 1990ies³⁰ that criticism on the aid system in place gained momentum. This was widely due to widespread frustration on both recipient and donor side with the poor results³¹ develop-

²⁸ Of course the DAC has also been pushing for other, less techno-managerial, issues during the last decade, e.g. governance and development, tax and development, conflict and fragility etc. For example, the Working Group on Participatory Development and Good Governance, established in 1993 when various aspects of aid-related governance entered the DAC’s agenda, should become one of the main fora for “information-sharing and policy dialogue for aid donors” (Robinson 1999: 426; quoted in Petermann 2013: 218). This paper only marginally touches upon these since they are not directly relevant to the assessment of the appropriateness of tied aid credits as an instrument of development policy. See the DAC’s homepage for more information on the respective topics, <http://www.oecd.org/dac/>

²⁹ See for instance the “Pearson Report” 1969 (Commission on International Development 1970).

³⁰ Also the end of cold war is thought to have erupted the international aid system and provoked a shift in its underlying rationale. In this respect, Petermann’s regression analysis suggests, for instance, that “[...] donors’ motivations for a gradual untying of aid have undergone a marked change from the primacy of ‘donor interest’ to a growing significance of ‘recipient need’” (Petermann 2013: 406). The author argues that the external shock of 1989/1990 has decisively contributed to the reorientation of aid politics towards efficiency and ownership (Petermann 2013: 208).

³¹ How to assess the impact of aid has, however, itself been a matter of contention (for an analysis of the difficulties encountered when assessing the impact of aid; see, for instance, Fielding/McGillivray/Torres

ment cooperation had shown. The resulting discontent manifested itself in concerns voiced regarding costly tying practices of aid procurement, the overloading of recipients with a miscellaneous set of donor requirements, the failure of technical assistance to strengthen indigenous capacity and the like. In this context, Wood et al. argue that the unfulfilled promise of development paired with tensions arising from structural adjustment policies and other aid conditionalities “[...] had taken their toll on confidence in aid regimes and resulted in a genuine crisis in the field of aid”. This malaise or elsewhere called “fatigue” of the aid system was reflected in a decline in international development spending (Wood et al. 2008: 5).

Broadly speaking, this unsatisfying diagnosis lead on the one hand, to the formation of “radical” positions united by a general rejection of the belief in aid as an adequate tool for poverty eradication and on the other hand, to a call for reform of the existing aid system. Although “radical” critique of aid is not at the centre of this study, not even of this chapter, some clarifications on different diagnoses of the status-quo of the aid system are crucial if one wants to understand “the” aid effectiveness debate (or rather the various debates that evolved around the impact of aid).

Subsumed under the container term “radicals” are positions as diverse as liberal market advocates for whom aid as such is distorting the allocation mechanism of markets (Easterly 2006; Moyo 2009) to the so-called post-developmentalists who fear the reproduction of power imbalances and western dominance through development practices (Escobar 1995; Esteva 1992)³². These criticisms rooted in diverging ideological standpoints led its respective advocates to denounce either lacking results or even perverse effects of development aid.

Albeit development and development aid remain contested concepts and practices, the mainstream in both intellectual and policy-driven debates have followed the reformist track. Accordingly, the emphasis will be put on more reformist stances – a priority setting that results from the fact that this study is primarily interested in discourses driven by development “practitioners” or “designers”, i.e. by those working in the aid business who – one might assume – quite naturally have an interest in reviving the concept of aid rather than in declaring its death³³.

2007). Not only have indicators such as GDP/capita been questioned and gradually complemented by more holistic concepts such as the Human Development Index (HDI), but also the difficulty of isolating the effects of aid from the effects of other factors such as political and economic situations has been pointed out. Likewise attributing all poor development outcomes solely to aid is yet another inappropriate oversimplification. For a more differentiated analysis of what development has and could have achieved see Barder (2009).

³² For a thorough overview of post-developmental positions see Ziai/Aram 2006, 2007

³³ This refers to Dambisa Moyo's (2009) book “Dead Aid” in which she strongly advocates for a replacement of aid by market-based policies. By doing so, she argues, the roots of poverty linked to a lack of access to capital as well as inadequate trading policies can be disclosed (Guljarani 2011: 201). In contrast, Jean-Michel Severino (2011) speaks of the “resurrection of aid”. In a similar vein Riddell refers to the “re-invention of aid” (quoted in Barnes/Brown 2011: 170).

It is in the context of the reformist pledges that aid effectiveness debates discussed hereafter are embedded. Or differently put – the aid effectiveness debate can partly be considered a reaction to the disillusionment of the “international aid community” considering the limited effects their past aid efforts have had (Clay et al. 2009). The reasons for this “failure” have of course been attributed to different factors with accusations ranging from corrupt recipient countries to contradictory donor policies.

3.1.1. Evolution and Principles: From Rome to Busan via Paris and Accra

The aid community’s and especially the DAC’s continuing concern with the quality of aid led to the formulation of international principles that (should) guide today’s development practice, in particular the 2005 Paris Declaration on Aid Effectiveness as well as its companion, the Accra Agenda for Action, adopted in 2008. The documents referred to and discussed in greater detail below are road-maps for efficient and effective aid. They shall help countries to take responsibility for their own development (incarnated in so-called Poverty Reduction Strategy Papers – PRSPs), simplify procedures and thus reduce transfer costs and enable both donors and developing countries to efficiently and effectively achieve results (Clark 2011: 52).

While often the first association with the aid effectiveness debate, the 2005 Paris Declaration was not the starting point of international efforts dedicated to increasing aid effectiveness. The Paris Declaration is mainly rooted in a 1996 DAC document titled “*Shaping the 21st century: the contribution of development co-operation*”. In this document the DAC’s “strategy” for the new century is built around 3 pillars: “the vision (the MDGs in embryo), Partnerships and making aid work better (the aid effectiveness process in embryo) and Bringing our policies together (policy coherence, not in embryo – a long standing key issue)” (De Milly 2012: 1; OECD/DAC 1996).

Based on this publication, the DAC Working Party on Financial Aspects (DAC/FA³⁴), a group that had only just successfully completed major work on untying, in conjunction with the World Bank, took the lead in pushing forward the harmonization of donor procurement practices (De Milly 2012: 1 et seq.).

To trigger the aid reform agenda an additional DAC Task Force on Donor Practices (TFDP) was set up and the Comprehensive Development Framework (CDF), which had meanwhile been established by the World Bank, gave further valuable impulses to the aid effectiveness agenda (De Milly 2012: 2). The CDF upgraded poverty reduction to a core goal for public policies and suggested the drafting of national strategies by recipient countries (PRSPs) (FRIDE 2008: 16). Also, the UN conference in Monterrey 2002 had built a consensus among the “aid community” that not only additional and

³⁴ This group will play a crucial role for the analysis of the influence of development policy on the Arrangement because it figured as main DAC body monitoring the Participants’ negotiations on tied aid credits. As will be shown, it worked in parallel on disciplines for associated financing and tied and partially untied aid.

more innovative aid resources were needed, but above all that these resources had to be channeled in a more effective way (United Nations 2003: 1-17). This gave further momentum to the aid effectiveness agenda

The parallel initiatives in both World Bank and United Nations show that although the DAC was and is the main driving power behind the aid effectiveness agenda, the Committee has never been operating in a vacuum, but is subject to outside influences – an argument we will come back to when analyzing the evolution of today's regulatory framework covering tied aid credits.

All these efforts culminated in the first High Level Forum in Rome in 2003, where the first declaration on effectiveness on a ministerial level was proclaimed, the so-called Rome Declaration on Harmonization³⁵) (OECD/DAC 2003). This declaration provided the first set of "Paris Principles" building the basic framework for co-operation between donors and recipients (De Milly 2012: 2).

After the Rome Declaration, the afore mentioned TFDP merged with the DAC/FA to become the Working Party on Effectiveness and Donor Practices (WP-EFF) – not at last a symbolic appreciation of the growing weight attributed to the aid effectiveness agenda in the DAC's work. According to De Milly, a senior researcher at the OECD – this group became "an actual partnership of donors and recipients, with the participation of the main multilateral organizations and, from 2004 onwards, 14 developing countries" (De Milly 2012: 3). Rome was followed by a series of High Level Forums the outcomes of which were documented most prominently in the 2005 Paris Declaration on Aid Effectiveness (Kindornay/Morton 2011: 1). Midway through the Paris cycle (2005-2010), in Accra ministers of developing and donor countries declared to deepen and accelerate their implementation of the Paris Declaration. De Milly summarizes the priority setting at the respective HLF as follows: "If Rome can be seen as symbolised by 'harmonisation', and Paris by 'alignment', Accra brought more flesh to 'ownership'" (De Milly 2012: 3).

One might add the outcomes of the latest High Level Forum (HFL) in Busan 2011, which has been portrayed as an important step in the conceptual shift from aid to development effectiveness³⁶ (Keijzer 2012: 4; see also Homepage of the "Open Forum for CSO Development Effectiveness"³⁷). The extent to which this transition from

³⁵ Therein Ministers, Heads of Aid Agencies and other senior officials declared the following: "Our deliberations are an important international effort to harmonise the operational policies, procedures, and practices of our institutions with those of partner country systems to improve the effectiveness of development assistance, and thereby contribute to meeting the Millennium Development Goals" (OECD/DAC 2003).

³⁶ More information on whether this truly is a new paradigm entailing behavioral changes or a mere rhetoric shift can be found in a paper by the North-South Institute (Kindornay 2011). ActionAid, for instance, was skeptical about the outcomes of Busan and reacted with an article titled "Africa let down by Busan Aid Agreement" (see <http://www.actionaid.org/2011/12/africa-let-down-busan-aid-agreement>).

³⁷ The Open Forum is a platform that "brings together civil society organisations from around the world to discuss the issues and challenges to their effectiveness as development actors", see <http://www.cso-effectiveness.org/4th-high-level-forum-on-aid,080?lang=en>

aid to development effectiveness – pushed for especially by Non-Governmental Organizations (NGOs)³⁸ – truly occurred is yet to be seen. Furthermore, an agreement reached at the Busan Summit led to the emergence of the *Global Partnership for Effective Development Co-operation*³⁹, which considers itself an “an inclusive, political forum” that gathers 160 countries and 46 organizations “around a set of principles that form the foundation of effective development co-operation”. In the summit Declaration called *Busan Partnership for Effective Development Co-operation* older commitments such as Policy Coherence for Development and the untying of aid are reiterated and special emphasis is put on the variety of actors and stakeholders in the development co-operation architecture (OECD/DAC 2011a, Busan Declaration). In line with the idea that development is to be understood as a multi-stakeholder process, the Declaration calls for a global partnership, thereby enlarging the “traditional” conceptualization of partnership between North and South essentially by two additional dimensions: South-South cooperation and the inclusion of these “new” actors into the aid architecture as well as public-private partnerships.

3.1.1.1. Excursus: The Idea of Partnership in Development Co-operation

Today, “partnership” has become part of the mainstream discourse on development co-operation and “has come to dominate the development lexicon” (Barnes/Brown 2011: 165 et seqq.). This is reflected in the fact that the term “partnership” is to be found in virtually all policy texts of aid donors and recipients alike (ibid.: 172).

Although the idea that aid should “[...] reflect a partnership of equals between donor and recipient governments” has long tradition in development discourse and can be traced back to the 1969 report of the Pearson Commission, it is in the immediate post Cold War era that the concept gains momentum (Fraser/Whitfield 2009: 76). Several authors (e.g. Barnes/Brown 2011; Fraser/Whitfield 2009) explain the rise of the partnership idea in the 1990ies with the radical changes in the international system brought about by the end of the Cold War. A shift in the climate for development aid from rather “stable” to “one of apparent ‘crisis’ [...] seems to have created ideal conditions for the rise of the idea of partnership” (Barnes/Brown 2011: 167). With the end of the Cold War, also development aid – hitherto a strategic means to secure spheres of influence – faced a sever crisis of legitimacy⁴⁰ paired with a “growing anxiety about the ‘effectiveness’ of development aid” (Barnes/Brown 2011: 168). As has already been addressed in the introduction to this chapter, there was widespread

³⁸ See for instance BetterAid, an umbrella advocacy platform of Civil Society Organizations engaged in development cooperation (very active in the run up to Busan, dissolved, however, in December 2012); see www.betteraid.org

³⁹ For more information on the “Global Partnerships” as well as for its mandate and targets, please see <http://effectivecooperation.org/about.html> and <http://www.oecd.org/dac/effectiveness/globalpartnership.htm>

⁴⁰ Fraser and Whitfield (2009: 76) detect the same removal of reasons for aid giving and argue that especially “fiscal conservatives urged that the end of the Cold War should allow for a ‘piece dividend’ and pressed for cuts in the defense and diplomatic budgets”. And indeed aid statistics show a decline of aid flows in the period of 1992 to 1997.

consensus by the mid-1990ies that the neoliberal approach to aid followed most prominently with the so-called structural adjustment programs “[...] *had not only been ‘ineffective’ in driving economic growth, but had also entailed considerable social costs*” (Barnes/Brown 2011: 168). Concomitantly, criticism on aid conditionality in general gained momentum and various NGOs and academics criticized aid and development policies for being “*‘symptomatic’ of the paternalistic, neo-colonial and therefore unequal way in which aid was governed*” (Barnes/Brown 2011: 169). In an attempt to bring about the reorientation of the heavily criticized international aid system and to give aid practice a new *raison d’être* a new story of aid was invented. It is in this context that the DAC produced the document “*Development Partnerships and the New Global Context*”, in which *inter alia* the necessity of partnership was highlighted (Fraser/Whitfield 2009: 77). Subsequently, a “Groupe de Réflexion” was given the task to develop a “*more coherent narrative that would ‘sell’ development aid to a broad constituency of support*” (Barnes/Brown 2011: 170). The Group’s members’ attempt of constructing a “[...] *convincing and persuasive story about aid, which would enroll the support of a range of different actors who might have competing perspectives about the future need for, and role of, development aid in the post-cold war era*” led to the drafting of what should henceforth be a key reference document for the DAC: *Shaping the 21st Century: The Contribution of Development Co-operation*. Therein, the idea of partnership appears as one of the central pillars of any future aid efforts – Barnes and Brown (2011) go as far as to conclude that “partnership comes across as the ‘master’ concept” and leitmotiv of the “reinvention of aid” (Barnes/Brown 2011: 170). The following quote, taken from the document “Shaping the 21st Century” sheds light on the DAC’s early understanding of partnership:

*“In a partnership, development co-operation does not try to do things for developing countries and their people, but with them. It must be seen as a collaborative effort to help them increase their capacities to do things for themselves. **Paternalistic approaches have no place in this framework. In a true partnership, local actors should progressively take the lead while external partners back their efforts to assume greater responsibility for their own development**”* (OECD/DAC 1996: 13; emphasis added).

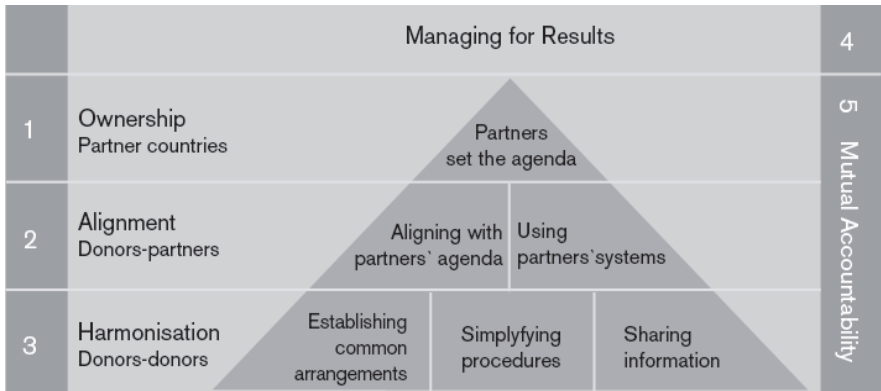
Gradually the idea, of who the partners in development co-operation were, was broadened and became to encompass a miscellaneous set of actors ranging from recipient governments to civil society and private companies (OECD/DAC 2011a, Busan Declaration). How this theoretical and normative shift should be translated into development practices, however, remains somewhat obscure. According to Barnes and Brown (2011: 166) the idea of partnership remains – despite its popularity and omnipresence – “[...] *an impoverished theoretical appeal, which is under-defined, poorly scrutinised and rather unconvincingly utilised as a guiding concept in applied practices*”.

3.1.2. Paris Declaration on Aid Effectiveness as a Benchmark

The Paris Declaration, today broadly considered a “landmark international agreement”, was endorsed in 2005 by over a hundred ministers, heads of development agencies and other senior officials from a variety of countries and international organizations (Wood et al. 2008: 1). This Declaration went beyond previous joint statements on aid harmonization and alignment in that it set out measurable targets to be met by 2010 (De Milly 2012). More specifically, the Declaration presents an action-oriented roadmap and contains 56 commitments which are organized around the principles of ownership, alignment, harmonization, managing for results and mutual accountability (OECD 2005-2008). Progress⁴¹ in implementing the presented principles (and their more detailed sub-commitments) is to be measured nationally and monitored internationally with the help of 12 indicators (OECD 2005-2008: 10 et seqq.).

The figure below, taken from an OECD report on the implementation progress of the Paris Declaration (OECD 2011a: 18), illustrates the “Paris Principles” – in the Declaration labeled “Partnership Commitments”⁴² – as the five pillars of a new and more effective aid delivery system (OECD 2005-2008: 3).

Figure 3.1: Paris Principles



Source: OECD 2011a: 18

⁴¹ For a detailed account of progress made so far and difficulties encountered see Clay et al. (2009); also see <http://www.oecd.org/dac/aideffectiveness/48742718.pdf>

⁴² The fact that they are given the label “Partnership Commitments” illustrates that the idea of partnership figures as underwriting principle of the Declaration (Barnes/Brown 2011).

Given the centrality of these principles in current aid discourses and development practices, they shall briefly be described here.

1. *Ownership: "Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions" (OECD 2005-2008: 3).*

The concept of country ownership lies at the core of the Paris Declaration, in the sense that a legitimate and accountable government capable of articulating its own development strategies is thought to be the prerequisite of any effective partnership between donor and partner country⁴³. These priorities and strategies are ideally to be formulated in a so-called Poverty Reduction Strategy Paper – a mechanism already introduced and discussed in the context of the Comprehensive Development Framework of the World Bank – which donor interventions should then be aligned with (Harmer/Ray 2009: 7). With regard to country ownership the Paris Declaration sets the target of 75 % of partner countries having operational development strategies by 2010. These strategies are expected to "have clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets" (OECD 2005-2008: 9). The problem that arises if it is assumed that ownership itself results from development processes is not addressed in the Declaration. Furthermore, criticism has been raised that ownership per se does not tell anything about the political dynamics constituting the ability of a recipient state to formulate development strategies. Hence, ownership cannot be equated with democratic ownership, which according to critics should be the aspired goal (The Reality of Aid Management Committee 2012: 10).

2. *Alignment: Donors base their overall support on partner countries' national development strategies, institutions and procedures" (OECD 2005-2008: 3).*

Under the heading of alignment donors are expected to put their intervention in line with the poverty reduction strategies of the recipient country well as the thematic and sectoral priorities. With the principle of alignment donors committed to use partners' Public Finance Management (PFM) and procurement systems, make their aid allocations more predictable, long-term and free from donor conditionalities (Harmer/Ray 2009: 8). Furthermore, it is agreed that untied aid is generally the better aid (OECD 2005-2008: 5). Aiming at a greater amount of aid channeled through local systems has led to the creation of several assessment tools such as CPIAs (Country Policy and Institutional Assessment).

⁴³ Throughout the Paris Declaration developing countries are referred to as "partners" or "partner countries". These terms are here used interchangeably with the word recipient (country). It is argued here that underlying relationships remained essentially the same. In this respect we follow Fraser and Whitfield (2009: 89), who conclude their analysis of the Paris Declaration by saying that "[...] although the donor community has produced a shared consensus around how aid should be delivered, has devised new tools to implement it, and has produced a dizzying array of new policy instruments and acronyms, *the impact on the overall balance of power between donors and recipients may be very small*" (emphasis added).

According to a research paper published by FRIDE (a European think-tank for global action), alignment links ownership and harmonization and is the most technical part of the Declaration reflected in the dedication of 7 out of 12 indicators assessing progress in implementation (FRIDE 2008: 4). Figure 3.2, taken from the Paris Declaration, shows some of the alignment indicators on national procurement systems and exemplifies the complexity and technical nature of the targets set by the *international community*.

Figure 3.2: Extract from the Paris Declaration – Indicators 5a and 5b

5a	Use of country public financial management systems - Percent of donors and of aid flows that use public financial management systems in partner countries, which either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	PERCENTAGE OF DONORS	
		TARGET	SCORE*
		All donors use partner countries' PFM systems.	5+
		90% of donors use partner countries' PFM systems	3.5 to 4.5
		PERCENTAGE OF AID FLOWS	
		TARGET	SCORE*
		A two-thirds reduction in the % of aid to the public sector not using partner countries' PFM systems	5+
		A one-thirds reduction in the % of aid to the public sector not using partner countries' PFM systems	3.5 to 4.5
5b	Use of country procurement systems - Percent of donors and of aid flows that use partner country procurement systems which either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	PERCENTAGE OF DONORS	
		TARGET	SCORE*
		All donors use partner countries' procurement systems.	A
		90% of donors use partner countries' procurement systems	B
		PERCENTAGE OF AID FLOWS	
		TARGET	SCORE*
		A two-thirds reduction in the % of aid to the public sector not using partner countries' procurement systems	A
		A one-thirds reduction in the % of aid to the public sector not using partner countries' procurement systems	B

Source: OECD 2005-2008: 9

* Note on Indicator 5: Scores for Indicator 5 are determined by the methodology used to measure quality of procurement and public financial management systems under Indicator 2.

3. *Harmonization: "Donors' actions are more harmonized, transparent and collectively effective"* (OECD 2005-2008: 6).

The harmonization component of the Paris Declaration is aiming at increased coordination of donor implementation practices and commits donors to establish more effective system of labor division based on their respective strengths. Moreover, it spells out the goal of simplifying and aligning funding and disbursement

mechanisms and monitoring and evaluation requirements (Harmer/Ray 2009: 9). Furthermore, it contains a section on “delivering effective aid in fragile states” as well as on the “promotion of a harmonized approach to environmental assessments” (OECD 2005-2008: 6, 7). The targets set for 2010 spell out that “66 % of aid flows are provided in the context of programme-based approaches”, that “40 % of donor missions to the field are joint” and that “66 % of country analytic work is joint” (OECD 2005-2008: 10).

4. *Managing for Results: “Managing resources and improving decision-making for result”* (OECD 2005-2008: 7).

The principle “Managing for Results” commits both donors and partner countries to monitor and evaluate progress in meeting development goals. To do so, the Declaration obliges donors, amongst other things, to improve the statistical capacities of partner countries (Harmer/Ray 2009: 10) and to “reduce the proportion of countries without transparent and monitorable performance assessment framework by one-third” until 2010 (OECD 2005-2008: 10).

5. *Mutual accountability: “Donors and partners are accountable for development results”* (OECD 2005-2008: 7).

With the adoption of the principle of “mutual accountability” donors and recipients declare to be mutually accountable to each other as well as to their respective constituents (Harmer/Ray 2009: 10). The target set for 2010 (Indicator 12) expects all partner countries to have mutual assessment reviews in place (OECD 2005-2008: 10).

Together these five principles of ownership, alignment, harmonization, managing for results and mutual accountability build the basis of the DAC’s development architecture. Along with these principles the call for the evaluation⁴⁴ of programs and projects entered the international development discourse.

⁴⁴ The emphasis put on evaluations of all kinds evokes Michael Power’s (1997: 2, 3) notion of an “audit society”. Borrowing from accounting, the author argues that society today is characterized by a constant checking and verifying of “accounts” in various spheres of life, in education or health, for example. Also Martens (2002: 155) critically examines the role of evaluation in foreign aid programs with help of game theory. He argues that evaluations often serve the purpose of maintaining a political equilibrium, regardless of whether this equilibrium is “efficient in terms of satisfying taxpayers’ objectives of genuine wealth transfers”.

3.1.3. Untying Aid: A Long-lasting Matter of Concern

"Member countries should jointly and individually endeavour [...] to reduce progressively the scope of aid tying with a view ultimately to removing procurement restrictions to the maximum extent"

(DAC 1965: 120; quoted in Ray 1995: 28)

"When the political rationale of a government for the application of tying is rooted in a desire to satisfy the 'national interest' articulated by domestic firms and voters, export subsidization with the help of tied aid appears to be hardly justifiable in an era of economic globalisation"

(Petermann 2013: 114)

This chapter briefly examines how the politics of untying has been formed over decades and eventually led to the declaration of a set of measures, spelled out in a DAC Recommendation on Untying. The practice of tying aid to the procurement of goods and services in the donor country is a long and established practice and a frequent phenomenon in donor-recipient relations (La Chimia 2004: 1). Historically, bilateral aid from individual DAC members was commonly linked to the granting of preferences for donor companies, consultants, and products; that is procurement was not channeled through an open and competitive market. According to Holland half of ODA typically used to be "tied", with distortion, cost escalations and decreased value for ODA money as negative effects of such practices (Holland 2008: 357).

The example of untying illustrates that what we see in the Paris Declaration and the Accra Agenda for Action is only the tip of a solid iceberg of long-lasting discussions among DAC donors, or as Richard Manning, former DAC Chairman, puts it – they are the fruits after "decades of pain" (Manning 2011: 29). Clearly, this long-lasting resistance against untying can, as will be shown later, only be understood in light of domestic interests driving donor policies.

The introductory quote above dates from 1965 and shows that untying has been an issue of controversy basically from the 1960ies onwards, that is, since the Committee's very inception⁴⁵. Yet it is still timely. In 2002, for instance, the European Commission identified tied aid as one of the most hotly debated cases of policy incoherence and one of the main obstacles on the way to greater aid effectiveness (EC 2002: 68).

Some years after the establishment of the Committee, at the High Level Meeting (HLM) in 1973, DAC members agreed to untie their contributions to multilateral insti-

⁴⁵ Founded in 1961, the Development Assistance Committee is entitled to carry out the following mandate: "[...] promote development co-operation and other policies so as to contribute to sustainable development, including pro-poor economic growth, poverty reduction, improvement of living standards in developing countries, and to a future in which no country will depend on aid" (DCD/DAC(2010)34/FINAL: 3).

tutions and in a Memorandum of Understanding⁴⁶ the same year they declared their preference for procurement in recipient countries rather than in the donor country (DAC/FA(86)11). However, in 1977 further moves towards an agreement on the mutual untying of aid – according to the DAC/FA Working Party the ideal solution to aid and trade distortions – had to be abandoned due to resistance of member states (DAC/FA(81)1: 19).

And indeed it would take the DAC members 30 more years⁴⁷ to agree on a more comprehensive recommendation to untie their aid to the Least Developed Countries (LDCs) and to Highly Indebted Poor Countries (HIPC)s to “the greatest extent” (DCD/DAC(2001)12/FINAL: 4). The underlying philosophy is straightforward: through untying competition would increase, the local private sector would develop and donors would symbolically show their commitment to development even if it was not in their immediate self-interest (Holland 2008: 357). This *2001 Recommendation on Untying Official Development Assistance to Least Developed Countries and Highly Indebted Poor Countries* for sure is to be considered a success⁴⁸, but it also leaves remarkable loopholes and suffers numerous limitations that considerably restrict the scope of the agreement⁴⁹ (La Chimia 2004: 11). Most prominently, the *Recommendation* does not cover food aid, technical co-operation⁵⁰ and donor administrative costs (Clay et al. 2009: 1), and to some degree obscures the transparency of aid financing practices⁵¹. The latter concern stems from the fact that untied aid credits are not sub-

⁴⁶ In this “Memorandum of Understanding on Untying of their Bilateral Development Loans in Favour of Procurement in Development Countries” the therein participating countries (Denmark, Germany, Italy, Japan, the Netherlands, Norway, Sweden and the United States and later Australia and Switzerland) submitted their own list of procurement-eligible developing countries (TD/CONSENSUS/86.52; DAC/FA(86)12: 33). Furthermore, the document contained “target quotas” and time frames for the partial untying of aid, laid down “several concepts of competitively organized procurement of aid-financed goods and services and suggested new measures to strengthen tendering systems in recipient countries” (Petermann 2013: 214).

⁴⁷ According to J. H. Petermann (2013: 215, 216) the DAC Guiding Principles for Associated Financing and Tied and Partially Untied ODA, concluded in April 1987, mark the official starting point “of the untying aid initiative as it has been known in the post-Cold War period”. This, however, is not to be equated with donor countries’ willingness to actually undertake the necessary steps to fully untie their aid programs.

⁴⁸ Clay et al. speak of 2001 Recommendation as an “aid success story” (Clay et al. 2009: 55).

⁴⁹ According to La Chimia’s (2004: 29) calculation the Recommendation only covers 12 % of total ODA flows.

⁵⁰ According to the DAC Glossary technical co-operation is “provided specifically to facilitate the implementation of a capital project [and] is included indistinguishably among bilateral project and programme expenditures, and not separately identified as technical co-operation in statistics of aggregate flows” (DAC Glossary of Key Terms and Concepts). The loophole of technical co-operation is frequently targeted by criticism. La Chimia (2004: 15), however, mentions that the Recommendation makes a distinction between Investment Related Technical Co-operation (IRTC) and Free-Standing Technical Co-operation (FSTC), the former of which is covered by the Recommendation.

⁵¹ This newly arising problems stem – as will be shown later on – partly from imprecise definitions of tied and untied which allow for de-facto tying of aid. Jepma, for instance, argues that “while these definitions [given in the 1987 Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance] may seem quite straightforward, in practice they are weak when it comes to precisely assessing the nature of tied aid relationships [...] [because] tying is not only determined by formal arrangements, but also informal understanding, or even as a secondary consequence of an arrangement

ject to the Arrangement's transparency provisions. As reflected in the title of the Recommendation, this declaration of intent only deals with ODA flows to LDCs and HICPs. In a short article on "The future of international concessional flows", the former DAC Chairman Richard Manning argues that direct national donor interests behind giving ODA "are most likely to predominate when the gap between the national income levels of the provider and recipient countries is relatively smaller" and vice versa. This also explains why DAC donors were willing to agree on untying their financial aid to LDCs and HICPs but no to middle-income or indeed to all low-income countries (Manning 2011: 112).

The second agreement that had its birth pangs in the 1990ies and aimed at discouraging tying practices, is the Helsinki Package⁵². This Package – which will be discussed in great detail in the next chapter – is part of the *Arrangement on Officially Supported Export Credits* negotiated under OECD auspices, and considerably constrains the use of tied concessional financing for projects⁵³ (Lancaster 2007: 54).

These two respective agreements (legally speaking they do not have any power to enforce compliance though) are rooted in two different, albeit overlapping, sets of concerns. While the DAC was primarily concerned with the development implications of tying, the Participants Group, which negotiated the Helsinki Package, was worried for export competition reasons and feared the potential trade distorting implications of concessional lending tied to the exports of goods and services from the donor (Clay et al. 2009: 5). Besides, both bodies are, albeit to different degrees, linked to the OECD, and pursue the goal of contributing to a liberalized, non-discriminatory international aid and trade system (OECD Convention 1961; quoted in Jepma 1991: 2). Interestingly, the tying of aid, thus, unites critics from various fields and with potentially diverging ideological backgrounds. On the one hand proponents of the free market philosophy argue that tying practices have trade-distorting effects that need to be eliminated. On the other hand, development "experts" criticize tied aid for being an inadequate, donor-driven, instrument for promoting development which decreases aid's value for money and undermines recipient ownership. Therefore, they want to see it being abolished.

Concerns over adverse effects of tying practices on the effectiveness of aid have been raised for decades. In this respect, the untying debate can be considered both, a predecessor and a core concern of the aid effectiveness agenda. Resulting from the

already in effect" (Jepma 1991: 20). To curb these practices the Participants and the DAC jointly work on transparency initiatives for untied aid.

⁵² According to Petermann agreement on the Helsinki Package, which further realigned regulations on export credits, is considered by the OECD itself as "the beginning of multilateral consultations on a jointly coordinated phasing-out of tying requirements" (Petermann 2013: 211).

⁵³ Leaving exemptions of the Helsinki Package aside, the use of tied aid financing is essentially restrained to commercially non-viable projects and has to contain a minimum concessionality level of 35 and 50 % respectively depending on the classification of the recipient country.

underlying assumption that untying contributes to increased effectiveness of aid resources, the issue was taken up by the Millennium Development Goals (target 35) as well as by the Paris Declaration (Clay et al. 2009: 60).

In the context of alignment efforts the Paris Declaration states the following:

“Untying aid generally increases aid effectiveness by reducing transaction costs for partner countries and improving country ownership and alignment. DAC Donors will continue to make progress on untying as encouraged by the 2001 DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries (Indicator 8)” (OECD 2005-2008). Indicator 8, referred to in this quote, sets the vaguely formulated target of “continued progress over time”⁵⁴ to be met by 2010 (OECD 2005-2008: 10).

Although the Paris Declaration attributed the case of untying to the principle of alignment, the tying status of aid and calls for untying, respectively, are without doubt closely intertwined with ownership claims. In Accra donors reaffirmed their commitment to untie their aid and declared, among other things, their will to *“promote the use of local and regional procurement by ensuring that their procurement procedures are transparent and allow local and regional firms to compete”* (OECD 2005-2008: 18; emphasis added). This add-on to the Paris Declaration reflects concern over an increase in informal, de-facto tying practices due to the lack of transparency in procurement practices.

In 1988 Catrinus Jepma conducted a study⁵⁵, commissioned by the DAC Working Party on Financial Aspects and largely financed by USAID, in which he examined the potential effects of tying on both donor and recipient country (Jepma 1991). Some of his key arguments, which guided the DAC/FA's discussions on untying, are summarized below. The various arguments presented in favor of or against official export support schemes, including the tying of aid, can basically be grouped in three major categories.

The first set of arguments explains from a national welfare point of view of the country engaged in the export support policies that such schemes are in the long run often counterproductive and highly cost intensive. The second category consists of a number of arguments evaluating the impact of export support schemes from an international perspective. *“Their main thrust is that the various governments involved are basically competing with each other in a defensive process which commonly creates only an overall welfare loss”*. The last set of arguments takes the recipient countries' perspective and argues that their interests are *“almost always hurt by tying, either*

⁵⁴ Progress in implementing the untying target varies among donors. For a detailed account of “[...] why some donors liberalised their ODA, while others have hitherto seemed “to be politically unwilling – or institutionally unable – to do so”, see Petermann (2013).

⁵⁵ OECD's Development Centre published Jepma's study with the title “Tying of Aid” (Jepma 1991).

directly, i.e. by adversely affecting the delivery terms, or indirectly because the commodities and services supplied do not sufficiently meet the recipients' priorities. However, it may well be that tying bears some relationship to the overall domestic support for aid in the donor country" (Note by the Secretariat – DCD/DAC/FA(92)8/REV1: para. 4; emphasis added).

In sum, the main argument brought forward against aid tying, mainly by economic analysts (Chilchiniski 1983; Bhagwati et al. 1983; Kemp/Kojima 1985; Schweinberger 1990; Jepma 1991; Hatzipanayotou/Michael 1995; Lahiri/Raimondos 1995; Brakman/van Marrewijk 1995; all quoted in Clay et al. 2008) was and still is that goods and services procured under tied aid regimes are on average 15-25 % more costly than those provided in an untied and hence competitive system (Gibson et al. 2005) – with estimations ranging up to 50 % for food aid (Interview V). While in earlier times a political argument brought forward for tying was the benefit concomitantly transferred to the donors' constituents (and thus their increased support⁵⁶ for development aid), more recent studies show that the macroeconomic impact of tying on the donor country (e.g. in the form of increased employment) is rather limited (Clay et al. 2008: 28)⁵⁷.

Thus, in a way tying is seen as unfavorable for both, donor and recipient (cost for subsidy respectively higher costs of the purchased good). Furthermore, several authors show that these purchases are largely supplier driven⁵⁸ and might result in the delivery of inappropriate technologies⁵⁹ (Morrissey 1998: 249 et seqq.). According to Morrissey (1998: 25) these negative effects are likely to be more pronounced in the case of associated financing because the aid is not only tied to procurement but also to the acceptance of the non-concessional part of the financing package. Morrissey (1998: 249, 250) argues that as a result, *"[...] projects are initiated by companies rather than aid agencies, and there may, in practice, albeit not in principle, be less stringent appraisal of development impact than for normal aid"*. Tied aid in

⁵⁶ In this regard Jepma (1991: 38) speaks of a *juste retour* and La Chimia (2004: 5) compares this argument to the idea of "buying political support".

⁵⁷ Petermann explains that "[w]henver commercial gains derived from return follow-up orders, maintenance works or project-related investments occurred, they were usually centered on a small number of highly specialized companies" (Petermann 2013: 113). According to Clay et al. (2008: 28) the "limited" commercial benefits may, however, be considerable to particular domestic interest groups.

⁵⁸ The choice of inappropriate technologies is a prime example used by several of our key informants to illustrate how tying practices can undermine ownership. With regard to the purchase of non-tailored goods and equipment, Petermann (2013: 110-111) gives the example of capital-intensive machinery that "may be of little developmental use and strategic priority to the beneficiaries of aid". Maybe even more importantly, Petermann goes on, "it charges recipients with regular maintenance costs, absurdly favouring premature discontinuation of projects and aggravating dependence on Northern technologies [...] and follow up imports".

⁵⁹ In his book "Lords of Poverty" Graham Hancock (1989) gives several examples of technologies and high-tech schemes unable to meet the needs of the receiving countries. One of the examples, a delivery of British Westland W-30 helicopters to India will be addressed again at a later stage. Another example, taken up also by Petermann (2013: 111), concerns an irrigation project in Niger, which eventually had to be abandoned because the government that had received the project as aid could not meet the costs.

general and associated finance in particular are thus judged to be incompatible with ownership principles and inconsistent with the call for demand-driven purchasing as particularly stressed in the Accra Agenda for Action (OECD 2005-2008: 16, para. 14a; Gibson et al. 2005: 117).

Although Clay et al. (2009: 30) confirm in principle the above findings, they conclude their extensive literature review on the effects of tied and untied aid by saying that *“there has been little formal investigation of the effectiveness of tied versus untied aid or on the impact of untying. [...] The discussion about untying has also failed to take into account the evidence about aid modalities for which untying is a necessary condition”*. These findings are also confirmed by Jepma, who argues that establishing direct causalities is a dangerous undertaking and states that in the end aid effectiveness of a given project or program will depend on a variety of factors. Jepma (1991: 16) concludes that *“[...] since there is no clear link between the developmental impact of aid and its tying, one cannot, a priori, conclude that tied aid, whether or not procured on competitive terms, is necessarily worse for the recipient than untied aid”*.

With regard to diagnoses of the effects of untied aid, it has to be mentioned that the scientific community (with the exception of some economists) has paid fairly little attention to this issue. Consequently, the equation of untied aid with better aid is based on rather old studies, which rely on data collected when the effects of *untied* aid could only be roughly estimated because most aid was still tied. Furthermore, except for tied food aid the varying effects of different types of tied aid have hardly been studied. With regard to tied aid credits it would be interesting to see whether foreseen practices of “advance bidding”⁶⁰ have effects on procurement prices.

Given the presumably negative repercussions of tying practices, the long-lasting resistance of DAC members to agree on untying can only be interpreted as an expression of the multilayered interests behind development cooperation (the non-development aspects of aid). Considering that the main intention of aid tying is to give an advantage to suppliers in the donor economy compared to the rest of the world (Clay et al. 2009: 27), discussing the tying of aid must go along with an examination of motivations and interests driving foreign aid in general.

The existence of different actors with polyvalent interests behind the tying of aid is reflected in the following statement made within the DAC/FA Working Party: *“We know each member country faces many **domestic difficulties such as the internal opposition from the business community to the adoption of fully general untying**”* (DAC/FA(86)11; emphasis added). This statement evokes the influence of business interest over development interests. It has been widely recognized (Lancaster 2007;

⁶⁰ “Advance bidding” would, for instance, mean that mixed credits are provided only if a domestic supplier has already won an export order in an International Competitive Bidding procedure (DAC/FA(82)2; TC/ECG/82.4: 22). Financing terms should only be considered in a subsequent step.

Christiansen/Rogerson 2006; Morrissey 1998; Rao 2003; Riddell 2007) that motivations behind aid are manifold ranging from political and strategic interests and security concerns of all sorts to economic considerations⁶¹. Regarding the myriad objectives pursued also with tied aid credits – the instrument in question throughout this study – we are here primarily interested in what Lancaster calls “commercial motivations” behind aid. In the “commercial use of aid” Lancaster sees one explanation for the ineffectiveness of the assistance in promoting development and argues that often these interests not only “*collided with development concerns, they could also undercut development by funding overpriced, inefficient, and low-priority projects that left behind little development but lots of debt*” (Lancaster 2007: 54).

Concerns about the commercial motivations and the difficulty of disclosing them have been voiced on a regular basis by the DAC/FA. In a Note by the Secretariat distributed to both Participants and DAC Working Party on Financial Aspects of Development Assistance in 1982, for instance, it says: “*The extent to which a given transaction is intended to serve aid objectives or trade objectives, or both is not objectively verifiable, since intentions cannot be monitored. The following paragraphs, however, will suggest that **the developmental and the commercial motivations for associated financing**, as they are revealed in practice, while sometimes coinciding, **are frequently divergent and even incompatible***” (DAC/FA(82)2; TC/ECG/82.4: 9 et seqq.; emphasis added). Throughout their work the Participants Group and the DAC/FA were – as will be shown later – confronted with this difficulty of verifying or falsifying an officially stated motivation.

The arguments presented above against the tying of development aid to the procurement of goods and services in the donor country suggest that tied aid financing is not compatible with some of the core principles of the DAC’s approach to development policy. Hence, the untying discourse can undoubtedly be interpreted as a partial answer to the question whether tied aid credits are an effective instrument for development policy. Not least of all, the case against tying also argues that donors’ economic policies should not contradict their aid efforts. This argument will be key to the concept of Policy Coherence for Development introduced in the next subchapter.

3.1.4. Policy Coherence for Development (PCD)

“Yet this interdependence is a reality and therefore the unit to be considered is the totality of all measures in execution at a given moment or proposed to be taken simultaneously; this we shall call a system of economic policy or an economic policy”

(Tinbergen 1952: 68)

Tying practices as exemplified in the previous chapter have shown that potentially contradictory policy goals (e.g. donor export promotion vs. development of *local*

⁶¹ For a detailed account of motivations of tying see Petermann 2013, especially Chapter 2 and 3.

economies) might reduce the effectiveness of official development assistance and might hurt the credibility of both a donor's aid and trade policies⁶². Departing thereof and guided by Jan Tinbergen's⁶³ quote, in which he urges that a policy be considered in its relation to other policies, this chapter elaborates on the concept of Policy Coherence for Development (PCD).

The discussion on the effectiveness of aid is to be seen in the context of achieving the Millennium Development Goals (MDGs) and is inextricably linked with the major "systemic questions" of international development. These "systemic questions" concern matters of coherence on a European and a global level, but also of different intra-national policies. A broader definition of effectiveness clearly goes beyond the domain set by the Paris indicators and encompasses all policy areas that have repercussions on the goals of development policy. Eventually, the behavior of global players within the WTO or the trading policies of the European Union, for instance, is the central policy arena in which the effectiveness of development efforts is fought (Six 2006: 27). In this respect, Policy Coherence for Development is rooted in the frustration of the aid community that saw its efforts being spoiled by contradictory policies in other policy fields. Most prominently this criticism was directed at the Common Agricultural Policy (CAP) or to the trade policy of the EU⁶⁴.

Although the idea of coherence was already spelled out in the Maastricht Treaty⁶⁵ of the European Community (1992), it was the Millennium Summit in the year 2000 that gave fresh wind to the coherence debate. Donor administrations realized that aid alone was not enough and that other policies having an effect on development countries had to be addressed as well. Consequently, the goals formulated at the Summit went beyond the realms of development cooperation. This broader scope is probably best reflected in Goal 8, which aims at the establishment of a "Global Partnership" between industrial and developing countries (Obrovsky 2006: 72). By targeting, for instance, the development of a "*trading system that is open, rule-based, predictable*

62 Petermann (2013: 115) emphasizes that "a donor's external trade policy loses credibility if the government pursues contradictory strategies like PSD and the tying of aid in the same recipient country".

63 The Dutch economist Jan Tinbergen came to be known in particular for his contribution to macroeconomic modeling and economic policy decision-making. Interestingly, Tinbergen was also Chairman of the United Nations Committee on Development Planning and estimated, based on his macroeconomic models, "[...] the capital inflows developing economies needed to achieve desirable growth rates." Based on his findings he proposed a target for concessional and non-concessional official flows together of 0.75 % of GDP. Based on his idea the Pearson Commission later adopted the target of 0.7 % of GDP to be invested in development assistance, which is up to today the target against which donor efforts are assessed (OECD/DAC 2002: 1, 2).

64 For a detailed discussion of policy fields that are particularly likely to interfere with each other, see for instance the OECD publication (2005a): "Policy Coherence for Development. Promoting Institutional Good Practice", in particular Box 7.1. on page 164.

65 In the treaty it states: "[...] the Community shall take account of the objectives referred to in Article 130U [which refers to development cooperation] in the policies that it implements which are likely to affect developing countries" (see Treaty on European Union, Official Journal C 191, 29 July 1992). The 2005 "European Consensus on Development" further upgraded PCD and attributed it a central role in European Development Cooperation (for a more detailed discussion see Keijzer 2012: 2 et seqq.).

and non-discriminatory”⁶⁶, MDG 8 appeals to the necessity of coherent policies for development. This idea of a “Global Partnership” also made its way into the 2002 Monterrey Consensus on financing for development, in which development is referred to as a shared responsibility (United Nations 2003: 38). “*Developing countries committed themselves to good governance, good policies and conflict resolution*”, while developed countries declared their commitment to increased and more effective aid and policy coherence (OECD 2005: 22; FRIDE 2008: 3).

Given the DAC’s mandate, discussions about PCD on both the European and the international level are very much steered by the OECD. This political mandate was agreed upon in 2002 and outlined in the so-called “OECD Action for a Shared Development Agenda” (DCD/DAC, Final Communiqué 16/05/2002). In 2008 this mandate was enlarged with the adoption of a ministerial declaration on PCD, which put special emphasis on the need to invest in measuring impacts of OECD members’ policies and evaluate results achieved through joined efforts to promote PCD. Since 2000 PCD has also been given a more prominent role in the Peer Review Process⁶⁷ by paying attention to efforts made with regard to overall policy changes (Keijzer 2012: 3; OECD 2005: 39, 135 et seq.). Most recently the ‘OECD Strategy on Development’, presented in 2012, has stressed the importance of promoting PCD and has mentioned “*[s]trengthening OECD Members’ capacities to design policies consistent with development*” on top of the listed options for action (OECD 2012: 9).

Despite this accumulation of recent events centering on coherence, it goes without saying that the term policy coherence and even the claim of harmonizing political decision making with development agendas are much older than the concept of PCD (Obrovsky/Schlögl 2011: 11). Borrowed from physics and philosophy⁶⁸, the term ‘coherence’ has not entered social and economic sciences until very recently (Picciotto 2004: 4). In combination with the term development, the newly created buzzword Policy Coherence for Development found its way into development discourse and was coined by the DAC in the early 1990ies (OECD 2005: 39 et seq.). Despite the vast amount of reports on PCD, an official definition of the concept does not exist (OECD 2005: 27). It can broadly be defined in the following way: “*Policy coherence [...] involves the systematic promotion of mutually reinforcing policies across government departments and agencies creating synergies towards achieving the defined objective*” (DAC Guidelines for Poverty Reduction 2001; quoted in OECD 2005: 28). This also implies that donors work “[...] to ensure that the objec-

⁶⁶ For more detailed information on the eight MDG Goals, see <http://www.un.org/millenniumgoals/>

⁶⁷ Roughly every four years each DAC member is peer reviewed by examiners of two fellow DAC member states. The aim of these reviews is on the one hand to show the reviewed country areas of improvement of its policies and on the other hand to share good practices (see OECD/DCD Homepage).

⁶⁸ While in physics the term is used to refer to “the force by which molecules are held together, the ‘constant phase relationship’ of waves or the viscosity of a substance”, philosophical “coherence theory holds that ‘the truth of a proposition consists in the coherence of that proposition with all other true propositions’” (Picciotto 2005: 323).

tives and results of a government's (or institution's) development policies are not undermined by other policies of that government (or institution), which impact on developing countries, and that these other policies support development objectives, where feasible" (OECD 2005: 28).

More advanced definitions of Policy Coherence for Development differentiate between internal coherence, intra-country coherence, inter-donor coherence and donor-partner coherence (van der Hoeven 2010: 30 et seqq.).

Box 3: Dimensions of Policy Coherence for Development According to Picciotto

Picciotto (2004: 8) defines the different dimensions of coherence as follows:

- (i) internal coherence: the consistency between goals and objectives, modalities and protocols of a policy or program carried out by an OECD government in support of development (e.g. aid)
- (ii) intra-country coherence: the consistency among aid and non-aid policies of an OECD government in terms of their contribution to development
- (iii) inter-donor coherence: the consistency of aid and non-aid policies across OECD countries in terms their contribution to development
- (iv) donor-recipient coherence: the consistency of policies adopted by rich and poor countries to achieve shared development objectives"

While traditionally development evaluation put its focus on type *(i) coherence*, that is the alignment of means with goals in development assistance, increasing emphasis is now put on managing for results, which has led to greater preoccupation with type *(ii) coherence* – also called “whole of government” approach. In parallel, the diversification of actors within the aid system was accompanied by a greater need to reduce aid transaction costs entailed by uncoordinated actions and resulted in calls for type *(iii) coherence* through harmonization. Furthermore, as the limits of aid conditionality became more apparent and ownership became a main pillar of development effectiveness, donor-recipient coherence came to the fore (Picciotto 2004: 8). This description of the different dimensions of coherence reminds us of the wording used in the Paris Declaration (in particular ownership, alignment, harmonization) and illustrates once more that the debates and concepts discussed in this chapter are intertwined with each other.

With regard to implementation, the *Commitment to Development Index* (CDI), published on a yearly basis by the Center for Global Development, (OECD 2005: 134 et seqq.), reveals that as with other non-binding recommendations and declarations, the implementation of the concept of PCD proves difficult⁶⁹. Existing hierarchies of policy

⁶⁹ In its publication “Policy Coherence for Development: Promoting Institutional Good Practice”, the OECD, for instance, addressed implementation difficulties with regard to the MDGs and international commit-

fields might be disadvantageous to development policy and hence hinder the full deployment of PCD. In this respect Christiansen and Rogerson stress that coherence presents not only opportunities, but also threats for development goals. They state:

“This is not necessarily a win-win game, and development may well lose to more powerful domestic political constituencies. Like it or not, the aid industry is part of this broader context, both defined by and constitutive of it. The current debate around ‘harmonisation’ of donor policies and systems, for example, is part of the aid subcomponent of the coherence agenda and needs to be seen as such. Progress in some of its key dimensions, such as aid untying, presupposes the demand for parallel policy changes elsewhere” (Christiansen/Rogerson 2006: 14; emphasis added).

That these parallel changes are not always easily provoked can, to a certain extent, be exemplified by policies for tied aid credits and associated financing. The hierarchy of policy areas and their respective ministries and the predominance of national interests and resulting deadlocks in negotiations are reflected at several occasions in Participants’ negotiations. The Austrian example – tied aid credits are dealt with by the Export Credit Agency OeKB (Oesterreichische Kontrollbank) – illustrates the importance of studying both, the institutional split of competences in a given country and the potential incoherence resulting from the international policy framework for tied aid credits. Quotes like the following extract from Austrian parliamentary documentation demonstrate the *problematique*:

“Das Exportfinanzierungskomitee (EFK) agiert nach den internationalen Richtlinien für staatlich unterstützte Exportkredite. Daraus ergibt sich, daß eine Kohärenz mit dem 3-Jahresprogramm der österreichischen Entwicklungszusammenarbeit nicht immer gegeben sein kann. Das Bundesministerium für auswärtige Angelegenheiten (Sektion Entwicklungshilfe) ist im EFK mit Sitz und Stimme vertreten” (Parlamentarische Materialien 1997, 3369/AB XX.GP: 2; emphasis added).

The international guidelines for officially supported export credits referred to in the above quote are spelled out in the *Arrangement on Officially Supported Export Credits*. Whether this reference document truly provides the breeding ground for incoherence with development policy goals and how it tries to ensure coherence respectively, will be examined in the subsequent Chapters.

Another related example of implementation difficulties is the afore-mentioned slow progress in untying and the exception of food aid from the 2001 *Recommendation on Untying of Bilateral Development Assistance to Least Developed Countries*. Despite vivid declarations on paper for increased policy coherence, agriculture – and along with it food aid – is neither covered by the 2001 Untying Recommendation nor by the

ments in general (OECD 2005: 31). Therein it states that “[h]eads of state sign up to the MDGs and further international commitments, but they often face political constraints on ratification and implementation” (quoted in Obrovsky/Schlögl 2011: 34).

Arrangement on Officially Supported Export Credits. This loophole prepares the breeding ground for incoherent policies (one might just think of the potentially perverse effects of agricultural subsidies in the EU on local production in developing countries). In this respect, mixed credits and agricultural credits are explicitly referred to in the DAC's *Illustrative Checklist on Policy Coherence for Poverty Reduction* which identifies policy areas requiring due diligence with regard to coherence (OECD 2001: 103).

While traditional official export credits are addressed in most articles dealing with PCD and have repeatedly been the target of criticism by NGOs⁷⁰ (e.g. in the form of letters to the Export Credit Division of the OECD), tied aid credits raise concern about coherence on yet another level. Given their proclaimed development motivation and the resulting ODA-eligibility, the question is not only whether tied aid policies are coherent with other policy areas, but whether they in themselves are consistent with the principles and procedures of development policy. In this respect, it is above all the internal coherence of aid policies that will be of interest here.

To conclude let us come back to Tinbergen, who shaped the idea of “each goal, its policy”. According to Tinbergen each of these somewhat separated goals requires policies especially designed to achieve the respective goal (Tinbergen 1986: 14). Considering that in the case of tied aid credits (at least) two policy goals are to be achieved with a single instrument, we will later have to ask ourselves to which extent the Arrangement equally provides the tools for achieving both – or to speak with the language of the Participants whether the guidelines are sufficiently “balanced”.

3.2. Critical Remarks

This chapter has departed from the three core features of tied aid credits (tied to procurement in the donor country, concessional and provided in form of a loan rather than a grant) and put them in the context of OECD framed discourses on *good* development aid. Broadly speaking, three different, but highly interlinked debates have been identified: the aid effectiveness debate as incarnated in the Paris Declaration, long-lasting discussions on and hesitant steps towards the untying of aid as well as the call for Policy Coherence for Development.

In a first step the evolution of the aid effectiveness debate and its culmination in the 2005 Paris Declaration was examined. The principles on aid effectiveness – harmonization, alignment, ownership, mutual accountability and managing for results – will be

⁷⁰ Especially ECA-Watch tries to attract public attention to perverse effects of export credit practices on human rights and social and environmental developments and advocates for reform of ECA practices (see <http://www.eca-watch.org/>). Calls of ECA-Watch for bringing ECA policies in line with social, economic and environmental goals are best summarized in the so-called Jakarta-Declaration, endorsed by over 300 NGOs (<http://www.eca-watch.org/goals/jakartadec.html>).

taken up in the assessment of the regulatory framework for tied aid credits from the angle of development policy.

After an examination of the wide debates on aid effectiveness, one specific feature of tied aid credits, namely their tying status was discussed in greater detail. This analysis demonstrated that on the level of official statements, a general consensus exists within the “donor community” that untied aid is the better type of aid. Following this “technical discussion” of Paris Principles and the tying status of aid, the ambitious concept of Policy Coherence for Development was analyzed. The latter calls for a more “holistic” approach to development policy, taking into account interferences with other policy areas potentially thwarting development co-operation efforts.

All three of the presented “debates” give us partial answers with regard to the potential of tied aid credits as an instrument of development policy. Without wanting to anticipate, this literature analysis suggests that the nature of tied aid credits is at least partially at odds with today’s DAC consensus on what constitutes good development cooperation. This stems primarily from the fact that these concessional loans are tied to procurement in the donor country and thus undermine efforts to improve the ownership of recipient countries and might hamper the development of local/regional economies, which in turn is thought to decrease the positive impact of the invested money.

The subsequent assessment of the aid quality of tied aid credits against these largely OECD homemade criteria shall not be interpreted as naïve belief in the pertinence of these principles and recommendations. Also, a smooth implementation of them is not taken for granted. However, a detailed discussion of the phases of implementation of the different guidelines is not considered to be fruitful for the purposes of this study, which at this point is more interested in the making of the underlying discourses. Progress made in implementation will be more relevant on a case study level.

The call for greater effectiveness as embodied in the Paris Declaration implicitly presumes a mutual and uncontested understanding among all actors of what aid shall achieve. Yet, as demonstrated in particular in the subchapter on untying, motivations behind and purposes of aid are manifold. This raises questions with regard to what is considered greater “effectiveness” of aid (and subsequently on how to measure it appropriately). UNIDO’s Evaluation Office, for instance, defines effectiveness as *“[t]he extent to which the development intervention’s objectives were achieved, or are expected to be achieved”* (UNIDO 2008: vi)⁷¹. Taking such an interpretation of effectiveness as starting point shows that defining principles of how to increase the effectiveness of development aid, presumes a mutual understanding of all actors on the very goals and purpose of their aid efforts. This assumption, however, masks diverging

⁷¹ A detailed account of the DAC’s criteria for international development evaluations is given by Thomaz Chianca (2008).

interests behind aid and the multiplicity of goals aspired. As precisely this assumption is not fulfilled, Christiansen and Rogerson argue that if aid *“in practice serves a wide range of interests and objectives, then assessing its fitness in terms of any single purpose is of limited utility”* (Christiansen/Rogerson 2006: 13). Summing up, Christiansen and Rogerson’s argue that improving the way in which aid is delivered presupposes an examination of why this aid is delivered⁷². Whenever we talk about motivations of actors behind certain practices and behavior, we, however, get into hardly tangible waters.

Bringing motivations behind aid to the spotlight means addressing the political roots of the aid business. According to Nilima Gulrajani – a scholar at the London School of Economics and Political Science – current OECD/DAC debates on aid, however, fail to do so. In this respect, she sees the aid effectiveness debate and its manifestation in the Paris Declaration as an illustration of aid reformers’ attempts to push for reforms that are meant to stay beyond political dynamics (Gulrajani 2011: 209). Other scholars also voice similar concern about the de-politicization entailed by the Paris Principles. With regard to one of the pillars of the Paris Declaration, Rosalind Eyben, for example, states that *“[...] harmonisation becomes a vice when it strengthens long-standing donor habits of pretending that poverty is not political”* (Eyben 2010: 219). Concern over the de-politicization of the intrinsically political action of aid-giving is also raised by Clemens Six. He recognizes that the Paris Declaration addresses decades of deficits of international development cooperation, but also warns of the degradation of essentially political questions to techno-administrative levels by the Paris principles and indicators (Six 2012: 27). This criticism is linked to the meaning given to aid effectiveness by the Paris Declaration through which the *“[...] prescriptions for better delivery and management of foreign aid are divorced from political dynamics and relations that impinge, for better or worse, on aid”* (Gulrajani 2011: 209). Accordingly, the Declaration fails to provide *“[...] either a tool for assessing change in aid relationships towards the new principles or a tool with which recipient countries can pressure donors to do so”*. As result, the commitments made in Paris in 2005 remain on a technocratic level without any means to bring about more fundamental changes (Fraser/Whitfield 2009: 89).

In a similar vein, Gulrajani argues that by defining aid effectiveness in terms of 5 principles reflected in 12 indicators, the Paris Declaration reduces aid effectiveness to a techno-administrative matter and hence largely ignores power structures and politics, which are inherent to all aid relations. Considering that, for instance, reporting practices of the indicators have been subject to political dynamics on both donor and recipient side, Gulrajani concludes that the Paris Declaration represents an *“[...] un-*

⁷² Inspired by such criticism especially civil society actors in the aid community try to shift the focus from aid to development effectiveness (Kindornay/Morton 2009) – a broadening of the concept especially addressed in Busan 2011.

helpful ideal of how aid could be better managed as it appears to exaggerate the ease with which aid can be reformed to deliver development outcomes". In this respect, the Declaration on Aid Effectiveness figures as prime example of *the aid community's* conviction that business managerialism, as she calls it, is the main vehicle for improving the effectiveness of foreign aid (Gulrajani 2011: 209). A more profound transformation⁷³ of the aid system is not envisaged. Similarly, Owen Barder describes the changes implemented with Paris and Accra as a "planning mindset" and argues that long coordination meetings between donors and recipient countries will not change the institutional and political constraints under which aid agencies operate (Barder 2009: 1)⁷⁴. Political answers to overarching questions such as coherence or ecological sustainability are essential (pre)conditions under which "operative details" such as harmonization and alignment only become truly meaningful (Six 2006: 27). The concept of Policy Coherence for Development is to be interpreted as a more holistic approach to the aid effectiveness debate and can – at least in its conceptual ideal – be considered an attempt of shedding light on the "political embedding" of development (aid). In this respect, Policy Coherence for Development in its multiple dimensions can be considered a strategic approach by means of which the MDGs shall be better and faster achieved. While the Paris Declaration aims foremost at increasing efficiency through harmonization of aid activities and through alignment of donor strategies with recipient policies, PCD can enlarge the political room for maneuver and thus widen the potential for efficiency increase. Without growing efforts to implement the concept of PCD, the principles of harmonization and alignment will remain processes limited to the optimization of development cooperation, which as such will then be limited by the lack of a political framework (Obrovsky 2006: 79). In that sense PCD reminds us that development is not a mere business undertaking, but an intrinsically political act.

⁷³ Fraser and Whitfield (2009: 89) similarly criticize that the Paris Declaration only scratches the surface. They interpret this as the logic result of the functioning of the "donor community". They state: "Perhaps we should not be surprised that the Paris process has not promoted radical reform of the international aid system. The key institution driving it forward is the DAC, a forum run and dominated by the interests of donor countries". A more inclusive forum to discuss development assistance, providing developing and emerging countries with a means to express their views, would, for instance, be the Development Cooperation Forum within the UN Economic and Social Council.

⁷⁴ According to Barder (2009: 2) moving from a planning rationale to a system of collaborative market would be a step towards overcoming the challenges of the aid system. He uses the term collaborative market as a "shorthand for a market governed by collective regulatory agreements and complemented by symmetric and accessible information. Specific measures to move towards a collaborative market could include unbundling funding from design and implementation of aid programs, to create explicit markets for aid delivery; improving international competition in the supply of development services; new standards for aid transparency; mechanisms to allow aid beneficiaries to provide feedback about the services they receive; penalties for negative spill-overs (such as entry fees to discourage proliferation) and subsidies for positive spill-overs (such as independent and rigorous evaluation); and the establishment of a more effective regulatory mechanism, backed if necessary by treaty".

Being fully aware of these shortcomings of and criticisms on recent OECD framed discourses on development aid, they still remain the most appropriate – or better put, the most tangible – benchmark against which the intended assessment of the developmental fitness of tied aid credits can be made. Taking DAC concepts as starting point is appropriate not only because of the Committee's function as *clearing house* for definitions on what aid is and should be (FRIDE 2008: 3), but also because it allows to make statements about the OECD's internal coherence, i.e. whether the Organization lives an example of its own concept of Policy Coherence for Development. Furthermore, keeping the addressed criticism in mind helps placing potential criticism on the *Arrangement on Officially Supported Export Credits* (and the way it has been negotiated) in the broader development context. This might contribute to disclosing some of this criticism as "systemic" rather than as individual cases.

Having these OECD framed discourses in mind, the next chapter will turn to the regulatory framework covering tied aid credits to find more answers regarding the weight of development goals and policy in the design of the instrument. This inquiry into the roots of tied aid credits will lead way back into the jungle of the export credit world of the late 1970ies.



4. An Introduction to the International Regulatory Framework

Keeping the recent OECD discourses in mind and with first hypotheses on the developmental orientation of tied aid credits in our baggage, we will now travel back to the roots of this instrument. To understand the history of tied aid credits some introductory words on the current state of affairs will be provided in the following paragraphs. The aim thereof is to give an introduction to the complex sets of rules for tied aid credits, which have evolved over almost four decades.

In a first step the status quo of the regulatory framework that determines tied aid credits will be presented briefly. This shall help understand why in the following so much attention is paid to the *Arrangement on Officially Supported Export Credits*. Departing from that brief description the subsequent chapter will ask how this “Consensus” on official support for export credits including tied aid credits came into being. Before going into Arrangement details and their historical genesis the reader shall be given a little tour through the institutional scenery of export credit and tied aid financing. This chapter gives a first grasp of the overlapping sets of rules existing in the field of official support for export credits. For that purpose this chapter will locate the Arrangement within the international trading system. It will touch upon its complementary function in relation to WTO legislation and EU law, its link to DAC principles, as well as its legal character. Finally, the main mechanisms and provisions of the Arrangement will be presented.

Most prominently export credits and tied aid credits are regulated by the so-called *Arrangement on Officially Supported Export Credits*, hereafter simply referred to as *the Arrangement*. The Arrangement, however, has interfaces with several other sets of rules and guidelines. Touching upon these embeddings of the Arrangement into other policy frameworks is not only interesting for its own sake, but crucial if one wants to assess the afore-mentioned attempt to create Policy Coherence for Development (PCD).

With Figure 4.1, Evans illustrates the complexity of institutional arrangements governing trade finance⁷⁵ and along with that tied aid credits. The structure of this chapter follows, in essence, Evan’s table on the “Dimensions of Official Trade Finance”, but shifts the emphasis from trade finance to development finance. The three most im-

⁷⁵ It shall, however, not be forgotten that all these provisions only apply to forms of export credits in which the state is involved, the growing private market for export credits is not covered. In the following exclusively those export credits that contain elements of official support will be treated.

portant forums where officially supported export credits are being discussed are the OECD (the Export Credit Group and the loosely linked Participants Group), the World Trade Organization (WTO) as well as the Development Assistance Committee (DAC). While in some areas the activities of the respective institutions overlap, loopholes exist in other instances (as the case of untied aid will show) (Evans 2003: 6 et seq.).

The figure below shows that in the case of mixed credits and tied Official Development Assistance (ODA) the Helsinki rules – core part of the Arrangement – overlap with DAC guidelines. This in itself is a manifestation of the fact that tied aid credits have been a matter of concern for different groups out of different reasons ranging somewhere on the spectrum between containment of aid respectively trade distortion.

Figure 4.1: Dimensions of Official Trade Finance

Institution	ECA	ECA + ODA (mixed credits)	ODA		Non-ODA
Procurement Policy	Tied ^a	Tied	Tied	Untied	Tied
Subsidy level	Moderate		Substantial		
	> 0		100%		
Trade finance rules	OECD Arrangement ^b		Helsinki Rules		OECD DAC ^c
	WTO/SCM Agreement ^d		no rules ^e		
Purpose	Trade Promotion		Development		

Note: ECA= Export Credit Agency; ODA=Official Development Assistance; Non-ODA refers to bilateral financial transfers such as Japan's Green Aid Plan and the United State's support for Israel, which are not reported as ODA.

- a. Domestic content requirements vary from country to country, ranging from 50 to 80 percent.
- b. OECD Arrangement on Guidelines for Official Supported Export Credits established in 1978.
- c. OECD Development Assistance Committee established in 1960.
- d. World Trade Organization Agreement on Subsidies and Countervailing Measures established in 1979.
- e. The blank areas indicate areas where trade finance rules have not been developed because they are generally considered to be free from problematic trade distortions

Source: Evans 2003: 5

4.1. The Participants Group and “their” Arrangement

Following figure 4.1 this section will give a short introduction to the trade finance rules laid down in the Arrangement in general and its Helsinki disciplines in particular. Understanding the institutional framework, in which this rule set is embedded, will later be of importance when its compatibility with the DAC's development policy standards will be assessed.

4.1.1. Purpose and General Provisions of the Arrangement

The Arrangement is the regulatory framework for officially supported export credits and tied aid credits. Its scope covers any form of official support for the export of goods or services, or both, including financial leases. This means that the provisions explained hereafter only apply to official support provided by governments or by institutions acting on behalf of a government whereas private forms of export promotion are excluded from the provisions. Forms of official support, which are defined by the Arrangement (article 5) are export credit guarantee or insurance, direct credit/financing and refinancing, interest rate support, or any combination of the listed. The Arrangement applies to officially supported export credits of a repayment term of a minimum of 2 years (OECD 1998: 17).

The main purpose of the Arrangement is to limit market distortions created by officially supported export subsidies. This shall be achieved by fostering competition among exporters, meaning that competitors should compete in quality and price, rather than on the best financial terms and conditions (OECD 1998: 17). Limitations on the terms and conditions of officially supported export credits are set through defining minimum interest rates, risk fees and maximum repayment terms. In addition, the Arrangement regulates the provision of tied aid credits. The part of the Arrangement which particularly addresses tied aid credits is called the Helsinki Package. It comprises rules, which aim at limiting the use of concessional financing for projects that otherwise could be financed on commercial terms (financial viability). These are usually projects which are commercially viable⁷⁶. Whether a project is eligible for an officially supported export credit can be assessed with the help of two key tests on commercial viability set out in the Helsinki Package. Furthermore, in 1996 an *Ex Ante Guidance for Tied Aid* was published to give additional practical guidance to potential exporters and financial institutions in assessing whether a project can be expected to be eligible for tied aid financing or whether it should be financed on commercial or Arrangement terms.

The Arrangement is not a legal act of the OECD. Derogations of the rules and exceptions are technically possible, since there is no official body which enforces the rules. Peer pressure appears to be the force disciplining the Participants' compliance with

⁷⁶ OECD, export credits: <http://www.oecd.org/tad/xcred/about.htm>

the rules. Within the scope of the Arrangement procedures for prior notification, consultation, and information exchange are in place. Exceptions and derogations of the rules, as well as tied aid offers are continuously being reviewed by the Participants⁷⁷.

The core Arrangement text is supplemented by various sector understandings, which provide specific provisions for projects in the following sectors: nuclear power plants, civil aircraft, ships, and renewable energy, climate change mitigation and water projects. Military equipment is not covered by the disciplines of the Arrangement. Despite extensive negotiations for including agricultural commodities, the Participants have also failed to incorporate these in the Arrangement up to today (TAD/PG(2013)1).

4.1.2. The Masters of the Arrangement

As explained above officially supported export credits are dealt with in two separate groups, linked in different ways to the OECD, more precisely to the Export Credit Division: the Participants to the Arrangement (Participants Group) and the Export Credit Group. According to Nicola Bonucci, former Director of the OECD's Legal Directorate, the unusual relationship between these two groups is a specificity difficult to understand as an outsider (Bonucci 2011: 52). This diffuse relationship and blurry split of competences between the Export Credit Group and the Participants requires some explanations. They should contribute to a better understanding of how national actors grouped themselves to seek political answers to and put in place international regulations for what were thought to be harmful protectionist subsidy policies.

Although the first version of the Arrangement, adopted in 1978, had initially been drafted by members of the Export Credit Group, in the very year – following a Communiqué from the Ministerial Council Meeting – a new body, the Participants Group (PG), was established and given the task of monitoring and developing further the Arrangement text. This informal group, “[...] while not an OECD body, would meet in the OECD and be serviced by the OECD secretariat” (West 1998: 22). Due to this loose link to the OECD, the Participants are not legally bound by the OECD rules of procedures. This allows them to invite non-OECD members to join the Arrangement – as it was the case when Brazil signed the sector understanding for civil aircraft. The Arrangement text explicitly states that other “*OECD Members and non-members may be invited to become Participants by the current Participants*”⁷⁸ (TAD/PG(2012)9: 5). This also reflects concerns of the Participants over how to adapt to changing realities and newly emerging competitors – a concern voiced by the majority of our interview partners (without specific questions directed at this topic from our side).

⁷⁷ OECD, export credits: <http://www.oecd.org/tad/xcred/about.htm>

⁷⁸ Brazil was the first non-OECD member-state to become a Participant to parts of the Arrangement when it signed the new Sector Understanding on Export Credits for Civil Aircraft in 2007. Negotiations leading up to this signature had been surrounded by the so-called “Embraer case” – a WTO dispute case between Brazil and Canada. For further information see Sanchez 2008.

As of January 2013 there are nine Participants to the Arrangement. These are: *Australia, Canada, the European Union, Japan, Korea, New Zealand, Norway, Switzerland and the United States* (TAD/PG(2012)9: 5).

In Participants' meetings the European Commission represents EU member states⁷⁹ – another peculiarity that results from the informal status of the Participants Group (Bonucci 2010: 52). In addition to the above mentioned participants, Israel and Turkey are observers to Participants' meetings. Also other organizations, the International Union of Credit and Investment Insurers (the Berne Union⁸⁰), the Secretariat of the World Trade Organization (WTO), the European Bank for Reconstruction and Development (EBRD), the United Nations Environment Programme (UNEP) or the International Monetary Fund (IMF) are invited to participate "*when issues of mutual interest are discussed*"⁸¹.

The parallel existence of a so-called Export Credit Group (ECG)⁸² might be somewhat misleading. The ECG does influence and is related to the Participants' work, but the ECG – contrary to what its name might suggest – does not hold the competence over the Arrangement. Instead, the ECG deals with complementary issues such as anti-bribery, environmental standards or sustainable lending⁸³.

While, strictly speaking, the Participants are not part of the OECD, the Export Credit Group, founded as early as in 1963, is an ordinary OECD Working Party (albeit with somewhat unusual reporting practices) under the Trade and Agriculture Directorate⁸⁴. Due to its direct link to the TAD and the formal character of the group, EU member-states participate with their "own vote and voice" (Bonucci 2010: 52).

The work done by the two groups is usually complementary – a feature that results from the fact that generally the same people/country delegates represent a state or Export Credit Agency in both ECG and Participants' meetings (with the exception of EU countries which are represented by the Commission in Participants' meetings). A brief glance at the lists of participants in both the Participants' and ECG meetings

⁷⁹ This results from the fact that the Commission holds the competence for trading issues of its member states – a split of competences that came into effect after a long dispute, especially between France and the Commission had been settled on the question of competences (Geberth 1998: 31).

⁸⁰ The Berne Union, formally known as The International Union of Credit and Investment Insurers, was founded in 1934 as a forum for the exchange of information on the export credit industry and on specific countries. Its main purpose is to design sound principles of export credit insurance and maintenance of discipline in the terms of credit in international trade (Kuhn et al. 1995: 35). Unlike at OECD meetings, the Berne Union brings together export credit agencies alone, that is guardian authorities are not represented as would be the case at OECD meetings (Kuhn et al. 1995: 6). Consequently, discussions on some policy issues are limited (Kuhn et al. 1995: 13). Furthermore the Berne Union also includes export credit agencies from non-OECD countries (Kuhn et al. 1995: 6).

⁸¹ Additional information can be found at <http://www.oecd.org/tad/exportcredits/participants.htm>

⁸² The full name of the ECG is "Working Party on Export Credits and Credit Guarantees".

⁸³ Sustainable lending is a topic originating from the World Bank and the IMF; in 2008 OECD members adopted sustainable lending principles for official export credits; for the Press Release see <http://www.oecd.org/general/oecdcountriesagreesustainablelendingprinciplesforofficialexportcredits.htm>

⁸⁴ Formally called Trade Directorate, hence the abbreviation TD used in most archive documents.

(attached to each Aide-Memoire) shows that usually representatives of either the Ministry of Finance and/or of the respective Export Credit Agency participate in meetings and negotiations (often held in the same week).

While no clear-cut rules exist determining which topics are to be discussed in either the ECG or the Participants Group (Interview VII), some norms and practices have evolved over the years. One of our interview partners of the Export Credit Division describes the distribution of competences as follows: "***The Participants deal with financial disciplines in a wider sense and the ECG deals with underwriting practices and non-financial disciplines, so the ECG sets the rules, for instance, for environmental assessment, it will discuss rules on combating bribery, and such things***" (Interview VII). This appraisal corresponds with the description found on the official homepage of the ECG, which says that the group "*is responsible for discussing and progressing work on good governance issues, such as anti-bribery measures, environmental and social due diligence, and sustainable lending*"⁸⁵.

4.1.3. Legal Status of the Arrangement

The *Arrangement on Officially Supported Export Credits* is often referred to as the "OECD Arrangement" (see for instance the Figure 4.1 by Evans 2003: 5). Strictly speaking, it is, however, not an "act of the Organization" [OECD], but rather an "arrangement between certain countries which are all Members of the OECD" (Ray 1998: 33). It has already been mentioned above, however, that OECD membership is not imperative. Although the Arrangement text is to be found on the OECD homepage and the Council provides the Participants' budget, the Arrangement "is owned" by the Participants and the "OECD serves as a mere administrative home" (Levit 2004: 77).

Several observers such as Ray (1998: 3) and Bonucci (2011: 49) argue that the legal status of the Arrangement – also considered a "Gentlemen's Agreement" – is deliberately ambiguous and not too tight⁸⁶. Since the disciplines are non-binding, the Arrangement is considered "soft law" and its Participants feel politically bound rather than legally obliged (Bonucci 2011: 50, 51).

Despite the loose link of the Participants to the OECD and the soft law character of the Arrangement, Richard Woodward considers export credits an area where "legal governance"⁸⁷ of the OECD takes precedence. While in general, the role of the

⁸⁵ For the section on export credits see: <http://www.oecd.org/tad/exportcredits/ecg.htm>

⁸⁶ Although the OECD Council and the Council of Ministers have legal instruments at their disposal, soft instruments such as recommendations, declaration, arrangements or understanding are used way more frequently by the Organization (Martens/Jakobi 2010b: 6 et seqq.).

⁸⁷ The appropriateness of speaking of truly "legal governance" might be questioned considering the "toothlessness" of the Arrangement (as one of our interview partners from the ECG put it; similar expressions used in literature to describe the relative lack of "hard instruments for enforcement" are "talking shop" or "debating society" (Martens/Jakobi 2010b: 6). This, however, does not devalue the core argument of Woodward's observation, being that the rules are set by the OECD and not e.g. the WTO (Woodward 2009: 85). The author does not explain his interpretation of this term legal governance. Here

OECD in the field of trade policy is one of supporting the WTO and the United Nations Conference on Trade and Development (UNCTAD) in norm building processes, it sets the “rules” itself in the case of export credits (Woodward 2009: 85). Existing literature does not answer the question as to why this precedence occurred in the first place and why export credits were not from the very onset the domain of GATT or why the authority over official export credits was not transferred to the WTO later.

One of our interview partners affiliated with the Export Credit Division shared with us his hypothesis on this matter and presented two reasons why the Arrangement was negotiated by the Participants and not the WTO. Firstly, the authority of the Arrangement over export credits results from the simple fact that at the time it was negotiated the WTO had not yet been set up and its predecessor, the GATT, was concerned more with competitiveness issues and not with broader trade policy (Interview VI).

Secondly, it was, in the view of our interview partner, negotiated by the Participants and not in a more inclusive framework out of political calculation. The following quote illustrates the political reasoning stressed by our interview partner:

*“So the donors, there is a strong view on this in the US and I have **a strong view that the donors should control the discipline.** Because you know it’s coming out of donor tax payers’ money, you know, **he who provides the money should have the say in how it is used.** And the recipients may have mixed feelings but in the end there is a financial incentive to try to get as much as they can and so not to be so anti-subsidy” (Interview VI)⁸⁸.*

The assumption of a circumvention of the GATT/WTO out of political tactics is also reflected in Richard Woodward’s analysis of the functioning of the OECD, albeit formulated in a more diplomatic manner. According to him, states negotiate legal agreements (in our case rather an informal agreement with elements of hard law) at an OECD level (in our case a group loosely linked to the OECD), because it enables them to deal with issues affecting disproportionately OECD countries. He argues – and this could be applied to the export credit case – that “[...] especially in areas where divergences between OECD and non-OECD members would obstruct a formal treaty in an international institution with a wider membership” (Woodward 2009: 72 et seq.), the OECD figures as negotiation framework. In a similar vein, Steven Hall argues that the OECD was chosen as a forum because it “[...] allowed the US to target key tied aid players while excluding potentially obstructive third

it is assumed that the emphasis lies more on the governance part, the regulatory role of the OECD in the field of export credits.

⁸⁸ Early documentation of the discussions on the impact of mixed credits in the DAC Working Party on Financial Aspects of Development Assistance in a way feeds arguments like those brought forward by our interview partner. In a note by the DAC Secretariat it says that “[d]eveloping countries draw substantial benefit from the subsidisation of export credits” (DAC/FA(81)1: 17). In another note they are even considered the sole beneficiaries from such policies. However, in later DAC/FA documentation it becomes clear that these benefits might be rather short-term effects that only occur in case of true “additionality” of the resources provided in the form of mixed credits.

parties. [...] More importantly, **confining negotiations to the OECD precluded the presence of aid recipient countries.** Such states benefiting from aid diversion into export promotion and donor competition over terms would have a strong incentive to block agreement” (Hall 2011: 660 et seqq.; emphasis added).

Despite its legal softness the Arrangement seems to have been working effectively over a considerable period of time. To some degree compliance with the Arrangement might be due to the legal mechanisms induced to the Arrangement as a consequence of its integration into other legal frameworks, above all into EU law and GATT respectively WTO law.

Since most EU legislation on export credits is based on texts elaborated within the Export Credit Division of the OECD, in particular the Arrangement, the latter became legally binding for a vast majority of the Participants Group. The main EU-internal legislation dealing with export credits is laid down in the “*Council Directive 98/29/EC on harmonization of the main provisions concerning export credit insurance for transactions with medium and long-term cover*”. This directive is based on Articles 132 and 133 of the “Treaty on European Union and of the Treaty Establishing the European Union” and spells out common principles for insurance and guarantee arrangements, premia and cover policies⁸⁹.

Paragraph 1 of Article 132 states the following: “1. *Without prejudice to obligations undertaken by them within the framework of other international organizations, Member States shall progressively harmonize the systems whereby they grant aid for exports to third countries, to the extent necessary to ensure that competition between undertakings of the Community is not distorted*” (EU 2006 – essentially no changes made with Lisbon Treaty). This paragraph explicitly deals with aid for exports to third countries only and hence does not include intra-Union trade. The latter is covered primarily by EU law on state aid⁹⁰ (Martenczuk 2008: 182).

4.2. WTO Legislation

“Up to now development aid policies have been immune from any scrutiny of compatibility with free trade rules”

(La Chimia 2004: 7)

As illustrated by Evan's table presented earlier in this chapter, in some areas the activities of the Participants (and the OECD) overlap with rules and practices of the World

⁸⁹ Documentation of discussions on officially supported export credits in the European Parliament; see <http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2010-0364&language=EN>

⁹⁰ After the then EU Competition Commissioner in 1991 had “indicated that ‘tied development aid’ should be treated as a type of ‘state aid’” (ActionAid 1999: 13), ActionAid together with 40 other European NGOs submitted a legal complaint to the EC on the grounds that aid tying was violating EU competition and internal market rules (see http://www.actionaid.org.uk/doc_lib/71_1_competition_policy.pdf). This action was thought to be “crucial to galvanizing the international donor community to untie aid (ActionAid/Milligan 2001: 26).

Trade Organization⁹¹. This can be shown most prominently by the example of the Arrangement and the WTO's Agreement on Subsidies and Countervailing Measures (ASCM) (Evans 2003: 6 et seqq.).

In 1980 the Subsidies Agreement of the GATT came into effect, prohibiting the use of subsidized export credits to gain competitive advantages. Up to the present the Agreement, now having the status of a WTO Agreement, has provided a "safe harbor" for those export credit practices that are in conformity with the Arrangement. This means that violating the Arrangement also entails a violation of the Subsidies Agreement, which provides legal remedies (Mendelowitz 1989: 5). This "safe harbor" is most evidently expressed in item (k)⁹² of the ASCM, which prohibits the use of export subsidies with the exception of export credits in conformity with the Arrangement. The Agreement text states the following:

"Provided, however, that if a Member is a party to an international undertaking on official export credits to which at least twelve original Members to this Agreement are parties as of 1 January 1979 (or a successor undertaking which has been adopted by those original Members), or if in practice a Member applies the interest rates provisions of the relevant undertaking, an export credit practice which is in conformity with those provisions shall not be considered an export subsidy prohibited by this Agreement" (GATT/WTO 1994: 263)⁹³.

Although not referred to explicitly, with the term "international undertaking" the *Arrangement on Officially Supported Export Credits* is meant. Bonucci concludes that the Arrangement has hence "multilateralised"⁹⁴ its scope, meaning that any WTO member – Participant to the Arrangement or not – "[...] would be deemed to comply with WTO obligations" (Bonucci 2010: 51). In this respect, the incorporation into WTO law gave international effect to what used to be (and in itself still is) a non-binding agreement, which has been negotiated by an elitist circle of countries over decades. The rather closed and secretive character of this group might thus be confronted with concerns considering the democratic nature of the resulting discipline and especially raises questions with regard to the OECD's self-obliged premise of partnership in its relationship with developing countries. The latter were not part of the negotiating group during the 1970ies, 1980ies and 1990ies. The question whether they were given the chance to propose changes to the Arrangement at a later stage, will be addressed in the assessment of the regulatory framework against the backdrop of DAC principles and ideas on development (aid).

⁹¹ The issue of tied aid and the relation of tying practices with the current WTO legal framework have so far been very little studied from a legal perspective. With their article "Addressing Tied Aid: Towards a More Development-Oriented WTO?" La Chimia and Arrowsmith (2009) attempt to fill this gap.

⁹² Furthermore item (j) contains some provisions on officially supported export credits.

⁹³ The Agreement can be found under: http://www.wto.org/english/docs_e/legal_e/24-scm.pdf

⁹⁴ A "way of proceeding" that – up to the Doha Round – can also be observed in other fields of WTO/GATT rule making.

4.3. Development Assistance Committee (DAC)

Tied aid credits and associated financing have traditionally also been a matter of concern within the DAC and fall due to their proclaimed development goals into its field of competence.

For the purpose of increasing the development policy content of the financing transactions and/or packages in question a *Working Party on Financial Aspects of Development Assistance* (DAC/FA)⁹⁵ was created within the DAC as early as 1975 (DCD/DAC/FA(99)6: 5). From the early 1980ies onwards, it was the main task of this Working Party to follow and monitor the Participants' work and to ensure that development aspects were considered appropriately in their negotiations (DAC/FA(85)2: 21). The DAC/FA also took a more active role in regulating tied aid credits. First guidelines were adopted already in the 1980ies and continuously developed in parallel to the Participants' work. The most important ones were the *DAC Guiding Principles for the Use of Aid in Association with Export Credits and Other market Funds* (1983) and their successor the *DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance* (1987). The DAC/FA's efforts culminated in the adoption of *New Measures in the Field of Tied Aid* in 1992.

The overlap of competences, as described above, results from the fact that official export credits and tied aid credits, as such both official flows to developing countries, are inextricably linked at their origin. Consequently, tied aid credits can only be understood in their relation to export credits. In somewhat broader terms this argument is also brought forward in a Note by the DAC Secretariat circulated to the Members of the DAC/FA in 1992: "*Considered that way from an analytical point of view, tying of aid can be viewed as way to in fact establish an official export subsidy to promote the own trade or at least to defend the existing national market shares on faraway markets. The debate on tying should therefore be placed in the perspective of the OECD countries' export credit support schemes in general*" (DCD/DAC/FA(92)8/REV1: para.3; emphasis added).

⁹⁵ The DAC/FA Group replaced the Working Party on Terms of Aid. According to former DAC-Chairman Helmut Führer this took place in 1964 (Führer 1996: 16; OCDE/GD(94)67), documents available, such as the above quoted "DAC Review of Working Parties: Draft Report on the Working Party on Financial Aspects of Development Assistance, however, suggest otherwise and speak of 1975 as the Group's inception year.



5. Historical Genesis of the Arrangement on Officially Supported Export Credits: Evolution and Status Quo of the Tied Aid Disciplines

With these general provisions in our toolkit, we will now look deeper into a specific part of the Arrangement, namely the disciplines on tied aid credits. This chapter adopts a historical and somewhat more “descriptive approach”. It aims at tracing tied aid credits back to their historical roots. In doing so, the underlying question is whether tied aid credits originate from a development corner or were designed from an export credit finance perspective. Understanding the original motivation is crucial for two reasons. Firstly, it explains why the Arrangement’s disciplines on tied aid credits are the way they are since they try to disincentive certain practices. Secondly, it partially gives an answer as to whether it is legitimate to consider tied aid credits an instrument of development policy. This inquiry of the original motivation behind tied aid credits also paves the way for our later analysis with regard to the ODA-eligibility of these flows – a concept fundamentally based on the motivation and intention of the donor to make a certain transaction.

Our literature review showed that academic literature on tied aid credits in general and their historical genesis in particular was limited. By far the most insightful publication on the genesis of tied aid credits is John Ray’s book “Managing Official Export Credits: The Quest for a Global Regime”, on which this chapter heavily draws. Resulting from the unsatisfying number of scientific literature available, the chapter is also based on archive footage, primarily on Aide-Memoires of Participants’ meetings as well as on Notes by the OECD Secretariat (Trade (and Agriculture) Directorate). This is done so as to fill important information gaps. Claims of giving a full historical account of the events are, however, not made. For the part on motivations driving tied aid practices – as such difficult to find in official documentation due to their implicit character – analyses of the expert interviews conducted at the OECD will be provided.

The account that will be given is also partial in the sense that the focus is put on a narrow part of the Arrangement, namely the provisions on tied aid credits. That is also why in particular two “packages” – the Wallén and the Helsinki Package – as well as the resulting Ex ante Guidance for Tied Aid are at the center of interest. While also other more “general” provisions of the Arrangement might be relevant for development policy, the Wallén and even more so the Helsinki Package are the two rule sets explic-

itly designed for tied aid credits. In total, four so-called packages⁹⁶ have been adopted, which are basically amendments to or revisions of the Arrangement. Other changes made to the Arrangement, like the adoption of sector understandings as well as the redrafting of the whole Arrangement text, completed in 1997, are not grouped in specific "Packages". Although highly interesting from a development perspective, the attempt and eventual failure to adopt a sector understanding on agriculture will be addressed only briefly because an in-depth inquiry would easily fill the pages of another study. This is because the aim is to capture as best as possible development policy issues and not necessarily effects of the general Arrangement provisions on recipient development. This would have simply gone beyond the scope of this study because such an undertaking requires a lot more information from the recipient side.

Since the Participants have, so to speak, the primacy over the regulation of tied aid credits (Evans 2003: 6 et seqq.), the focus of this chapter lies on the work of this group. It aims at examining how the Arrangement has evolved and what role development aspects played in its formulation and later evolution. Despite this focus on the Arrangement, parallel and at time complementary work done within the Development Assistance Committee (DAC) and especially the DAC Working Party on Financial Aspects of Development Assistance (DAC/FA) is addressed whenever appropriate. After all, these different bodies and their respective work relate to each other and cannot be understood in isolation.

The complexity of the issue demands a high degree of flexibility from the ones studying it. In this respect, this chapter follows John Ray's book, although some criticism has been voiced concerning his approach. One reviewer, for instance, states the following: "*However, it may be unavoidable that readers may feel lost. It would make the arguments stronger and help carve them into readers' minds if the book had a clearer theme*" (Wang 1997: 827). In defense of Ray's insightful account it is argued that this feeling of "being lost" rather results from the *hybridity* of the instrument and the complex regulatory answers to it and is not necessarily result of an author having lost track. It will be shown in the course of this chapter that at their roots tied aid credits and export credits are inextricably linked. Although first trade consideration and then aid consideration will be examined, jumping from export credits to tied aid credits as well as from development aid to export promotion is unavoidable at times – after all these practices are not worlds apart. Every now and then the reader will find information boxes that shall help them orientate in the "jungle of the export credit world", as one interviewee put it (Interview VII).

The Arrangement says: "*Tied aid policies should provide needed external resources to countries, sectors or projects with little or no access to market financing. Tied aid*

⁹⁶ These, with the exemption of Helsinki named after the Participants' Chairman at the time, are the following: Wallén Package (1987), Helsinki Package (1992), Schaerer Package (1994), Knaepen Package (1997) (see OECD 1998).

policies should ensure best value for money, minimize trade distortion, and contribute to developmentally effective use of these resources” (TAD/PG(2012)9, Chapter III: 19; emphasis added).

An attentive reader might have noticed that the aim of contributing “to the developmentally effective use of tied aid credits” in the above quote is only listed last. The following chapters enquire whether this order is mere coincidence or reflects the priority setting of the Participants. If development concerns indeed play a subordinate role, the question arises what this means for the quality of development assistance, which is delivered in the form of tied aid credits.

5.1. Contextualization: an Export Credit Race on the Rise

To understand negotiations on tied aid credits one needs to go almost half a century back into the 1970ies, a time when “survival of the fittest”⁹⁷ in a somewhat perverse sense was common practice in the jungle of officially supported export credits.

It was in the wake of the oil crisis in the early 1970ies that international negotiations over export credits were taken up (Rosefsky 1994: 446). The four-fold increase in oil prices in 1973 provoked drastic trade deficits in many OECD countries – most of which traditionally were oil-importing states (Levit 2004: 75). In view of steeply increasing oil prices industrialized countries needed more and more hard currency to be able to satisfy their oil consumption (Geberth 1998: 27). In order to curb their exports in a situation of worldwide economic depression, most industrialized countries heavily subsidized their exporters via their Export Credit Agency (ECA). Since at that time no detailed rules were in place regulating the terms that ECAs could offer⁹⁸, an export credit “war” became a threatening and conceivable scenario (Cutts/West 1998: 12). The macro-economic changes which were reflected in large trade deficits were accompanied by sharp increases in interest rates and made official interest rate subsidies ever more expensive for already heavily burdened governments. Given these economic conditions “[...] – high interest rates, large trade deficits, and limited government resources – all OECD ECAs braced for an inevitably costly export credit race, but also recognized that their own internal budget situation might not permit unfettered participation in that race” (Levit 2004: 75). In response, those politically responsible – mostly finance ministers – undertook first steps towards leveling the playing field.

⁹⁷ Perverse in the sense that the fittest therein was not the most competitive player on a free market, but the strongest, that it best state-supported, Export Credit Agency.

⁹⁸ The only exception was the subsidies code of the GATT. An analysis of the treatment of tied aid in general under the GATT and its successor is provided by Arrowsmith and La Chimia (2009) in their article “Ad-dressing Tied Aid: Towards a More Development-Oriented WTO?”

Box 4: “Trade Considerations”

The trade considerations step-by-step leading to the below analyzed rules have to be understood in the context of the OECD’s overall “liberalization agenda”.

In Article 1 of the OECD Convention, signed in December 1960, contributing “to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations” is declared as one of the Organization’s main goals (quoted in Jepma 1991: 2)⁹⁹.

Accordingly, the international trading system which is built around the basic principle that competition for export sales should be determined by price, quality and services and be free from government interventions likely to distort competition. Departing from this commercial viewpoint, subsidizing financial terms be it through associated financing or any other form of export subsidy that lowers the cost to the buyer, goes against this “philosophy” (DAC/FA (82)2; TC/ECG/82.4: 14).

In this vein, a Note by the Secretariat states that from a trade policy view point, associated financing raises a broader spectrum of concerns than those directly relevant for aid policy. “It is immaterial to the commercial impact of a financing package whether its subsidy element derives from the aid program, or from some other source of concessional public funds. What is of concern, in the end, is the potential trade distortion resulting from a subsidized concessional financing package, rather than the specific nature of the package’s component” (DAC/FA (82)2; TC/ECG/82.4: 15). The association of aid funds and export credits leads to aid and/or trade distortion, if the transfer of the ODA element is made conditional upon the acceptance by the recipient of the export credit (and hence the exports) of the donor country that the recipient in the absence of an effective association would not necessarily have taken (or would not have taken from the same donor which extends the aid transfer). “The problem therefore rests on tying the less concessional part of the financing package to procurement in the donor country and making the transfer of the more concessional part of the financing package conditional on such procurement” (DAC/FA(82)2; TC/ECG/82.4: 13).

Although not discussed in the literature on official export credits at hand, these early developments in the use and regulation of export credits were linked to major changes in the world economic system brought about by the abandoning of the Bretton Woods system of a gold standard in favor of a “managed float regime” in 1971. By that time the value of the dollar was being undermined by an increasing American trade deficit and inflation in the USA, while Germany and Japan both had positive balances of payment and undervalued currencies. The transition to a freely floating dollar led to a devaluation of the dollar, which provoked radical changes in the international competitive environment (Conte/Karr 2001)¹⁰⁰. The resulting drawback in the relative competitiveness of German and Japanese exports, had, one might assume,

⁹⁹ Petermann (2013: 212) argues that “[t]hese recommendations may have been rather abstract and general, but they became the foundation on which the DAC’s free-trade philosophy was to be built. The institution’s efforts to liberalize trade and aid flows, in turn, were to become a central normative pillar of the untying aid initiative”.

¹⁰⁰ The information are drawn from the “Outline of the U.S. economy”, which was prepared for the U.S. Department of State.

repercussions on the export credit policies of these countries. More precisely, European states and Japan began subsidizing export credits on a large scale in order to match the terms the U.S. Ex-Im Bank could offer without subsidization due to low interest rates (Fernald 1984: 438).

5.2. The Early “Consensus”: Establishing a Level Playing Field

When industrialized countries realized that their race for export credits would be to their own detriment, slowly but nonetheless steadily forms of cooperation between the rivals emerged. In a study conducted for the Austrian Institute of Economic Research (WIFO) Bayer et al. explain this emergence of cooperation¹⁰¹ with the help of game theory. To overcome the “prisoner’s dilemma”, in which industrialized countries found themselves, the different actors sought to eliminate information asymmetries and allow for cooperation¹⁰² which eventually would improve the position of all ‘players’ (Bayer/Stankovsky/Url 1992: 11; Moravcsik 1989: 199; Petermann 2013: 205; Ray 1995: 156).

With the growing realization of the adverse effects of excessive use of export promotion, several informal agreements within the IMF, the OECD and at G5 summit meetings were concluded, all of which were attempting to regulate export subsidies and to bring an end to the export credit race that started taking its toll on government budgets (West 2011: 21). At the G8 summit at Rambouillet in 1975, “[t]he Heads of State and Government of France, the Federal Republic of Germany, Italy, Japan, the United Kingdom of Great Britain and Northern Ireland, and the United States” declared that they “[...] will also intensify [...] efforts to achieve a prompt conclusion of the negotiations concerning export credits” (*Rambouillet Declaration 1975*).

It was this declaration that provided the basis for an informal consensus – the “Consensus on Converging Export Credit Policies” – agreed on in 1976 by a limited number of OECD countries on how to subsequently deal with export credits (West 2011: 21). This early consensus would, however, only be the beginning of difficult and long-

¹⁰¹ Andrew Moravcsik (1989: 174) gives a somewhat more thorough account of why states agreed on the Arrangement and proposes “theoretical explanation for the formation, maintenance, and success of this regime”. Game theory is thereby only one of the theoretical concepts he draws on. He, moreover, examines in great detail different country positions in the course of negotiations (in the beginning above all diverging positions of the USA and France).

¹⁰² Such a move to cooperation in order to avoid “spiraling escalation of spending” proves particularly difficult, “when preferences over levels of expenditures vary” considerably between the competitors. In such a situation cooperation will only evolve when also “governments with sufficient budgetary resources prefer subsidy reduction, but can mobilize domestic constituencies to make subsidy retaliation credible” – as will be shown later this was exactly the USA’s position and role in negotiations (Hall 2011: 346).

lasting negotiations¹⁰³. The minimum consensus of 1976 set targets for maximum duration and minimum down payments (Ray 1995: 52) and fixed a common minimum rate of interest for credits with a maturity of more than two years below which credits should no longer be extended. This rate varied in accordance with categories established for borrower countries, essentially being higher for richer than for poorer countries (Byatt 1984: 163 et seqq.). Furthermore, the “Consensus” provided early rules for credits linking commercial and aid credits, so-called mixed credits (Ray 1995: 52).

The “Consensus”¹⁰⁴ was formalized in 1978 in the so-called *Arrangement on Officially Supported Export Credits* (West 1998: 9). At this early stage the Arrangement only set modest limits for interest-rate subsidies and banned maturity terms above ten years (Moravcsik 1989: 199). With the help of these measures, the Participants temporarily “contained what was a rapidly developing credit race” (Stafford 1998: 45). Detailed provisions on tied aid credits were not yet included in the Arrangement – it only gave some guidance with regard to notification procedures in accordance with the percentage of the grant element (Fleisig/Hill 1984: 341). While tied aid credit practices were not restricted, it was expected that through the notification procedures, which were strengthened in 1981, their transparency would be enhanced (DAC/FA(82)2; TC/ECG/82.4: 6).

5.3. Packages Adopted and Alternatives Discussed up to Helsinki

This tightening of rules for “traditional” export subsidies – especially so the sharp increase in so-called matrix interest rates as well as the no-derogation agreement¹⁰⁵ – put limits to the Participants’ capacity of giving direct subsidies to export credits. As a result national export credit programs decreased steadily. Additionally confronted with a severe debt crisis in most of the developing world, industrialized countries were in search of alternative ways of keeping their export levels up (Ray 1995: 66).

In this dismal situation they more and more frequently took recourse to tied aid credits, which allowed them for some time to continue their subsidy policies under the disguise of giving (development) aid. This trend also manifested itself in a growing number of OECD countries putting tied aid schemes in place. While in the 1960ies only few Participants (including France and Switzerland) had such systems in operation, in

¹⁰³ This Consensus was not yet spelled out in a multilateral declaration, but only declared in unilateral statements by individual governments (see for instance Fernald 1984: 443). For a very detailed discussion of how this first Consensus emerged see Geberth 1998.

¹⁰⁴ Somewhat misleadingly the term “Consensus” is still widely used to refer to the Arrangement (Bayer/Stankovsky/Url 1992: 12).

¹⁰⁵ Matrix interest rates – the system in place before the introduction of CRRs – were fixed uniform interest rates for financing exports (TD/CONSENSUS/86.53; DAC/FA(86)12: 38). Prior to the no-derogation agreement, Participants could derogate (e.g. from maximal duration) as long as prior notification was given. The only derogation henceforth still in place was the matching mechanism (Ray 1995: 55).

the early 1980ies the majority of the then 22 OECD member countries participating in the Arrangement had the opportunity “to blend export credits with concessional aid loans” (DAC/FA(81)1: 15). This *renaissance* of tied ODA in the late 1970ies and early 1980ies was also due to the fact that “[...] *the untying problematique lost much of its salience in the day-to-day development politics*”, which were overshadowed by more pressing issues resulting from the oil crisis (Petermann 2013: 214).

John Ray, for instance, makes this point and argues that in reaction to the falling demand for export credits, most OECD countries maintained, if not increased, their offers of tied aid credits with higher grant elements. Most of these aid credits were extended for long-term projects in countries hit the hardest by the debt crisis – which tended to be the richer developing countries. Increasingly, tied aid credits became a distorting factor of competition among the OECD countries and replaced interest rate subsidies as prime source of trade distortion (Ray 1995: 67). Also within the DAC Working Party on Financial Aspects concern was raised that “*the spreading use of mixed credits [...] threatens the basic discipline of the Arrangement*” and will lead to the relaunch of “*the export credit terms race under another guise*” (DAC/FA(82)2; TC/ECG/82.4: 15). In a similar vein, several interview partners also made the observation that, as the early Arrangement tightened rules for traditional export credits but neglected tied aid credits, the latter were soon seen as way of circumventing the Arrangement (Interview V, VI, VII). One interviewee, however, specified that “circumvent” was not the best word because there was not yet much to circumvent. This is why this interview partner repeatedly described the practices as follows: “*They were used to play competitive games*” (Interview VII). Similarly, other observers see early tied aid credits as “*subsidy by the back door*” (Stafford 1998: 46).

Ray uses the example of the UK’s Export Credits Guarantee Department (ECGD) to explain that in the immediate post-war period officially supported credits were thought to be a proper and logical way of promoting development in the poorer countries of the world (Ray 1995: 58 et seqq.). Documentation of DAC/FA meetings in the early 1980ies gives credential to the observation that some member countries “[...] *consider the use of ODA in association with export credits to be a normal and useful way of increasing the flow of development financing and improving its terms*” (DAC/FA/M(81)1(Prov.): 4; see also DAC/FA(85)2: 5).

Gradually, however, both export credit agencies as well as aid agencies came to the realization that the two programs should be separated for as to avoid both trade and aid distortions. The greatest distortions, they thought, were being emanated from tied aid credit practices (Ray 1995: 59). At the DAC High Level Meeting in 1981, for instance, the Secretary-General stressed that putting undue emphasis on short-term export or employment benefits of mixed credit practices “[...] *could raise unrealistic expectations in public opinion and was bound to produce distortions in both trade and aid effectiveness*” (quoted in DAC/FA(82)2; TC/ECG/82: 5; DAC/FA(81)1: 16).

The Byatt Report published in 1982 (named after the chairman of the responsible research team I.C.R. Byatt) also voiced concern about the harmful effects of subsidies given to the export of capital goods. Above all, in the long-run they were considered “[...] an extremely expensive way to reduce unemployment” (Byatt 1984: 177). The report provoked a considerable controversy in the UK, but – as Ray puts it – “[t]he world economic climate in the first half of the 1980ies was not propitious to cutting back on the use of tied aid” (Ray 1995: 68).

In a first attempt to curb these practices, Participants agreed to increase the minimum permissible grant element to 20 %, thereby rendering tied aid credits more expensive. Furthermore, notification requirements for tied aid credits were strengthened, which “reduced the competitive advantage that could be gained” by employing tied aid credits (Moravcsik 1989: 186).

The key challenge repeatedly evoked in meetings (see for instance DAC/FA(82)2) consisted in the separation of aid and trade flows. According to John Ray, reaching an agreement on the proper relationship of officially supported export credits to official development aid was one of the most difficult tasks. To a certain extent the belief that these flows should be separated was also reflected in an earlier DAC decision (1969) to divide its concept of official flows into two distinct types of flows: Official Development Assistance (ODA) and Other Official Flows (OOF) (Führer 1996: 21). In the same year the idea of weighing members’ contributions according to their respective grant elements¹⁰⁶ was introduced (Ray 1995: 59 et seqq.), a concept which would later also play an important role in the work of the Participants.

Before the Participants could take up negotiations on the difficult issue of tied aid credits, they had to agree on a common understanding of the term “tied aid”. Differentiating between and agreeing on definitions of tied and partially untied aid turned out to be a cumbersome undertaking. The DAC was working on these definitions in parallel and when it agreed on the revision¹⁰⁷ of its old definitions in 1985, the Participants also declared that their disciplines would henceforth refer to both tied and partially untied aid (Ray 1995: 69 et seqq.).

Following a Ministerial Council Meeting in 1984 in which major concerns about the ongoing subsidy race via tied aid credits were raised, both the Participants and the DAC worked to fulfill the Ministers’ Mandate of bringing these harmful practices to an end. In the corresponding Ministerial Communiqué it says:

“Ministers affirmed their commitment to avoid any de jure or de facto financing practices which give rise to trade distortions and to diversion of aid flows from develop-

¹⁰⁶ Three years later, in 1972, the DAC introduced the requirement, valid up to today, that flows financial have to contain a grant element of at least 25 % calculated on the basis of a 10 % discount rate for as to be counted as Official Development Assistance (Petermann 2013: 213 et seqq.).

¹⁰⁷ The revisions concerned primarily the required grant element. Henceforth tied aid was supposed to have a 25 % instead of a 20 % grant element in order to count as ODA (Führer 1996).

ment objectives and to apply fully the guiding principles they have agreed upon. They enjoined the competent bodies of the Organization to take prompt action to improve existing arrangements so as to strengthen transparency and discipline in this area by all appropriate means" (OECD Ministerial Communiqué 1984, 18 May: para. 22; quoted in DAC/FA(85)2: 4).

The afore-mentioned decision by both Participants and the DAC to include partially untied aid in the Arrangement guidelines was an important step towards the fulfillment of the Ministers' Mandate (Ray 1995: 73 et seqq.). While in the 1984 Communiqué it was not yet clear whether an increase in the minimum permissible grant element (MPGE¹⁰⁸) was the right step forward, the 1985 Communiqué announced the agreement on an increase of the grant element to 25 %. Despite this progress ministers declared that "[m]easures aiming at strengthened transparency and discipline in the field of tied-aid credits and associated financing of exports will continue to be pursued expeditiously" (OECD Ministerial Communiqué 1985, 11 April: para. 14(a); see Annex Ray 1995: 295).

It would take the Participants, however, another decade to agree on drastically cutting back on the use of tied aid credits (Ray 1995: 68). Especially the USA, whose aid program¹⁰⁹ was less focused on capital goods than it was the case with their European counterparts (Mendelowitz 1989: 3) and whose exporters thus felt disadvantaged, got frustrated with the standstill in negotiations and decided to leverage its negotiating position with a more persuasive argument: a "war chest"¹¹⁰ (Mendelowitz 1989: 4). The money provided through this chest – established in 1985 – should be and was used to extend mixed credits specifically targeted to outbid offers by France, which according to the USA was blocking negotiations (Ray 1995: 75). Ronald Reagan himself is reported to have said in this context that the war chest shall be used to combat foreign credit subsidies that "[...] deprive US companies from fair access to world markets" (New York Times, 26 September 1985; quoted in Ray 1995: 75). The fact that tied aid credits were even addressed on a presidential level gives further

¹⁰⁸ Austria, for instance, was long hesitant to agree on an increase of the MPGE arguing that it "[...] feared that such an increase might be counterproductive, both to exporters and to LDC's [sic!]" (TD/CONSENSUS/85.88: 3). This opposition to an increase of the MPGE was reiterated at several meetings in 1986 (for instance TD/CONSENSUS/86.11 or TD/CONSENSUS/86.66). The Swiss Delegate also stressed that trade distortion was not a function of the grant element, and that hence with higher grant element thresholds trade distorting practices would continue, albeit at a higher cost level. Consequently, the Delegate emphasized the need for additional measures (TD/CONSENSUS/86.66: 3)

¹⁰⁹ This focus of the U.S.' foreign aid program on basic needs rather than on capital goods was also emphasized by two of our interview partners. This diverging aid policy was presented as one of the main reasons for the USA's strong commitment to design more comprehensive rules (Interview VI, VII). More information on the U.S. position can be found in the note by the U.S. delegate (DAC(88)11).

¹¹⁰ Already a couple of years earlier, in 1980 the U.S. had threatened to offer credits with longer repayment terms than those allowed under the Arrangement should negotiations on strengthened disciplines not be intensified (Ray 1995: 54). Also after agreement on the Helsinki Package had been found the now called "Tied-Aid Capital Fund" was continued to be used as a competitive tool (see GAO 2002; Ray 1995: 106 et seqq.). An insightful account of the usage of the "war chest" is also provided by Steven Hall (2011).

credit to the assumption that this instrument was touching upon core national interests of the participating countries.

The same year also the United Kingdom (UK) announced that it intended to use tied aid credits more aggressively (Ray 1995: 75). A perfect example of soft loan practices in the mid-1980ies are what Ray titles "Helicopter Follies"¹¹¹ – the procurement imposed by the UK on the Indian government of 21 Westland W-30 helicopters completely unsuitable for their intended duties in the natural gas and oil sector (Ray 1995: 76, 77). Understanding that these practices had little to nothing to do with sound development projects or the more general intention of promoting development in the recipient country does not require detailed examination. It clearly illustrates that in the 1980ies the "[...] possibility of a full-fledged export credit war became a probability" (Ray 1995: 74).

Most authors who have examined the formation of the Arrangement seem to attribute, albeit to different degrees, an important role to the war chest in the run up to the Wallén Package. Like in Ray's (1995) and Mendelowitz's (1989) account, also in Katherine Rosefsky's portrayal the U.S. is seen as the major actor pushing for further regulation of tied aid credit practices via its war chest. Moravcsik (1989: 199, 200) even goes as far as to say that "[a]greements were possible in 1978, 1983, and 1985 because the United States threatened to use a unique power resource, grounded in the greater depth of North American capital markets, which permitted it to extend very long term loans. [...] **Breakthroughs in the negotiations in 1983 and 1987 followed explicit American threats of retaliation**" (emphasis added).

In a similar vein, two of our interview partners described the search for regulation of tied aid credits as a U.S. led project (Interview VI, VII). In this respect, their narrative of agreement on the Arrangement fits into the conceptualization of a "Pax Americana" or can, according to Moravcsik, at least be interpreted as an "[...] expression of hegemonic stability represented by the neoliberal international aid and trade system which has been backed by the U.S. since the 1970s to prevent 'American decline'" (Petermann 2013: 230). Similarly, Hall argues that the U.S. was not only crucial in the making of an early consensus but also in pushing for agreement on the Helsinki Disciplines. He concludes his analysis by saying that "[d]espite an apparent decline in international influence, the U.S. was able to compel accession to the Helsinki agreement by threatening substantial increases in its spending" (Hall 2011: 346).

¹¹¹ In his book "Lords of Poverty" Graham Hancock gives a detailed account of this alleged "aid transfer" (Hancock 1989: 163 et seqq.).

5.3.1. The Wallén Package (1987)

"Final results cannot be better than the lowest common denominator. One has to take the opportunity to find a better solution when it rises but also be realistic enough to see when the best is the enemy of the good. Progress is the art of the possible"

(Chairman Report Wallén; quoted in Ray 1995: 81, 82)¹¹²

The above situation led to tough negotiations which eventually – after the change in position of France – culminated in an agreement on the Wallén Package in 1987. This Package, named after the then Chairman of the Participants, Axel Wallén, of the Swedish Ministry of Finance, introduced a new method of calculating the grant element, from then on referred to as “concessionality level”¹¹³. Henceforth, the Participants no longer followed the DAC’s way, but used a Differential Discount Rate (DDR), which should ensure that market interest rates for each currency were better reflected¹¹⁴. The decision to adjust the basis for the calculation of the grant element had been preceded by difficult negotiations between Low Interest Rate Countries (LIRCs), such as Austria, and High Interest Rate Countries (HIRCs). The main matter of contention thereby was that for LIRCs it was easier to provide the 25 % grant element because their Commercial Interest Reference Rates (CIRRs)¹¹⁵ were below the uniform 10 % used to calculate it¹¹⁶ (Ray 1995: 79).

Concomitantly with these changes in calculation, the minimum concessionality level was increased once more, from 25 to 35 % (OECD 1998: 19). Again, the Participants expected that by increasing the costs linked to the extension of tied aid credits, aid agencies “[...] would be less willing to allow their scarce aid funds to be used to improve the competitiveness of their exporters in bidding for commercial projects of limited development interest ” (Timonen 1998: 53).

Simultaneously, the Participants as well as the DAC worked on fulfilling the Ministers’ Mandate. To that end the 1986 *Good Procurement Practices* as well as the 1987 revised *Guidelines for Associated Financing and tied and partially untied ODA* were adopted.

¹¹² This quote also hints to another important point that will briefly be touched upon later: the political reality of negotiations between independent nation states within a system built on consensus. It is important to keep this in mind because it is critical for understanding negotiation outcomes.

¹¹³ The “name change” can be seen as an attempt to signify underlying methodological differences (DAC/FA/M(87)1 (Prov.)).

¹¹⁴ Another, yet older, difference with regard to the calculation of the grant element persisted: While the DAC used the commitment date of an ODA loan for measuring its maturity, Participants count maturity from the Berne Union starting point – the latter yields, according to the DAC Secretariat – a somewhat lower grant element (DAC/FA(85)2: 13; DAC/FA(87)6: 3).

¹¹⁵ According to the Arrangement, the minimum interest rate applied for official financing support for loans with a fixed interest rate is the Commercial Interest Reference Rate (CIRR). CIRRs should represent, inter alia, “final commercial lending interest rates in the domestic market of the currency concerned” and should “correspond to a rate available to first class foreign borrowers” (TAD/PG(2013)1: 11).

¹¹⁶ A similar discussion on whether the 10 % discount represented market realities should later also pop up in the DAC – albeit accompanied by astonishingly little public debate and NGO engagement.

Box 5: The Wallén Package in a Nutshell

- (i) The minimum permissible concessionality level for tied and partially untied aid was increased to 50 per cent for credits to LLDCs and to 35 per cent for other countries;
- (ii) The discount rate for calculating the concessionality level was changed from a standard 10 per cent to differentiated discount rates and
- (iii) Matrix rates were abolished for Category I countries and increased by 30 basis points for other categories (TD/CONSENSUS/88.25).

5.3.1.1. An Inquiry into the Logic of Concessionality

As mentioned before the Participants borrowed their concept of a concessionality threshold from the DAC's grant element. While at first they entirely followed the DAC's example of setting a 25 % grant element as threshold for flows to be counted as ODA (Ray 1995: 61), the Participants as of 1987 used a derived concept – the so-called concessionality level. The reasoning behind it, however, essentially remains the same. While the DAC's approach is based on a calculation of the opportunity costs to donors, the Participants' approach measures the financial costs of the loan to donors. Both approaches, however, do not reflect any measures of the benefit to recipients (for instance in comparison to other financial sources) (DCD/DAC/FA (2002)2: 4).

By the mechanism of the concessionality level the Participants aim at reducing trade distortions through tied aid credits while still allowing for sound development projects to be financed this way. Following this line of reasoning a higher concessionality level is equaled with greater development content of a project. With higher levels of concessionality, the budgetary sacrifice of a given amount of national exports grows and the use of aid subsidies for commercial purposes becomes more expensive. Consequently, so goes the argument, they are not mindlessly (ab)used to promote exports (Tvardek 2011: 210) and trade distortion is reduced. While any tied aid (including tied grants) is liable to involve some trade distortion, Participants in the Arrangement accept this at a high level of concessionality because of the presumed development orientation of a high grant element transaction¹¹⁷. Up to the adoption of the Wallén Package it was expected that by increasing the minimum concessionality and the cost to donors, aid would be used more carefully for high priority projects (TD/CONSENSUS/86.53: 29, 30).

Steve Tvardek labels the concept of concessionality a “typical economist's solution” and compares it to a tax that is designed to discourage a certain activity or behavior

¹¹⁷ Economists disagree on whether every aid is by its very definition distorting market mechanisms; for an examination of whether it is the tying status or also the grant/loan feature that determines the degree of distortion, see the ODI (2009) report “The Trade Implications of Aid Instruments and Tying Practices”.

(Tvardek 2011: 210). As a by-product of this “tax” resource transfers to aid recipients are thought to increase and a more valuable contribution to the aid product is expected. At first glance it might seem irrational to try to resolve a problem resulting from aid subsidies by asking for a higher degree of the very subsidy that one actually wants to prevent. However, a closer examination of the political realities of tied aid credits quickly shows that black and white rules, that is rules banning the extension of such credits altogether, simply were not a feasible option (Interview VI) – a somewhat pragmatic stance which is also reflected in Axel Wallén’s statement above according to which “progress is the art of the possible” (Chairman Report Wallén; quoted in Ray 1995: 81, 82).

5.3.2. Failure of the Wallén and Negotiation of the Helsinki Package

Soon after the implementation of the Wallén Package (done in two phases¹¹⁸) the Participants were confronted with limited and partially even adverse effects of the measures they had taken.

Already in 1988 the then Chairman of the Participants, John Coleman, drew attention to the fact that the effects of the newly adopted disciplines in the field of mixed credits were questionable in important export markets. He gave the example of Indonesia, where mainly trade-motivated mixed credits were offered at an average of 40 % concessionality level. “[...] *Indonesia has succeeded in imposing very high costs on export credit activity in its market – indeed effectively forcing many export credit agencies to become large aid donors – and our governments do not seem to be deterred by these increased costs*“ (TD/CONSENSUS/88.14: 4)¹¹⁹. In this respect one of our interview partners argued: “*Whatever color the Indonesian list of projects is, they became routinely requiring aid for any capital goods project. That shows you how bad the situation got*” (Interview VI). David Stafford, former Chairman of the Participants’ Nuclear Sector and Aircraft Sector Groups, examines the situation in greater detail and explains that by Presidential Decree Indonesia made aid credits a precondition for all public-sector infrastructure projects (Stafford 1998: 47). “*Gone were the days of unsophisticated buyers when a low interest rate without regard to currency often determined the award of contracts. Procurement agencies are adept at evaluating finance offers as one element of an overall package and playing willing suppliers off against one another*“ (Stafford 1998: 47)¹²⁰.

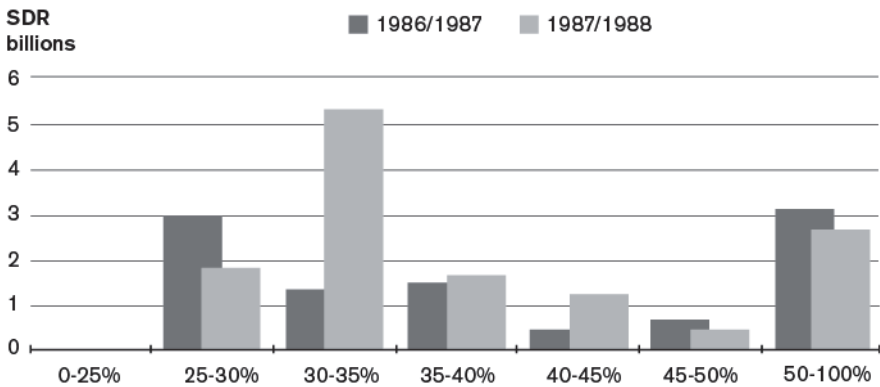
¹¹⁸ The implementation of the new method took place in two steps, on 15 July 1987 and on 15 July 1988 (Ray 1995: 80).

¹¹⁹ In this same report he proposes to limit trade-related tied aid credits to an agreed maximum threshold which could be set as a proportion of a donor’s overall ODA disbursement (TD/CONSENSUS/88.14). This proposition was, however, not taken up by the Participants.

¹²⁰ Keeping the historical context of the Cold War in mind, the “strategic use” of tied aid credits, indicated by Stafford, appears as common practice. Petermann (2013: 116, 117) examined recipients’ strategies of gaining the greatest advantage from the competition between the superpowers – a fight over influence, which was also fought in the development aid arena.

In a Note by the Secretariat in 1988 “[e]xperience with the new rules of the Arrangement on tied aid and partially untied aid financing” was evaluated (a series of three of such notes were distributed to the Participants). The Note confirmed Coleman’s appraisal and concluded that the package had not delivered the expected results. Statistical analysis provided in this note suggested that the new disciplines had triggered a move from poorer to richer developing countries as main “beneficiaries” of tied aid credits and gave reason to presume that the terms of aid credits for the LLDCs had hardened (TD/CONSENSUS/88.25). Figure 5.1 shows a sharp increase in the volume (in billion SDR) of tied aid credits with a concessionality level between 30-35 % and a reduction in those with softer terms (45-100 %).

Figure 5.1: Change of Concessionality Levels after Agreement on the Wallén Package



Source: TD/CONSENSUS/88.25: 4

A year later, still no changes to the better had occurred. In its note the Secretariat stated that the package contributed to a sharp decrease of credits at very hard terms¹²¹, but “caused a bunching up just above the new minimum concessionality level” (TD/CONSENSUS/89.24). In the same report concern was again voiced with regard to the regional distribution of softer tied aid credits:

“Richer developing countries seem to have profited more from the package than the poorer ones. On the one hand, richer countries’ share in total aid notifications increased steadily and, on the other hand, the weighted average concessionality level for richer countries increased noticeably, while that for poorer countries did not show the same development” (TD/CONSENSUS/89.24; TD/CONSENSUS/89.17).

¹²¹ In this paper “hard aid is defined as credits with a concessionality level of 50 per cent or less” (TD/CONSENSUS(89)24: 8).

With regard to these trends, one of our interview partners spoke of a “second anti-development twist”, meaning that resources were taken away from poorer countries to faster developing countries for the purpose of boosting donors’ capital goods sector. As a result, he argued, not only trade but also aid was being distorted (Interview VI).

In addition, there was evidence that the number of prior notification of low-concessionality aid credits had increased since 1987. In its analysis of size effects, the Secretariat explained that the observed increase could have resulted from better reporting or could be due to the substitution of grants by loans and better reporting of the latter compared to the former or to tying of previously untied aid (TD/CONSENSUS/88.25: 7). While, according to Ray, the reasons for this trend were not fully understood, “[...] it seemed plausible that development projects that would otherwise have been financed by grants or by high-concessionality loans were now being financed by loans with a lower level of concessionality”. This meant that the Wallén Package had failed to achieve one of its main goals, namely a decrease in the use of tied aid credits as an instrument of export promotion (Ray 1995: 85 et seqq.).

In a statement before the U.S. General Accounting Office’s Subcommittee on International Development, Finance, Trade and Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, Allan Mendelowitz¹²² also enquired the reasons for the limited effectiveness of the disciplines. The answer he gives, however, is not much more precise than Ray’s tautology above. He explains the observed increase in offers of tied aid credits with the following factors: Firstly, the numbers might simply reflect greater adherence to the Arrangement and its transparency provisions. Secondly, they might be a manifestation of donors’ willingness to continue their subsidization policies at higher costs. Finally, Mendelowitz argues, that the “[...] increased volume of offers may reflect reduced market opportunities in which tied aid offers compete” (Mendelowitz 1989: 12).

In light of the failure of the Wallén Package to meet the aspired goals, the Participants decided already in 1989 – barely two years after the adoption of the package – to seek agreement on a new, “balanced package” of disciplines covering (a) export credits, (b) aid credits and (c) selected problem sectors¹²³ (e.g. agriculture, iron and steel as well as telecommunications) and spoiled markets (Timonen 1990; see Ray 1995: 304). This package, proposed by the then Chairman Eero Timonen, should later in its fifth version become to be known as the Helsinki Package – also Helsinki V (Ray 1995: 86).

¹²² Allan Mendelowitz was the Director of the Trade, Energy, and Finance Issues National Security and International Affairs Division of the United States Accounting Office.

¹²³ The terms “problem sectors” was mainly used to refer to those sectors, in which the “use of aid financing for exports [was] widespread and expected” (Ray 1995: 90).

The following year export and tied aid credits were also on the agenda of the Ministerial Council Meeting – although somewhat overshadowed by debates on the GATT Uruguay Round (C-M(90)11-Prov.). The representative of the Netherlands (Mr. Bukman), for instance, addressed the issue of tied aid credits in his statement and pointed out that further rules improving the Wallén package of 1987 were needed. *“We need such improved rules not only to reduce the trade distorting effects of a growing number of export credits for agricultural products, but also to prevent excesses in official support for exports under the guise of official development assistance”* (C-M(90)11-Prov: 84; emphasis added). Such an undertaking, he urged, required close cooperation between the DAC and the Trade Committee (C-M(90)11-Prov: 84).

The fact that this argument is also reflected in the Ministerial Communiqué¹²⁴ proves that the above statement represents not a minority or even single opinion but captures the general sentiment among the Participants. In this Communiqué the Ministers declared that they *“[...] welcome that these bodies [the competent bodies] have started negotiations on a balanced package of measures to reduce substantially, through improved discipline and transparency, those distortions resulting from the use of officially supported commercial and tied-aid credits. They urge that negotiations should be expedited and that a final report should be submitted to Ministers in 1991”* (Ministerial Communiqué 1990, 31 May: para.31; see Ray 1995: Annex).

Despite the accumulation of evidence proving the “failure” of the Wallén Package, the quest for a truly balanced package, satisfying both sides – those concerned with trade-distortion as well as those worried about effects on foreign aid flows –, would become a huge challenge for the Participants – by then already tired of negotiations – and their Chairman Eero Timonen. Since repeatedly increasing the concessionality level had not shown the expected results, the Participants had to come up with alternative mechanisms to further sharpen the distinction between aid and trade motivated flows – terms used in the Arrangement, without ever being properly defined.

Already in their first negotiating meeting on the new proposal made by Eero Timonen in 1989, the Participants agreed that a renewed increase in the minimum concessionality level could not bring the needed improvements (Ray 1995: 88). In search of the most effective additional mechanisms the Participants discussed a miscellaneous set of ideas¹²⁵ ranging from a ban of tied aid credits for spoiled markets and problem sectors, to a “simple” checklist for aid quality (Ray 1995: 89 et seq.). From a development perspective, the idea of basing a new set of rules on the quality of the aid project financed with the tied aid credits is of particular interest. This pro-

¹²⁴ Interestingly, while E. Timonen had used a rather warning tone in his report to the ministers, the Communiqué is characterized by soft formulations and reticent wording (Ray 1995: 87).

¹²⁵ Already at that several participants considered “general untying” the most adequate way to meet the ministers’ mandate (Ray 1995: 90).

posal¹²⁶ was rooted in the realization that “[a] poorly conceived showcase project that does not conform to the needs of the recipient country is a bad project and a waste of funds no matter how soft the credits from which it benefits” (Ray 1995: 98). The idea was to use a checklist bringing together the most important DAC development principles in order to assess the quality of a project. The Participants then would have to indicate the degree to which their offer met these criteria prior to extending the credit. Also a consultation procedure with regard to the compatibility of the project and the set of DAC guidelines was envisaged. However, the negotiators were confronted with insurmountable practical difficulties. For example, it proved impossible to develop a simple and easily usable list of indicators of aid quality. Judging a project’s quality proved more complex and could not be made on the basis of a simplifying list of yes-or-no questions. Finally the Participants concluded that the concept of aid quality was too subjective to meet their needs (Ray 1995: 89).

Without wanting to anticipate, this quest for the appropriate alternative to a renewed increase of the concessionality level, eventually ended – as will be explained later – with the Helsinki Package. Therein the Participants finally agreed on the concept of commercial viability as the best (feasible) way of distinguishing commercially-motivated export credits from aid-motivated tied aid credits (Ray 1995: 91).

Despite their full commitment and hard work neither the Chairman of the Participants nor the Chairman of the DAC/FA was able to meet the Ministers’ Mandate before the next Ministerial Council Meeting took place in June 1991 (Timonen 1998: 53; Ray 1995: 94). In order to increase pressure on delegates to find a quick agreement, both chairmen presented well coordinated reports on the cornerstones of future agreements to the ministers (DAC/FA/M(90)1(Prov.): 3; see also Letter by the DAC/FA Chairman B.R. Ireton, DCD/DAC/FA(91)2: 2). Following a renewed mandate by the Ministers in which “[...] they expressed their commitment to overcome remaining obstacles in order to come to an agreement [...] not later than the end of this year” (Ministerial Communiqué 1991, 5 June (para. 26); quoted in Ray 1995: 295), intense negotiations started.

¹²⁶ Surprisingly, none of our interview partners mentioned this “proposal” discussed by the Participants. Even when explicitly asked for alternatives discussed with regard to ways of ensuring the development content of projects financed with tied aid credits, a specific aid quality test was not mentioned. The reasons thereof remain unclear. It might be that the interviewees did not know about it because this aid quality test had been discussed in an informal setting by the main negotiators only.

5.4. Agreement on the Helsinki Tied Aid Disciplines

“The new rules will limit the use of tied aid for projects that should be financed commercially. They provide a level playing field where tied aid credits are used to fund projects that are developmentally sound but not commercially viable. [...] I urge commercial lenders and export credit insurance agencies to accept this challenge by expanding credits and coverage for commercially attractive projects in developing countries so that total flows of resources to these countries will expand¹²⁷”

(erstwhile Secretary-General of the OECD, Mr. Jean-Claude Pay 1992;
quoted in TAD/PG(2005)20: 4)

In December 1991 agreement on the fifth version of the Chairman's proposal, henceforth called the Helsinki Package, was reached. The by far most important modifications and amendments made to the Arrangement in this “landmark” agreement concerned the regulation of tied aid credits. These provisions introduced in 1992 have remain basically unchanged until today and are listed in today's Arrangement under “Chapter III: Provisions for tied aid” as well as in “Chapter IV: Procedures” (Section I, 2, 3, 4, 5) (see TAD/PG(2012)9¹²⁸).

5.4.1. The Helsinki Package (1991/1992)

The aim of the Helsinki Package was to prevent tied aid concessionary credits from being used to finance what would otherwise be financially viable projects in developing countries (and that could have trade distorting effects) (Hanssen-Bauer/Owen/Grimsrud 2000: 18). By doing so, tied aid credits were expected to be redirected away from better-off developing countries towards developing countries which were worse-off (OECD 1995: 3). To achieve this goal, the Package explicitly defined minimum criteria that tied aid credits had to meet to be qualified as such. Up to today criteria have been included for both country and project eligibility. Having realized that a mere increase in costs for governments to offer tied aid credits (the concessionality mechanism) did not bring the expected results, the Participants refined their strategy and basically broke it all down to one characteristic: the commercial viability of a project.

¹²⁷ To some degree this statement also reflects the fear that the new rules might lead to a decrease in transactions to developing countries – an argument brought forward as justification of reticence to adopt new measures (see for instance Ray 1995: 155).

¹²⁸ As this study is being written, updated Arrangement versions are published. However, none of the minor modifications made to the Arrangement touch upon tied-aid credits (see TAD/PG(2013)1).

5.4.1.1. Country Eligibility

An integral part of the Helsinki disciplines was (and still is) the limitation of the pool of recipients. The Participants agreed that with the exception of grants and very soft credits, which they defined as having a concessionality level of 80 % or more, tied aid credits should not be allowed for countries whose per capita GNI makes them ineligible for 17-year loans from the World Bank¹²⁹. This group of countries is thought to be generally creditworthy and thus able to attract commercial financing. Consequently, aid credits would probably not provide any additional resources (TAD/PG(2012)9: 20 et seq.; Ray 1995: 97). The intention of this discipline was to redirect aid away from richer to poorer development countries.

5.4.1.2. Project Eligibility

Since historically the vast majority of tied aid credits went to middle-income countries, the Helsinki package provides the most detailed rules for this country group. Basically the Arrangement subsumes these provisions under the heading of "project eligibility" (TAD/PG(2012)9: para. 37).

The main concept introduced to assess the eligibility of a project for tied aid credits is the commercial viability of the latter. Henceforth, projects that are deemed to be commercially viable should be financed on market or Arrangement terms, but should no longer receive tied aid credits. Participants agreed on two key tests to evaluate whether projects are commercially non-viable and therefore eligible for aid financing.

These are:

- *"whether the project is **financially non-viable**, i.e. does the project lack capacity with appropriate pricing determined on market principles, to generate cash flow sufficient to cover the project's operating costs and to service the capital employed, i.e. the first key test; or*
- *whether it is reasonable to conclude, based on communication with other Participants, that it is **unlikely that the project can be financed on market or Arrangement terms**, i.e. the second key test. In respect of projects larger than SDR 50 million¹³⁰ special weight shall be given to the expected availability of financing at market or Arrangement terms when considering the appropriateness of such aid"* (TAD/PG(2012)9: 21; emphasis added)

¹²⁹ Information on the World Bank's Country and Lending Groups can be found at <http://data.worldbank.org/about/country-classifications/country-and-lending-groups>

¹³⁰ Proposals of how to define "large" project ranged from setting the threshold at SDR 40 up to 80 million. In the run-up to the Helsinki Package, the Participants also looked into the possibility of banning relatively hard tied aid financing for large projects altogether. Also for the DAC/FA, large projects had long been a matter of contention, which is given special attention in the New Measures in the Field of Tied Aid (SG/PRESS(92)35).

Box 6: The Concept of Commercial Viability

"I guess in trade terms the tariffs didn't work so we wanted quotas. So we tried to create a more robust system which was either yes or no – you could not just pay more and get away with it" (Interview VI).

As the term "commercial viability" already suggests, the concept places the ability of a project to financially sustain itself at the heart of the Participants' approach. The basic idea behind was that government aid funds should be reserved for aid projects that were worthwhile, for instance, projects with considerable external benefits, but that nevertheless were not able *"[...] either to generate sufficient financial returns to make them attractive enough for commercial financing or to attract officially supported export credits"* (TAD/PG(2012)9: 21). Aid funds deployed following this reasoning would be truly "additional". In contrast, commercially viable projects should henceforth be financed by commercial banks or ECAs only (on Arrangement terms). Ensuring good aid quality of the financed projects would remain the responsibility of aid agencies. According to Ray this transfer of competences to aid agencies was due to the realization gained from earlier attempts among Participants that aid quality *"was not a subject within their expertise"* (Ray 1995: 92). With regard to the concept of commercial viability two of our interview partners (both from the Export Credit Division) were keen on emphasizing that the proposal to use this concept came from the then Chairman of the DAC Working Party Barrie Ireton (Interview VI and VII). Also Ray mentions the close coordination with the DAC in this matter and explains that Mr. Ireton could draw on the experience of the UK, where the *"Aid and Trade Provision (ATP) already stipulated that tied aid would not be available for business that could reasonably be won on commercial terms"* (Ray 1995: 91).

Already at the time of the adoption of the disciplines the Participants were aware that the rules would leave a large grey area since they did not cut clear lines – a fuzziness the Participants were ready to accept considering the long and difficult negotiation process that lay behind them (Ray 1995: 98). In order to deal with this fuzziness and to discuss controversial cases the Helsinki Package provided the Participants with a consultation mechanism. This gave any Participant to the Arrangement the opportunity to request consultation for projects the tied aid eligibility of which was thought to be questionable (Ray 1995: 98 et seqq.). The challenged projects were and occasionally still are taken to the Consultations Group, in which usually national experts from ECAs and delegates from Ministries of Finance investigate the conformity of the project with Arrangement rules (Interview VI).

Today the consultation procedures for tied aid can be found in paras. 51, 52, 53 of the Arrangement (TAD/PG(2012)9: 28, 29). A Participant may, for instance, request the supply of a full Aid Quality Assessment, which is to be done in accordance with the Checklist of Developmental Quality¹³¹ (see Annex IX of the Arrangement). Howev-

¹³¹ In the run-up to the Helsinki Package the Participants requested the Secretariat to bring together the most important DAC development principles, which were being dispersed across several separate documents, "and to put them in a form acceptable to the DAC as well as usable by export credit agencies". The result-

er, if a project is challenged and – even after the presentation of detailed feasibility studies to the Consultations Group – does not gain “substantial support” from the other Participants, the notifying country can make use of the so-called “escape clause”. This clause provides that if a donor wishes to proceed despite the lack of support, it has to explain in a letter to the Secretary General of the OECD “[...] *the over-riding non-trade related national interest that forces this action*” (TAD/PG(2012)9: 29). Unfortunately, the archive documents available to us do not allow drawing any conclusions on whether the Secretary General has ever rejected such a project.

With these consultation processes a body of experience was expected to develop that should lead to an Ex-ante Guidance providing aid and export credit agencies with more detailed information on how to evaluate the commercial viability of a project in question (TAD/PG(2012)9: 21 et seq.; Ray 1995: 99 et seq.).

5.4.1.3. Minimum Concessionality Level

In addition to the newly introduced criteria of country and project eligibility, the Helsinki Package reaffirmed the requirement of a minimum concessionality level of no less than 35 %, respectively 50 % if the recipient country is a Least Developed Country (LDC) (TAD/PG(2012)9: 22). Exempt from this discipline as well as from the notification procedures is tied aid “[...] *where the official development aid component consists solely of technical co-operation that is less than either 3 % of the total value of the transaction or one million Special Drawing Rights (SDRs), whichever is lower*”. Likewise, “*capital projects of less than SDR 1 million that are funded entirely by development assistance grants*” do not have to meet the concessionality requirement and the notification standards (TAD/PG(2012)9: 22).

5.4.2. Exemptions from the Helsinki Disciplines

The country and project eligibility criteria laid down in the Helsinki Package do not apply to tied aid inferior to SDR (Special Drawing Rights¹³²) 2 million or with a level of concession above 80 % – unless it forms part of an associated financing package. Furthermore, tied aid to LDCs, as defined by the United Nations¹³³, is exempted from the project and country eligibility provisions (TAD/PG(2012)9: 22). This exemption is justified with the difficulty faced by the group of Least Developed Countries to attract

ing list – as such “summary statement of relevant parts of various DAC principles” (DCD/DAC/FA(95)1) – was then approved by the DAC and became the above mentioned “Checklist of Developmental Quality (of Aid Financed Projects)” (Ray 1995: 89).

¹³² A relic of the Bretton Woods system, SDR are international reserve assets the value of which is based on a basket of four international currencies, see <http://www.imf.org/external/np/exr/facts/sdr.htm>

¹³³ Currently 49 countries are classified as LDC, the majority of which are African states. Detailed information on the UN’s classification of “Least Developed Countries” can be found on the homepage of the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and the Small Island Developing States (UN-OHRLS), see <http://www.unohrls.org/en/ldc/25/>

financing regardless of how attractive a project might be. In such a situation the commercial-viability key test becomes obsolete (OECD 1995: 4; Ray 1995: 98).

Screening documentation of the Participants' meetings suggests that the latter two exemptions from the Helsinki rules (transactions with a concessionality level > 80 % as well as tied aid credits to LDCs) have been widely accepted by the Participants and did not provoke much controversy. These findings are confirmed by the "Assessment of the Tied Aid Disciplines" conducted by the DAC Secretariat in 1998 (DCD/DAC/FA(98)13). With regard to the "LLDCs exemption" the Secretariat concludes that "[...] there is no evidence to suggest that the Disciplines have been associated with any measurable diversion of (tied) aid to the LLDCs" (DCD/DAC/FA(98)13:10).

Furthermore, while the study finds some *prima facie* indication of diversion from tied aid credits to highly concessional tied aid loans or grants, the Secretariat does not interpret this as an attempt of circumventing the disciplines. Rather this diversion is interpreted as part of "[...] the general shift away from loans to grants, the debt situation of partner countries, a changing focus towards activities traditionally supported through grant aid etc." (DCD/DAC/FA(98)13: 11).

The increase in small transactions below a volume of SDR 2 million after the adoption of the disciplines, in contrast, led to vivid discussions throughout the 1990ies. These shall briefly be addressed below.

5.4.2.1. De Minimis Projects: Small Transactions as Circumvention Strategy?

As some of our national interview partners mentioned some degree of confusion with regard to the applicability of the Helsinki disciplines to small transactions (Interview I), discussions in the Participants Group on this exemption shall be investigated in greater detail.

"De minimis" transactions¹³⁴ are aid transactions with a value inferior to SDR 2 million (TD/CONSENSUS(96)14). These de minimis projects were excluded from the Helsinki Package largely due to administrative convenience. Since the total value of these notifications has never been very significant in terms of total tied aid credits (Hanssen-Bauer/Owen/Grimsrund 2000: 9), the Participants considered it appropriate to exempt these transactions from administrative burdens. This means that they are exempted from the administrative requirements of the Helsinki Package – essentially the consultation procedure –, but should nonetheless be administered "in the spirit" of the Arrangement, meaning primarily that they should finance commercially non-viable projects only. The importance of distinguishing "exemption from administrative proce-

¹³⁴ To interpret statistical evidence correctly it must be noted that untied aid, aid credits for LLDCs, ships derogation and aid credits with a concessionality level above 80 % are not included in the definition applied in the statistical reports provided by the Secretariat (TD/CONSENSUS(96)14).

dures” and “exemption from the rules in principles” is repeatedly evoked in Participants’ meetings throughout the 1990ies (e.g. TD/CONSENSUS(95)54).

Why the threshold was set at SDR 2 million is not explicitly explained in any of the documents at our disposal. However, following Participants’ meetings shortly before and after the adoption of the Helsinki disciplines shows that different options had been under discussion. Proposals ranged from setting the threshold at SDR 1 up to 5 million. Some countries (Australia, Canada and Switzerland) even suggested to ban tied aid credits (not outright grants) for projects below SDR 5 million (TD/CONSENSUS(91)23). Eventually, the threshold was set at SDR 2 million, presumably because this threshold was perceived as an acceptable compromise (TD/CONSENSUS(92)12).

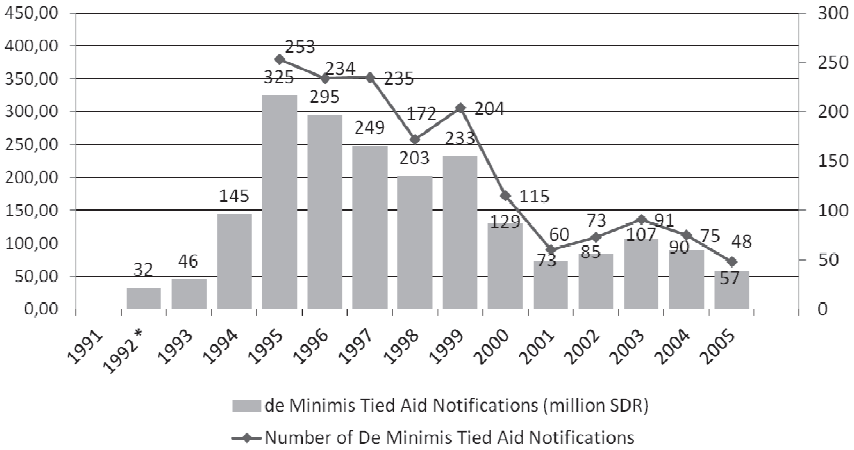
This exemption provoked some controversies and led to intensive discussions on de minimis projects during the mid-90ies, especially in the years 94, 95, 96 (see for instance TD/CONSENSUS(95)12; TD/CONSENSUS(95)17; TD/CONSENSUS(95)43; TD/CONSENSUS(95)54; TD/CONSENSUS(96)20; TD/CONSENSUS(96)39 etc.).

In this early and turbulent period of implementing the Helsinki rules, the Participants revived older discussions, which they had had in the run-up to the Helsinki package. All of these can broadly be described as concern about potential circumvention of the disciplines. In the first place, this concerned the temptation to “contract-split” or to provide “associated financing”, a circumvention strategy feared by Japan and the U.S. already before the adoption of the rules (and its exemptions). These possible circumventions resulted from the fact that by splitting projects into units below SDR 2 million, Participants technically had the opportunity to avoid tied aid consultation procedures (see for instance TD/CONSENSUS(91)32; TD/CONSENSUS(95)11; TD/CONSENSUS(96)39). This scenario was even more likely due to the lack of a clear-cut definition of “project” in the early post-Helsinki years. Only with accumulated experience the Consultations Group was able to give a straightforward definition thereof, which eventually became part of the Ex ante Guidance for Tied Aid.

With regard to potential weaknesses of the tied aid disciplines, Frans Lammersen, looking back at his experiences as Chair of the Consultations Group, observed in 1998 that “[s]mall projects under SDR 2 million are now being used, contrary to the spirit of the disciplines. [...] This constitutes a loophole which, in the long run, might undermine the credibility of the disciplines” (Lammersen 1998: 64). Members of the DAC/FA, who followed closely developments in tied aid spending, expressed similar concerns. They feared that “[...] procurement based on small projects can easily escape a regime of fair international competition. The impact of this, though seemingly small, can be fairly considerable particularly because projects in the sphere of consultancy/feasibility studies and technical assistance fall in this category. These projects can have a strategic impact on the procurement patterns for the whole subsequent project. **One possibility would therefore be to consider fully untying all**

projects that are too small to be covered by the discipline rather than exclude them from it“ (DCD/DAC/FA(93)3; emphasis added).

Figure 5.2: De Minimis Notifications (1991-2005)



Source: TD/PG(2006)23

All these concerns about de minimis projects were triggered by early statistical evidence that showed a twofold increase in de minimis and small project notifications in the period from 1988 to 1992 (TD/CONSENSUS(93)23). As Figure 5.2 illustrates this trend continued until 1995 when the number of de minimis notifications reached its peak. This was particularly worrisome considering that de minimis transactions were predominantly notified for types of projects¹³⁵ which were most frequently determined commercially viable by the Consultations Group (TD/CONSENSUS(95)43). These were primarily projects in sectors such as manufacturing, telecommunications and energy/power (TD/CONSENSUS(95)12). This, of course, substantiated the suspicion among both the Participants and the DAC/FA that the Helsinki rules were being undermined with de minimis projects.

In view of these undesired trends, the Participants discussed a number of options regarding the treatment of de minimis aid credits. The following four options were proposed by the Secretariat:

¹³⁵ While recipients of de minimis transactions roughly corresponded with the beneficiary countries of Helsinki-type aid notifications above SDR 2 million, big donors of de minimis aid credits support were not generally the same as the main providers of non-de minimis Helsinki type aid credits. Relatively small donors such as Austria, Denmark, Sweden, for instance, made for larger proportions of de minimis notifications (TD/CONSENSUS(95)12); TD/PG(2006)23).

- “to retain existing threshold and continue to monitor small transactions;
- to abolish the de minimis exemption;
- to reduce threshold to SDR 1 million as an interim measure; and
- to retain the threshold but a) enhance notification requirements to include an explanation why the project would be financially non-viable (the first key test); b) allow the Secretariat (in its role of monitor of Arrangement) to seek further information if deemed necessary; and c) mandate the Secretariat to provide an updated list on Bulletin Board detailing all de minimis notifications”

(TD/CONSUS(95)12; TD/CONSENSUS(95)54)

The U.S., for instance, suggested that reduced notification requirements should be applied to de minimis projects, whereby full Aid Quality Assessments and detailed feasibility studies would not have to be conducted (TD/CONSENSUS(95)17: 9). Decision-making on how to proceed further with de minimis transactions was postponed several times. Initially the Participants were expected to make a decision in 1995, or in early 1996. By 1997, however, still no decision had been made (TD/CONSENSUS (97)16). In 1997 the Chairman of the Redrafting of the Arrangement Group (RAG) reported that no objections had been received to prohibiting de minimis tied aid transactions for countries above the GNP/capita eligibility threshold for receiving tied aid. Accordingly, this possible measure was to be considered by the Participants (TD/CONSENSUS(97)45: 5).

After several years of “deadlock” in negotiations on de minimis projects the Secretariat concluded in 1997 that due to the lack of consensus on how to proceed it “[...] continues only to monitor de minimis notifications” (TD/CONSENSUS(97)57: 10). This means the “status quo” scenario presented above as “Option 1” remained in place. The fact that de minimis rules eventually did not change their original shape, is certainly connected to a decreasing number of de minimis notifications after its peak in 1995 as well as to a shift in project concentration towards “community and social services” (TD/CONSENSUS(2001)6), that is in tendency commercially non-viable sectors.

Roughly coinciding with the statistical downward trend in the volume of de minimis transactions from 1995 onwards (see Figure 5.2), the Participants’ interest in these small transactions faded. De minimis projects were only addressed as part of the regular statistical reviews conducted by the Secretariat in form of the so-called “Mid-Year Review of Experience with the ‘Helsinki’ Tied Aid Disciplines of the Arrangement” (see for instance TD/PG(2006)23: 21, 22).

This silence around de minimis disciplines suggests that today a widespread consensus exists that this exemption concerns only the administrative disciplines of the Helsinki Package and that the projects should nevertheless be in conformity with the

basic idea of not financing commercially viable projects (Interview VII). In a similar vein, in 2005 in one of the few late comments on de minimis projects also the U.S. – which previously had been particularly concerned with de minimis practices of other Participants – stated that while de minimis tied aid used to be a major loophole of the Arrangement, considerable progress had been made over the years so that sectors considered financially-viable had been subject to fewer de minimis notifications (TD/PG/M(2005)13/FINAL: 7).

5.4.3. The Consultations Group and the Development of the Ex Ante Guidance for Tied Aid (1996, 2003, 2005)

In 1991, when the Participants agreed on the Helsinki tied aid rules, it was expected that over time a body of experience would develop that “would more precisely define, for both export credit and aid agencies, *Ex-ante* guidance as to the line between projects that should be financed with tied aid or on commercial terms” (TD/PG(2005)20: 2). And indeed – in 1996¹³⁶ the Participants published the Ex ante Guidance for Tied Aid, which should become an integral part of the disciplines on tied aid credits and main guarantor of their success.

As foreseen by the Participants this Ex-ante Guidance evolved out of practical difficulties in implementing the Helsinki tied aid rules (TD/PG(2005)20). The resulting guidance can thus be seen as the tip of the iceberg of several years of extensive debates within the Consultations Group, which took off its work in 1992. The early consultation process, that is up to the adoption of the Ex-ante Guidance, consisted of two types of formal meetings: those in which the compliance of specific tied aid financed projects with the Helsinki rules was discussed; and those in which more generic topics such as methodological questions were being addressed (Lammersen 1998: 60).

It soon became apparent that first conceptual and methodological issues had to be solved in order to be able to judge on the appropriateness of tied aid financing in the case of the projects called for consultation (Lammersen 1998; Nygren 1998). These early problems concerned the definition of “project”, the appropriate calculation of “cash-flows” as well as ways of “appropriate pricing” (Nygren 1998: 57). With regard to the project definition it was eventually agreed that a “project” should be “the smallest complete productive entity, physically and technically integrated, that fully utilizes the proposed investment and captures all financial benefits that can be attributed to the investment” (Lammersen 1998: 62; TD/PG(2005)20: 13). With regard to “appropriate pricing”, for instance, the negotiators of the Helsinki Package had decided that “appropriate pricing based on market principles” should be used to assess the commercial viability of a project. This general statement then led to extensive technical

¹³⁶ For the 1996 version, that is the first draft of the Ex Ante Guidance for Tied Aid, see for instance TD/CONSENSUS(96)23.

debates within the Consultations Group on what constituted “market principles” (Lammersen 1998: 61; TD/PG(2005)20: 16).

Once these basic components for project evaluation had been agreed upon, a *Checklist for Information in Feasibility Studies* was produced that should guide export and aid agencies in gathering the relevant information needed to make informed decisions on a project's commercial (non-)viability (Lammersen 1998: 62). Today, this *Checklist for Information in Feasibility Studies*, part of which is an appraisal of development aid aspects, is provided in the Annex of the Ex-ante Guidance. This attached list provides guidance in preparing aid quality assessments (AQuA), which include criteria for project selection, project preparation and appraisal as well as procurement practices (TD/PG(2005)20: 10 et seqq.).

In parallel to removing methodological ambiguities, the Consultations Group worked towards the establishment of an ex-ante guidance (Lammersen 1998: 62). Derived from evaluation results of over 131 individual project notifications, this guidance was designed by the Participants to the Arrangement in order to guide project planners and aid agencies in their decision-making on whether projects are eligible for tied aid (as defined by the two key tests of the Helsinki Package) (OECD 1998: 26). Analyses of evaluation reports and especially a study conducted by Prof. Tony Owen¹³⁷ – an independent consultant hired for that purpose – suggested that financially non-viable projects were primarily projects that touched upon the provision of public goods or that were especially capital-intensive “with high per unit production costs and slow capacity uptake, and/or where the beneficiary group (normally household consumers) is deemed unable to afford the output at the appropriate market-determined price” (TD/PG(2005)20: 5). In contrast, manufacturing projects, for instance, are shown to be frequently commercially viable, and are hence in tendency not eligible for tied aid credits (TD/PG(2005)20: 7).

Despite this appraisal of the financial viability of projects in specific sectors, the Ex-ante Guidance emphasizes the necessity of case-by-case analysis and recognizes that each project needs to be considered in relation to its particular circumstances (TD/PG(2005)20: 5). This means that in principle no sector-specific rules are set – a step that would have probably gone too far for influential industries fearing to lose competitiveness.

By summing up the very logic of the Ex-ante Guidance, Frans Lammersen, one of the principle constructors of the Guidance, states: *“In short, the guidance brings aid financing into line with general economic thinking. Projects are considered commer-*

¹³⁷ Anthony Owen was professor at the University of South Wales and was hired as consultant to assess the projects that were brought to the Consultations Group in the early post-Helsinki years (Owen 1998: 67). In 2004, he presented a second evaluation report of the work of the Consultations Group (TD/PG(2004)17). On the basis of his findings, the Ex-Ante Guidance was revised (TD/PG(2004)26).

cially viable, and thus do not require subsidies, when the project can be linked to the international market for goods and services” (Lammersen 1998: 62).

The Ex-ante Guidance released in 1996 and marginally revised in 2003 and 2005 is the last amendment to the Arrangement directly dealing with tied aid credits. Ever since the question of appropriate regulation of tied aid credits has seemed to be surrounded by peaceful silence. Their tying status, however, remains a heavily contested characteristic.

5.4.4. Financial Terms and Conditions for Export Credits According to the Arrangement¹³⁸

The provisions on tied aid credits constitute only a small part of the Arrangement. The main financial terms and conditions defined by the Arrangement shall be outlined hereafter. The Arrangement applies exclusively to official support provided by governments or by institutions acting on behalf of a government. Private forms of export promotion are excluded. The Arrangement covers any form of official support for export of goods or services, with the exception of military equipment and agricultural commodities. The framework also applies to financial leases (Article 5). A number of special guidelines, so called sector understandings, complement the Arrangement. Currently such sector understandings exist for nuclear power plants, civil aircraft, ships and renewable energies and water projects.

Forms of *official support* defined by the Arrangement are export credit guarantees or insurances, direct credit/financing and refinancing, interest rate support, or any combination of the listed (Article 5). The Arrangement contains regulations that particularly apply to tied aid. Notification procedures and matching also concern trade-related untied aid.

The core elements of the financial terms and conditions regulated by the Arrangement are the following:

- minimum and maximum credit periods for different types of goods,
- minimum advance payments,
- maximum official support,
- repayment structures,
- minimum government-supported interest rate levels, and
- premium rates for country risk.

¹³⁸ This subchapter and the provided analysis of the Arrangement is based on the version TAD/PG(2013)1 of the Arrangement. All other references are cited separately. The Arrangement on Officially Supported Export Credits is constantly revised by the Participants. Minor adjustments have been made but no major changes have been introduced in the past years

5.4.4.1. Repayment Terms

The Arrangement regulates export credit support for goods and services with credit periods of more than two years. Financial arrangements with credits periods of less than two years are normally covered by the private sector. Regarding the duration of the credit the Participants follow the principle by which the “[...] *repayment terms do not exceed the useful life of the good*” (TAD/PG(2013)1: 7).

The recipient or buyer countries are divided into two categories in order to grant different repayment terms: category I comprises the industrialized countries, that is to say high income OECD countries, all other countries are credited category II. The categorization is determined by World Bank classifications of borrowing countries and is based on GNI per capita. The maximum repayment terms for category II countries, which includes all developing countries, is set at ten years. Shorter periods may apply for certain goods or lower contract values (Article 12).

The Arrangement regulates that the purchaser is required to make a down payment of at least 15 % of the export contract at or before the starting point of credit. The starting point varies depending on the good or service purchased. The maximum provision of official support is therefore limited to 85 % of the export contract value. This may include third country supply, but excludes local costs. Official support for local costs is limited to 30 % of the contract value. Exceptions on the maximum amount of official support for local costs are possible, but are subject to prior notification (Article 10).

The Arrangement further regulates repayment of principal sum and payment of interest. Generally, it allows for payments with a maximum interval of six month in equal installments. Installments include interest rate payments. On a justified basis unequal installments in payment terms are possible, maximum frequency of principal repayment, as well as interest payment, may be extended to a frequency of up to twelve month (Article 14).

5.4.4.2. Interest Rates

The guidelines set the minimum level for government-supported fixed interest rates. According to the Arrangement, the minimum interest rate applied to loans with a fixed interest rate is the Commercial Interest Reference Rate. CIRRs should represent market interest rates. In this regard the Arrangement states: “*CIRRs should represent final commercial lending interest rates in the domestic market of the currency concerned*” (Article 19). CIRRs correspond to a rate given to first class borrowers and are revised monthly (Grath 2012: 154). Currently, the CIRRs are available for 15 currencies, including each national currency of members of the Participants Group. Officially supported interest rates are usually given on a fixed-interest basis (Grath 2012: 155). Floating rate loans may be provided.

5.4.4.3. Credit Risk Premiums

The Arrangement highlights that an appropriate credit risk premium shall be charged. Premiums should reflect the risk elements (country risk, buyer risk) involved in the transaction and the period of the transaction (Grath 2012: 155), mitigation and credit enhancements for country and buyer risk, as well coverage for political and commercial risk, and the quality of the product (Article 24). The borrower countries are classified according to risk of non-repayment of their external debt into eight categories. High income OECD and Euro-zone countries are listed in category 0. For the categories 1 to 7 minimum premium rates have been established. In order to ensure greater flexibility, the sovereign risk and buyer risk are assessed and sovereigns and buyers (obligators or guarantors) are identified that face higher or lower risks than the estimated country risk (Articles 23-27).

5.5. Recap and Concluding Remarks

This chapter set out with an inquiry of the historical roots of tied aid credits and showed that this hybrid instrument has been inextricably linked with export credits. The tightening of rules on traditional export credits paired with a severe debt crisis in the developing world, had placed tied aid credits at the heart of national export policies of many industrialized countries and made them become somewhat of a “protectionist device” (DCD/DAC/FA(93)3, prepared by C. Jepma). In these circumstances, the original motivation behind giving tied aid credits was one of gaining competitive advantages for the donors’ domestic enterprises; development goals were thereby at best pursued as an add-on that should conceal the trade distorting effects of the practice. The term “aid” in tied aid credits, therefore, was not necessarily to be associated with development of recipient countries, but might as well be interpreted as aid to national industries, which saw their international competitiveness declining. In this respect John Ray says: *“When governments succumb to this temptation [of using this sort of aid as a mercantilistic device to enhance the competitive position of their exporters], there is indeed aid. But the target is the donor country’s exporter, not the developing country. This is industrial policy, not aid policy”* (Ray 1995: 28; emphasis added).

Considering that tied aid practices were an “integral part of national export trade philosophy” of some OECD countries (Mendelowitz 1989: 12) it is not astonishing that outlawing these very practices proved to be a cumbersome undertaking. Gradually the Participants – the main body negotiating on the use of both export and tied aid credits – increased the minimum permissible grant element (later renamed concessionality level) for tied aid credits hoping that this would provide enough of an incentive to discourage these harmful practices. An increasing number of tied aid credit notifications after the renewed raise of the minimum concessionality level in the

Wallén Package, however, proved the idea of discouraging these practices by simply making them more expensive insufficient. With the **Helsinki Package** the Participants shifted their strategy and introduced the concept of commercial viability, which should henceforth ensure the separation of commercially motivated export credits and development motivated tied aid credits.

These tied aid disciplines, valid up to today, are centered around two key tests essentially examining the financial viability of a project as well as the access to finance in the country where the project would be implemented. Exemptions from the project eligibility tests are provided for highly concessional transactions, tied aid credits to LDCs and de minimis transactions below SDR 2 million. Furthermore, in order to provide practical assistance to implementing agencies and the applying company an *Ex Ante Guidance for Tied Aid* was developed.

Looking back at the history of tied aid credits gives reason to presume that on an international level tied aid credits have been designed from a liberal economist perspective striving first and foremost to eliminate trade distortions. Development concerns have thereby at best been of secondary importance. Keeping the export credit race of the 1970ies (and its predecessor which could be labeled a tied aid credits war) in mind, it becomes evident that the rules that were designed to discourage this behavior primarily appeal to the trade distorting features of this financial tool rather than to its aid quality. Whether these original motivations have vanished and new, more development-oriented motivations prevail remains to be seen. The analysis of the national implementation of the Arrangement rules and/or deviations thereof, provided in the four analyzed case studies, will give answers to this question.

Another question, as a link to the subsequent chapter, concerns the compatibility of goals: is it possible to achieve, both a donor's export promotion goals and development targets through tied aid credits and are these goals equally weighted in today's design of tied aid credits? Do tied aid credits allow donors to "kill two birds with one stone" – a saying used by several of interview partners (Interview IV, V) – or do they (still) result in the suboptimal allocation of resources from both aid and trade perspectives?



6. Aid Considerations and the Role of the Development Assistance Committee

“It seems to be desirable for the clarity of analysis and discussion to keep the problems which mixed credits may raise in aid and trade rather distinct – notwithstanding overlaps in practice”

(DAC/FA(82)2: 13)

Following this recommendation by the Development Assistance Committee (DAC) Secretariat, the analysis of tied aid credits was divided as best as possible along the line of aid and trade considerations. While the previous chapter approached tied aid credits, the problems arising from using them and measures taken to prevent negative effects from a trade angle, this chapter examines the “development finance instruments” in question and the making of rules governing them from a development perspective. This structure seems even the more natural considering that these two different, albeit connected, sets of concerns about aid and trade implications stemming from tied aid credits were dealt with by different OECD or quasi OECD bodies – the Participants Group (PG) and the DAC Working Party on Financial Aspects of Development Assistance (DAC/FA) respectively.

This chapter pursues several goals. First of all, it aims at grasping the role and influence of the DAC in the making of today’s rules governing tied aid credits and the resulting traces of development aspects in the Arrangement. Furthermore, it shall give an overview of the main issues related to tied aid financing and mixed credits discussed within the DAC/FA. Contrary to the previous chapter on the evolution of today’s regulatory framework it does, however, not follow a chronological approach, but tries to cluster issues around subject matters. This choice results primarily from the fact that most issues discussed were long-lasting matters of concern. Large projects, for instance, became a hotly debated issue in the 1980ies and remained so until the closure of the DAC/FA in the early 2000s. Also, from the very onset the role of aid agencies in designing and implementing projects financed with tied aid credits was estimated to be a decisive factor in determining the developmental outcome. In addition to this overview, concerns raised about potential negative effects of tied aid financing on development cooperation are identified. Furthermore, proposals made and guidelines adopted by the DAC/FA Members to ensure the development character of tied aid financing are presented. Both, the Participants and the DAC, on the basis of several mandates attributed to them by the Ministers, put tied aid credits high on their agenda. Consequently, most actions in the field of trade distortion were paralleled by

discussions on aid distortion within the DAC. Whenever this is the case, references to parallel developments in the Participants Group will be made. This concerns primarily discussions in the run-up to the Wallén Package (in particular the concessionality level) and the period before and immediately after the adoption of the Helsinki Package (mainly concerning the newly introduced key tests).

In order to avoid misunderstandings or confusion, first some clarifications on the used terminology have to be made. While the DAC Guiding Principles of 1987 (which together with the used terminology have remained the benchmark up to today) “define separately ‘Associated Financing’, ‘Tied ODA’ and ‘Partially Untied ODA’, the Arrangement includes ‘Associated Financing’ in its definitions of ‘Tied aid financing’ and ‘Partially untied aid financing’”. This entails different interpretations or usage of the term “aid”. In the DAC usage “aid” is synonymous with Official Development Assistance (ODA), whereas in the Participants’ wording “ ‘aid’ may be ODA, may have an ODA component, or may not contain any ODA at all” (DAC/FA(87)6: 4). The latter is, for instance, the case for Other Official Flows (OOF) including grants and loans with the exception of officially supported export credits that are in conformity with the Arrangement. These flows are subsumed in today’s Arrangement under paragraph 34 setting out forms of tied aid (TAD/PG(2013)1: 19).

This study is first and foremost interested in those tied aid financing packages that contain an element of ODA. This section is primarily based on the documentation of meetings of the DAC Working Party on Financial Aspects of Development Assistance, which have been retrieved from the OECD archives. By combining the findings of this document analysis with the interviews of OECD officials, who dealt in one way or another with tied aid financing, development policy aspects in the Arrangement will be traced and DAC positions on the issue over time will be examined.

6.1. Pushing Development Interests in and through the DAC/FA

“[T]he development community had, once again, to accept that the Participants to the Arrangement had taken a decision affecting their area of competence without their direct consent“

(Nygren 1998: 56)

Taking this quote by Birgitta Nygren, Chairwoman of the Consultations Group for Tied Aid¹³⁹ from 1992 to 1995 and Vice-Chairwoman of the Participants, as starting point, this chapter approaches the issue of tied aid credits from a development angle and

¹³⁹ The Consultations Group discussed (and on request still discusses) projects, the conformity of which with Arrangement rules was being challenged. This happened frequently in the first years after the inception of the Helsinki Disciplines, when definitions and methodologies were still blurry and weak. Experience gained with these consultations led to the formulation of the so-called Ex Ante Guidance for Tied Aid.

aims at grasping the role played by the DAC in establishing rules on tied aid credits. Examining the DAC's position towards this financial instrument and its capacity of influencing the Participants' work is thought to be an approximation of the weight of development aspects in today's design of this instrument of development finance.

At an early stage tied aid financing aroused the attention of the DAC. It was in particular within the Working Party on Financial Aspects of Development Assistance that Members discussed potential repercussions of these practices on their development policies and recipients' development prospects.

The DAC Working Party on Financial Aspects of Development Assistance was set up in 1975 (DCD/DAC/FA(99)6: 5) and was operational up to the Rome Conference in 2003 when it was officially merged with the Task Force on Donor Practices to become the *Working Party on Aid Effectiveness and Donor Practices* (WP-EFF) (De Milly 2012: 3). While in Participants' meetings mainly representatives of Ministries of Finance and Export Credits Agencies participate(d), DAC/FA meetings brought together representatives of Ministries of Foreign Affairs or Development Cooperation (or any other Ministry in charge of development cooperation) and aid agencies. Here again national differences prevail. Austria, for instance, sent delegates from the Ministry of Foreign Affairs and the Federal Chancellery respectively, reflecting the domestic back and forward shift in competences over development cooperation.

At its inception in 1975 the DAC approved the following mandate for the Working Party on Financial Aspects of Development Assistance, henceforth referred to as DAC/FA:

*"The Working Party on Financial Aspects of Development Assistance will include in its purview: consideration of the terms of aid with particular emphasis on the question of appropriate terms and on the harmonization of the terms of aid to the poorer countries; the analysis of debt problems of developing countries, **taking into account the various types of flows from all sources which lead to indebtedness, i.e. official development assistance, export credits and other capital transfers.** The Working Party will keep under consideration the technical problems related to **partial or general untying of aid.** It will also deal with any other related subject referred to it by the DAC. Close working relationships will be maintained with the World Bank, the IMF, and the Group on Export Credits and Credit Guarantees of the Trade Committee of the OECD. The Working Party will report to the DAC as appropriate"* (DAC(75)18; quoted in DCD/DAC/FA(99)6: 13; emphasis added).

6.1.1. Concerns over Limited and/or Negative Development Impact of Tied Aid Credits

In 1981, with the circulation of a Note by the DAC Secretariat on the "Scope and Problems of New Forms of Less-concessional Financial Co-operation with Developing

Countries", discussions on associated financing and tied and partially untied aid took off among the members of the working party (DAC/FA(81)1). From the very onset, the DAC/FA's work covered those transactions in which an element of ODA was involved, while Participants were and still are interested in all transactions that contain an aid element, meaning a subsidy element regardless of whether this comes from the aid budget or any other government fund.

At least for the subsequent three decades aid considerations with regard to tied and associated financing should become the dominating matter of concern for the Working Party. Only after the adoption of the Helsinki Disciplines and New Measures on Tied Aid respectively, the Working Party gradually shifted its attention to other issues. Especially from 1994 onwards, when the DAC had made it clear that the Working Party was expected to "[...] develop its agenda in areas other than aid tying" (DCD/DAC/FA(94)8: 2), the DAC/FA diversified its field of interest.

Within the DAC/FA, concerns were raised with regard to both actual associated financing practices and tied and partially untied aid financing and envisaged measures by the Participants to deal with the former. Struggles over finding common positions on the usefulness of associated financing for development purposes characterized the first years of the DAC/FA's work on these tools of development finance. Furthermore, this first period required intense discussion on definitions of and differentiation between different financial flows – the Participants' understandings thereof included.

While from an early stage reciprocal untying was recognized as the ideal solution to problems arising from associated financing and tied and partially untied aid, the DAC Members only hesitantly adopted corresponding measures. In the meanwhile the DAC/FA sought ways to strengthen the development orientation of projects financed with tied aid credits. This strategy was still pursued in the 1990ies, as illustrated, for instance, in the following quote by Bill Nicol, representative of the Development Cooperation Directorate, who stressed in 1994 that the DAC was concentrating its efforts on "[...] making more effective the existing disciplines: **whilst there is a clear preference for untied aid over tied aid**, the view is that aid can be 'good' but there was need to improve the quality of aid that will continue to be tied" (TD/CONSENSUS(94)50; emphasis added).

6.1.1.1. Approaching the Issue: ODA Stretching and Debt Servicing Capacity

As has already been demonstrated on the example of the untying of aid, strong national interests made committing members to such initiatives a cumbersome and long-lasting undertaking. Hence, it is not much of a surprise that also DAC discussions on how to proceed with tied and partially untied aid as well as associated financing were characterized by diverging country positions and very careful proposals by the Chairmen so as not to scare off any member state and threaten a fragile consensus.

The first DAC/FA document dedicated to the topic – titled “Scope and Problems of New Forms of Less-Concessional Financial Co-operation with Developing Countries” – was circulated by the DAC Secretariat in 1981 and addressed potential problems that might arise from a development perspective when using these financial instruments (DAC/FA(81)1). Conclusions drawn in this note are to a certain extent contradictory in themselves – possibly a result of the fact that associated financing and tied and partially untied aid were still a rather new phenomenon and that members were only just about to form positions on the issue and had not yet elaborated fully-fledged negotiation strategies (hence also the emphasis on New Forms of Financing in the Note’s title). Practices of associated financing and tied and partially untied aid were placed in the wider context of the scarcity of ODA resources and compared to financial needs of developing countries as well as to the growing diversity of their debt servicing capacity. While country positions varied, the note stressed that most DAC members considered it – in view of scarce aid resources and compared to less favorable traditional export credits – reasonable to combine ODA and non-ODA resources, for instance, in the form of mixed credits.

The idea that associated financing had to be assessed against the background of scarce ODA resources also dominated another Note on the “*Use of ODA in Association with Export Credits*” distributed by the Secretariat in 1982. In view of this scarcity, it was concluded that it would not be desirable to discourage all associated use with less-concessional sources of financing, but that criteria and procedures had to be designed which would ensure the compatibility of associated financing with developmental objectives and fair competition (DAC/FA(82)2: 10).

Interestingly, in light of the aid scarcity debate and an increase in non-concessional export credits, the use of mixed credits was interpreted as the result of a number of factors among which was listed the desire of aid agencies to leverage ODA and to improve overall financial terms for recipients (DAC/FA(81)1: 16). The following main motivations of mixed credits extended by individual DAC donors were identified:

- a) *“the desire to ‘stretch ODA’, given its scarcity against the financing needs of recipient countries, by using it in combination with more easily available export credits;*
- b) *an effort to improve the terms of financial transactions, to make them compatible with the recipient’s debt servicing capacity, by associating soft funds with more expensive export credits;*
- c) *trade promotion, especially under the impact of present economic circumstances in donor countries (notably employment and balance of payments deficits);*
- d) *the perceived need to match, in defensive action, favourable terms offered by competitors from other donor countries”* (DAC/FA(82)2: 10).

The first two motivations listed were frequently brought forward in DAC/FA meetings by those members who sought to justify their recourse to associated financing. Furthermore, these two topics have been peculiar to the discussions within the DAC and were not addressed by the Participants while (c) and (d), referring to export promotion and matching practices¹⁴⁰, were also extensively discussed by the Participants.

Despite the emphasis being put on the potential usefulness of associated financing to stretch scarce ODA resources, in both 1981 and 1982 early concerns were expressed that the use of ODA for mixed credits might tend to divert aid away from poorer countries and from projects (particularly in the social and rural areas) which were less attractive for commercial financing. This was also expected to distort project design to meet commercial interests rather than development objectives. In addition, it was thought to be likely that the reduction of the competitive focus on price and quality might put developing countries in a situation in which their gains in financial terms were offset by losses in price and quality – one of the strongest arguments up to today brought forward against tying in general. Last but not least, the potential distortion of the choice of investment projects with regard to their economic viability was mentioned by the DAC Secretariat (see for instance DAC/FA(81)1: 16). A combination of these possible negative repercussions led some commentators to conclude that mixed credits may be “*bad aid and bad business*” (DAC/FA(81)1: 16). This assessment matches fairly well John Ray’s observation according to which aid policy had to be separated from trade policy if one wanted to avoid to “*have bad aid and bad trade policies*” (Ray 1996: 5).

In view of the little information available on national systems of mixed financing, in a concluding remark the DAC Secretariat asked Members to present their views on the usefulness of associated financing as a tool of development finance. By doing so, it avoided making judgments thereof itself. In order to get a clearer picture of the diverging national policies and practices, a questionnaire was distributed to DAC/FA Members in 1982, which was also expected to provide preliminary statistical data (DAC/FA(82)2: 9). The return rate of completed questionnaires, however, was fairly low.

Partly as a consequence of the little information available to the DAC/FA, in this early period the Working Party was reticent or unable to make clear statements on the expected utility or harm respectively of associated financing from a development perspective. In an attempt to maneuver around one-sided statements, the Secretariat stressed that it made a difference whether ODA was stretched with less-concessional financing or whether an export credit was the starting point the terms of which “[*were*]

¹⁴⁰ In case of deviation from Arrangement terms “a Participant may match, according to the procedures set out in Article 45, financial terms and conditions offered by a Participant or a non-Participant” (TAD/PG(2013)1: 24). This matching procedure laid down in today’s Arrangement provides an ECA to adapt its offer and set the same terms as the derogating agency.

softened by associating concessional funds in the financial transaction“ (DAC/FA(82)2: 10).

This line of reasoning is reflected in a statement by the Japanese delegate at the DAC High Level Meeting in 1981, in which he argued that in the case of a shortage of ODA resources export credits could sometimes supplement ODA. On the contrary, he went on, Members should refrain from using ODA to promote exports, which would cause trade distortion and was incompatible “*with the principle of optimum use of ODA for the development of developing countries*” (quoted in DAC/FA(82)2: 4, 5).

At several occasions in the 1980ies the need to thoroughly study national policies, which were evidently differing, was stressed. These differences concerned not only the budgetary provenance¹⁴¹ of the concessional parts of the financing packages, but also reporting practices, implementation policies and so forth (DAC/FA(82)2: 13). These variations reflected differing national systems and priority settings of aid programs. Since members formed their position towards proposed measures against the backdrop of expected repercussions on their respective aid and export promotion systems, finding an agreement proved difficult (see e.g. DAC/FA/86)12; TD/CONSENSUS/86.53: 12).

6.1.1.2. Distorting Aid Distribution Patterns

From the viewpoint of aid policy the major concern about mixed credits was that “[...] *scarce funds devoted to development assistance programmes – i.e. ODA – should not be diverted from poorer developing countries to wealthier ones, or from higher-priority development projects to those of lesser priority*” (DAC/FA(82)2: 13).

The distortion of the overall geographic, functional and sectoral balance of aid programs through the use of aid funds for mixed credits resulted from the commercial character of many projects that were financed with mixed credits, which were more likely to be accepted by middle and higher income developing countries. Hence, ODA was shifted from low to higher income countries (DAC/FA(82)2: 14). In order to observe this worrisome situation, the DAC/FA Secretariat regularly produced reports on trends in associated financing and circulated the so-called the “Review[s] of Associated Financing”¹⁴².

Furthermore, it was suggested that recipient countries themselves were the best judges of the value of projects undertaken on the basis of relatively more expensive mixed credits (compared to “normal” ODA). The rationale that this way the compatibility of chosen projects with the overall development priorities and strategies of the

¹⁴¹ The question here is whether the funds come from a budget explicitly earmarked for aid and might thus compete with the aid agency’s budget (DAC/FA(82)2: 13).

¹⁴² The 1987 Guiding Principles instructed the DAC Secretariat to regularly undertake these Reviews and to present them at High Level Meetings (OECD/DAC 1987: para. 12). For an example of such a Review see DAC/FA(87)5.

recipient country was likely to be given, resembles the ownership and alignment principles as laid down in today's Paris Declaration. The dilemma that might also apply to today's ownership principle was and is that *"[...] this independent project evaluation and implementation capacity is likely to be stronger on the part of more advanced developing countries which on the basis of the need criterion should be less eligible for ODA than the less-advanced developing countries"* (DAC/FA(82)2: 14).

With regard to whether the disciplines curbed the shift of resources from poorer to richer developing countries, the Participants and the DAC/FA respectively draw somewhat contradicting pictures. While a review undertaken by the Secretariat of the Trade Directorate finds that the Helsinki Disciplines have certainly curbed this trend of shifting flows from poorer to richer developing countries (TD/PG(2003)7), an earlier study issued by the DAC Secretariat was less enthusiastic and stressed that a considerable portion of associated financing flows still went to "strong" developing countries, such as China, Vietnam etc. The DAC Secretariat finds that *"[i]n terms of individual country concentrations of tied aid credits, the data shows virtually no change between pre- and post-Disciplines periods. Indonesia, Egypt, India and China were, and continue to be, the major recipients, together accounting for about 30 per cent of the total. This finding also supports the view that the Disciplines have not been associated with any reallocation of tied aid credits towards countries with little or no access to market financing"* (DCD/DAC/FA(99)8: 5). However, one needs to go beyond aggregated statistics to see variations from donor to donor.

6.1.2. "Development Safeguards" in Historical Perspective

Several proposals of how to increase the development orientation of tied aid credits have evolved out of the discussions within the DAC/FA. This section contains practice-oriented information and might also guide subsequent studies on national soft loan policies.

In order to assess the Arrangement from a development perspective it does not suffice to examine the disciplines in existence – one also needs to look for loopholes and ask for potential repercussions thereof on aid and development practices. Hereafter, these loopholes will be identified by examining measures that had been proposed by the DAC/FA. In this respect it is valuable to trace alternatives that have been discussed but have never made it into the final Arrangement text. Eventually, this also tells something about power (im)balances among different interest groups with regard to their leverage to impose their respective proposals.

In an early Note by the DAC Secretariat (DAC/FA(82)2) development oriented as well as trade oriented objectives were presented and more specific norms for the use of ODA in association with export credits were examined. The development-oriented objectives tried to ensure that tied aid and mixed credits were assessed against the same criteria as any other ODA flow (despite considerable analytical efforts related to

this objective). That way it should be guaranteed that they were not used for activities of low developmental value that diverted ODA away from countries most in need, but were concentrated on those countries that did not have access to other external resources and had a limited debt servicing capacity. Furthermore, competitive procurement practices and reciprocal untying as well as a shift towards multilateral development finance were discussed under the heading of development-oriented¹⁴³ objectives (DAC/FA(82)2: 16, 17).

At this early stage the Secretariat concluded that if agreement on the above presented aid-oriented principles was found, members would either have to stop using associated financing for commercial purposes, or take the concessional funds and subsidies other than the aid budget. Should these practices be continued, the Secretariat urged members to make a clear distinction between commercial and concessional financing terms to avoid “leapfrogging” competition and to stop spoiling certain markets and sectors – especially those with a worldwide overcapacity of production. Furthermore, members were advised to “[...] collectively resist demands from developing countries buyers that they include (concessional) financing terms with their bids” – a matter that was also of major concern to the Participants (DAC/FA(82)2: 18).

Interestingly, already in 1982 the Secretariat asked whether members thought it feasible to differentiate a priori with the help of “positive” and “negative” lists between types of projects or fields of activity to be financed. The objective of these lists would “[...] not be to ‘ban’ aid financing for particular activities but [to] strengthen the position of aid agencies in reviewing applications for use of ODA for mixed credits” (DAC/FA(82)2: 20). This proposal reminds us of the *Ex ante Guidance for Tied Aid* that from 1996 onwards should help responsible agencies to make decisions on the eligibility of a given project. However, while the 1982 proposal focused on a priori assumptions with regard to the ability of a project to meet development criteria, the *Ex-ante Guidance* is rather concerned with commercial viability.

In a draft progress report on “[i]mproving transparency and discipline of Associated Financing and similar transactions” circulated to the DAC/FA Members in 1985, it was expressed more precisely what these afore mentioned development criteria could be. Members recognized that a project is more likely to be developmentally sound if

- “(i) It is part of investment and public expenditure programmes already approved by the central financial and planning authorities of the recipient country;
- (ii) it has been the subject of review and general endorsement in such international aid co-ordination arrangements as may exist;

¹⁴³ Strikingly, terms such as “developmental value” or “development-orientation” are repeatedly used without ever being defined.

- (iii) *it is being co-financed with an international development finance institution; by contrast, there might be doubt that a project has developmental priority if it has been rejected by an international development finance institution for reasons other than shortage of funds;*
- (iv) *In the case of 'stronger developing countries', it serves to meet specialized advanced technical need and/or addresses major social problems, including rural and smallholder agricultural development"* (DAC/FA(85)2: 10).

These "criteria", defined in pre-Helsinki times, are still valid and provide orientation for the case study analysis of national soft loan policies and their development content. With the exemption of provision (iv) on "stronger developing countries", they are replicated almost in identical wording in 1987 DAC *Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance* (OECD/DAC 1987: para. 13). Furthermore, they are reflected in the *Checklist of Developmental Quality* provided in the Annex of the Arrangement (TAD/PG(2013)1) and are described in greater detail as part of the *Checklist for Information in Feasibility Studies annexed to the Ex ante Guidance for Tied Aid* (TD/PG(2005)20).

In addition, the 1987 DAC Guiding Principles and the therein mentioned provisions with regard to associated financing are reiterated in *the DAC Principles for Project Appraisal*¹⁴⁴, which were adopted in 1988 and which have been referred to in the Arrangement up to today (see TAD/PG(2013)1: 134). These DAC Principles contain a section – Section VIII – on "*special considerations in the case of associated financing and tied aid*". Therein, the DAC emphasizes that "*[...] where procurement is tied, it should be flexibly administered, including careful choice of supplies in which the donor is competent and competitive*" (OECD/DAC 1992: 46).

6.1.2.1. Strengthened Role of Aid Agencies

Considering the general mandate of the DAC and the composition of delegates in meetings of the Working Party, it comes as little surprise that one of the main topics dealt with by the Working Party concerned the role of aid agencies in the design, implementation and monitoring of associated finance projects and tied aid financing.

In the first note dedicated to the topic in 1981 members were urged to think about possible measures to maximize the development impact of mixed credits – provided that this mode of financing should continue to exist. In the following proposals aid

¹⁴⁴ The DAC Principles for Project Appraisal set out project selection criteria and appraisal procedures that should ensure that investment projects are of high development quality (OECD/DAC 1992: 33-47). The principles state that the recipient is responsible for project identification, design and implementation (OECD/DAC 1992: 33) However, according to Chang, Fell and Laird, "donor experience shows an activist approach is needed to select good projects and that competition for good projects may occur" (DCD(99)6: 93).

agencies were attributed a greater role in the design and implementation of projects financed by mixed credits (DAC/FA(81)1: 18 et seq.; emphasis added):

- “(i) **Aid agencies should be fully consulted** on the projects/programmes which are proposed for mixed credit financing and should review these projects/programmes, **applying the standards and criteria used for activities financed with ODA only.**
- (ii) As in the case for aid financed projects, mixed credit financed projects should be the **subject of inter-governmental agreements** between borrower and lending countries.
- (iii) Efforts to ensure that the provision of mixed credits is **compatible with the debt servicing capacity** of recipient countries,
- (iv) Aid agencies should watch closely the implications of the use of ODA for mixed credits for the **overall geographic, functional and sectoral balance of their aid programmes.**
- (v) There should be an international understanding **that large mixed credit financed projects** (exceeding a certain size) **should be subject to international competitive bidding** (possibly with the tender documents soliciting information on credit amounts and terms)”

The above measures have partly been put in place. With regard to the compatibility of financing packages with the overall debt servicing capacity of recipients, one could, for instance, think of the sustainable lending initiative, which was initiated in the late 2000s by the Bretton Woods Institutions (World Bank and International Monetary Fund) and adopted by the Export Credit Group in the form of *Principles and Guidelines in to Promote Sustainable Lending Practices of Official Export Credits to Low Income Countries* (TAD/ECG(2008)1).

Also, the mandatory inter-governmental agreements are a widely common practice today and the call for International Competitive Bidding (ICB) for large projects became an integral part of the 1992 New Measure for Tied Aid (SG/PRESS(92)35: 4). The Secretariat stressed already in 1982 that projects financed with mixed credit should be assessed and implemented under the same standards, criteria and procedures as projects financed exclusively by aid resources. The extent to which this proposal has become common practice today, will have to be assessed on a national level.

Coming back to what has been mentioned before on the specific composition of associated financing packages, the weight given to the development impact of the financed project can be expected to be greater in cases where ODA constitutes the dominant portion of the financing package. In the opposite case, where the aid agency is the “junior partner” in the transaction, its influence in selection, design and im-

plementation is likely to be rather limited. The role of aid agencies is also bound to be limited when considering that “the number of qualified staff in aid agencies which could participate in the review and execution of such projects is limited” (DAC/FA(82)2: 14). Interestingly, also in two interviews the educational background of staff of both DCD/DAC and aid agencies was addressed and one-sided competences in qualitative social sciences rather than economics were identified as an obstacle to effective involvement in mixed credit policies (and policy making) (Interview IV, V). This way, the capability of aid agencies to take a more active role in associated financing was questioned.

These doubts do not change the fact that the importance of proper participation of aid institutions in the design and implementation of associated financing projects was stressed over and over again by the DAC/FA. The continuity of these discussions is reflected in the fact that, for instance, in 1999, that is after the Ex ante Guidance had been published, it was still of major concern. In a study of “management systems for development cooperation”, of DAC members, the authors recalled that the participation of ministries and agencies that administered development co-operation in project appraisal and decision making in relation to associated financing varied significantly among members. Considering that aid funds were involved, the role of these institutions, however, was crucial in ensuring that development objectives inherent in aid were properly taken into account also in the selection of projects to be funded with associated financing (Chang et al. 1999; see DCD(99)6: 88).

Not only a strengthened role of aid agencies, but also closer cooperation and coordination in capitals between aid agencies and export credit agencies were called for by the DAC/FA. This should, for instance, ensure that delegations to the Participants’ consultation meetings were fully briefed on aid-related issues and concerns that needed to be addressed in these consultations (DAC/FA(92)1: para. 20; DCD/DAC/FA(96)6: 3). Departing from Lammersen’s and Owen’s statement that “[t]he Consultations Group does not consider the development benefits of a project (that is the role of the DAC)” (Lammersen/Owen 2001: 77), the DAC/FA’s success in fostering this cooperation, however, seems questionable.

6.1.2.2. Development of a Consensus on Objective Development Criteria for Pre-Mixed Financing

In 1987 one specific form of associated financing, so-called pre-mixed credits, was heavily discussed by the members of the DAC/FA. Concerns arose especially with regard to the calculation of the overall grant element of such packages. The DAC/FA speaks of pre-mixed credits when resources from a donor’s budget are combined with funds raised on capital markets to form a single “pre-mixed” loan. “*The limited available information suggests that the main pre-mixing techniques are (i) blending budget*

and market funds and (ii) subsidising the interest rate of market funds by grants from the budget" (DAC/FA(87)2: 3).

Considering that up to today pre-mixed financing has been part of some donors' portfolios¹⁴⁵, these discussions – although somewhat technical – will briefly be touched upon. Details of reporting practices, however, will be left aside because these have repeatedly undergone changes since the 1980ies. The grant element thresholds set out in the 1987 DAC Principles apply in the same way to post-mixed and pre-mixed transactions and thus prevent the circumvention thereof by adapting institutional or technical arrangements for this purpose. Nevertheless problems with regard to the reporting of pre-mixed transactions as ODA persist. Such concerns about the reporting of pre-mixed credits resulted from the fact that while usually in associated financing packages the commercial flows were and still are assigned a zero grant element, in a pre-mixed single loan, the grant element of all the components were automatically taken into account. Hence, when using the DAC's 10 % discount rate, "*all component flows with an interest rate below 10 per cent, would have a positive grant element and convey it to the total grant element*" (DAC/FA(87)2: 12). Similar debates are held today on how to proceed with loans that meet the required grant element as a result of low government interest rates and without a budgetary effort on the donor-side (DCD/DAC/STAT(2012)20/DRAFT; see articles by Lomoy 2013; Manning 2013).

Confronted with controversially discussed pre-mixed credit practices, the DAC Secretariat proposed to DAC/FA Members to collectively work towards a consensus on objective criteria that would allow to determine the developmental character – or the lack thereof – of the "*project and the (concessional) financial transaction and the financing scheme from which it flows*" (DAC/FA(87)2: 13, 14). For that purpose, members were invited to gather a number of positive and negative aspects that should help them agree on a consensus on development criteria. The suggested negative and positive aspects essentially recalled those mentioned already in a Note by the Secretariat in 1985. These included, for instance, the project's incorporation in investment and public expenditure programmes, the degree of involvement of the aid agency, the presumptive presence or absence of development orientation etc. (DAC/FA(85)2: 10; (DAC/FA(87)2: 14). An additional negative criterion not mentioned in the 1985 Note concerned the use of (pre)mixed credits for matching (DAC/FA(87)2: 14).

6.1.2.3. Aid Quality: Improved and Mandatory Aid Quality Assessment

Members of the DAC/FA considered it their main task to make sure that projects proposed for tied aid financing represented *good* investments in development. Although the Working Party had put its focus on aid quality much earlier, it was in the

¹⁴⁵ The Austrian export credit agency (OeKB), for instance, offers pre-mixed credits. For an overview of the different credit modalities see BMF 2010.

1990ies that discussions on how to achieve this goal were the most intense (DCD/DAC/FA/M/(93)2-PROV). This agenda-setting is also to be seen in the context of a general rethinking of development co-operation in the 1990ies when the effectiveness and quality of aid were seriously challenged and an "aid fatigue" translated into reduced ODA volumes.

Called on by export credit agencies that were seeking advice from the DAC on how to ensure good developmental quality of projects, in 1990 an informal joint meeting between the Participants and the DAC/FA was held in which also aid agencies participated. In this constellation first suggestions for an Aid Quality Checklist were made which should form the basis for assessing the development content of projects financed in developing countries (DCD/DAC/FA(91)1: 2 et seqq.). One of the suggestions made during discussions was that "*[...]an aid quality assessment, essentially by thorough and effective project appraisal, will have to be made before a financial commitment is made*" (DCD/DAC/FA(91)1: 3). Due to the considerable administrative burden this move would possibly have posed on export credit agencies, the participating experts thought it reasonable to limit the application thereof to certain categories of transactions (e.g. large projects) or to follow a "two-pronged approach", i.e. a basic appraisal in a first step and a more detailed one in a second step (DCD/DAC/FA(91)1: 3, 4).

Eventually, the DAC's 1992 *New Measures in the Field of Tied Aid* presented in its Annex a "*Check-list of Development Quality of Aid-Financed Projects*" (OECD/DAC 1992: 16), which was also attached to the Arrangement. This checklist, based on older DAC principles, was and still is expected to assist export credit and/or aid agencies to assess the aid quality of a proposed project. When in 1996 the first version of the Ex ante Guidance for Tied Aid was released, an enlarged checklist for development quality became part of this Participants' document. The Aid Quality Assessments (AQuAs) to be undertaken along the criteria laid down in this checklist have a dual function. Firstly, it is their objective to demonstrate the contribution of a tied aid credit project to sustainable development, that is to "*[...] provide the donor community with an 'at a glance' assurance that tied aid proposals represent an effective use of scarce aid resources*" (DCD/DAC/FA(95)1: 4). Secondly, AQuAs might be used by the Participants to signal concerns about quality to the DAC/FA (DCD/DAC/FA(95)1: 5).

In the mid-1990ies, when numerous projects called for consultation showed the difficulties of implementing the newly adopted rules and in view of the unsatisfactory quality of those Aid Quality Assessments¹⁴⁶ conducted, the DAC/FA emphasized their

¹⁴⁶ The DAC Secretariat criticized that often there was no or very little information on the development aspects of a project. Frequently only very general statements were being made, such as "[...] telecommunications projects in rural areas promote development or that the health benefits from a project producing iodised salt justify the use of aid funding" (DCD/DAC/FA(94)9: 4, 5).

important role in confidence building among tied aid giving states and made precise proposals¹⁴⁷ for improving this “mechanism” (DCD/DAC/FA/M(94)1/PROV; DCD/DAC/FA(95)1). First of all, AQuAs should be provided as an integral part of the feasibility studies prepared by countries in support of their projects. Furthermore, they should provide sufficiently detailed statements and explanations justifying the appropriateness of aid funding, so as to allow other donors to form an opinion on the development quality of the project and to raise issues on this if necessary. Since, according to the Secretariat, countries preparing proposals for tied aid financing are expected to have already performed this analysis, this should not be an onerous task. In addition, it was proposed that AQuAs be mandatory for all projects called for consultation. This would mean, that all large projects automatically had to provide an Aid Quality Assessment (see e.g. DCD/DAC/FA/M(94)1/PROV: 2; DCD/DAC/FA/M(94)2/PROV: 3; DCD/DAC/FA(94)3). Discussions on large projects popped up again in the DAC/FA when the Participants changed their rules for large projects.

Under the Helsinki Disciplines large projects initially were subject to automatic consultation. As most of these projects in the early years, however, received the support of the Consultation Group, the Participants amended their procedures, replacing the automatic consultations by “enhanced” notification requirements (DCD/DAC/FA(96)6: 5). In addition, the Secretariat proposed to invite the Participants Group to enhance the standard notification form for all tied aid credit projects by adding questions designed to assess aid quality. Recalling earlier discussions, this could mean requesting information on both financial and economic internal rates of return of projects (DCD/DAC/FA(94)3).

In parallel, DAC/FA members agreed on the formation of an informal “Friends of the Chair” group, which should help the Chair and the Secretariat discuss issues related to aid quality and to draft proposals for follow-up action by the DAC/FA. As a reaction to the insufficient consideration of aid quality aspects in the Participants’ consultations (DCD/DAC/FA(95)3/REV1), the “Friends of the Chair” produced several *Aid Quality Guidance Notes*, which focused on issues signaled in the review of tied aid credits to support projects. Although the guidance provided was thought to be valuable for the preparation of aid supported projects in general, members were particularly expected to take the guidance into account in the preparation of future tied aid financing (DCD/DAC/FA(98)6; DCD/DAC/FA(97)10: 3; DCD/DAC/FA(95)3/REV 1). In the attempt to develop sector-specific guidance/checklists, guidance notes were prepared, for instance, on “environmental projects”, “water projects” and “project sustainability” (DCD/DAC/FA(96)6: 3; DCD/DAC/FA(97)10: 3).

¹⁴⁷ The DAC Secretariat appears rather reluctant and cautious not to interfere in the Participants’ work. In this vein, the DAC Secretariat, for instance, stressed that “[t]he above proposals have no implications for the way in which the Participants conduct their business; aid quality issues would remain outside their examination of projects and AQuAs would continue to function as a signaling device for issues to be followed up in the DAC/FA” (DCD/DAC/FA(95)1: 11).

6.1.2.4. Greater Importance of Development Content in Consultation Procedures

According to Frans Lammersen, who chaired the Consultations Group between 1995 and 1997 and who today works for the Development Co-operation Directorate, the “developmental quality of the projects did not play a major role during the consultation process”. “Indeed”, he goes on, “*anecdotal evidence suggests that Member countries remain more concerned with the promotion of their domestic support export industries than with the effectiveness of these scarce resources in promoting development*” (Lammersen 1998: 64; emphasis added).

In a similar vein, Anthony Owen, who, as an independent consultant, analyzed the body of experience gained since 1992 under the tied aid disciplines, addresses this *problematique*. Even though the *raison d'être* for the Helsinki tied aid disciplines is the prevention of trade distortion, he reminds us that the financial support for the commercially non-viable projects usually comes from the “aid” budgets (Owen 1998: 68; Lammersen/Owen 2001: 77). Consequently, Owen stresses that “[...] *more emphasis should be placed on a sound economic justification for investing in an otherwise financially non-viable project*” so as to prevent projects from “becoming a financial bottomless pit” (Owen 1998: 68)¹⁴⁸. Giving greater weight to the analysis of economic benefits of a project financed with tied aid credits was also one of the DAC/FA's key proposals in order to improve development quality. In a Note by the Secretariat circulated in 1994 this suggestion is clearly expressed: “*The Working Party also suggested that countries provide estimates of the economic internal rates of return [...] to complement those on the financial internal rates of return, in the sense that the gap between these two rates would be indicative of the development contribution of the project. Countries should, of course, explain the mechanism by which the subsidy involved in the projects makes this development contribution*” (DCD/DAC/FA (94)9: 5; original emphasis).

In an early draft report to the Ministers on the implementation of the tied aid disciplines, the DAC Secretariat identifies the adequate representation of aid authorities in Consultation Group discussions as a precondition for the efficient implementation of the DAC disciplines (DCD/DAC/FA(93)6, para. 10). The idea that the role of aid agencies in the consultation process should be strengthened was recalled at several occasions, but did not have any significant effect on the composition of national delegates sent to consultation meetings (DCD/DAC/FA(96)6: 3).

¹⁴⁸ In 1998, both Lammersen (1998: 61 et seqq.) and Owen (1998: 68) identify the treatment of environmental projects as another major outstanding issue that the Consultations Group will have to address. A detailed analysis of the potential environmental consequences of the Helsinki rules, not discussed here, is given by Peter Evans (2003). Breuss (2005) tackles the treatment of environmental projects under the Arrangement on the Austrian example.

6.1.3. Communicating Aid Considerations: the DAC/FA's Relation to the Participants

As has been shown, tied and partially untied aid credits as well as associated financing ranged high on the agenda of the DAC Working Party on Financial Aspects of Development Finance. From the early 1980ies onwards, the DAC/FA repeatedly voiced concerns about the development impact of these instruments. Most notably these concerned the distortion of aid flows for commercial purposes, leading to an undesired geographical and sectoral shift in the distribution of aid. In view of the fact that eliminating these practices altogether was not a conceivable option, the Working Party proposed measures of how to enhance the development orientation of these official flows. The question, thus, arises, how the DAC/FA tried to articulate these concerns and suggestions *vis-à-vis* the main negotiating body, the Participants Group. In search of answers, this section explores the means that were at the Working Party's disposal to "confront" the Participants Group with its expectations regarding developmentally effective rules of aid resources. The extent to which the DAC/FA made use of these will briefly be touched upon and taken up in the conclusions drawn from this chapter.

6.1.3.1. Monitoring the Participants Group

Already with the DAC Guiding Principles on Aid in Association with Export Credits and other Market Funds of 1983 Members declared that the Working Party on Financial Aspects "*[...] will follow closely relevant developments in the Group on Export Credits and Credit Guarantees of the Trade Committee and co-operate with this Group as required*" (DAC(83)7: 6). In 1985 DAC/FA Members reaffirmed this commitment and stated that they "*[...] are following the work under the Consensus which is directly relevant to their concerns. The respective parts of the Secretariat are in touch to promote reconcilable approaches by both groups to the same issues*" (DAC/FA(85)2: 12). Over the years, the role of the Secretariat should become crucial in increasing awareness of aid concerns of the DAC/FA among the Participants and of trade considerations among the DAC/FA, respectively. In a way these "awareness-raising measures" by the Secretariat paved the way for informed discussion of matters of mutual concern.

The issues which were of concern for the DAC included the "*[...] definition of 'tied aid credits' and the calculation of the grant element; prior notification requirements; common line consultations; proposal to raise the minimum permissible grant element threshold for tied aid credits and other proposals to strengthen discipline*" (DAC/FA(85)2: 12 et seqq.).

Discussions on changes in the minimum permissible grant element in the run-up to the Wallén Package exemplify how closely the DAC/FA followed negotiations within the Participants Group. In essence, discussions among the Participants were observed

and the potential repercussions of proposed measures on development (aid) in general, and DAC principles in particular, were assessed (see for instance the Note “Implications of strengthened export credit arrangement disciplines for the DAC Guiding Principles” – DAC/FA(87)1). The DAC discussions on the appropriate calculation of the grant element which were triggered by changes made by the Participants in computing the grant element, henceforth called concessionality level, also show that the influence we try to capture is not a one-way street and that discussions in the Participants Group also spilled over into the DAC/FA.

Since country positions on the usefulness of the envisaged measure diverged considerably, a Note by the DAC Secretariat of the year 1986 studied possible scenarios resulting from an increase in the grant element threshold. In the first scenario, the proposed measure would lead to a reduction of resource transfers, essentially because for budgetary or institutional reasons it would become more difficult to stretch ODA. In a second scenario, donors would discontinue ineligible associated financing and tied and partially untied ODA as well, but this time re-direct at least some of the newly available aid resources to their more concessional aid programs. In the third scenario, the new concessionality threshold would result in a new clustering of aid transactions just above the permissible grant element and could imply “intensified credit terms competition” (DAC/FA(86)8: 6).

The increased minimum concessionality threshold, which the Participants were about to agree on, was thought to disincentive the use of tied aid credits for commercial purposes¹⁴⁹. In another Note circulated by the OECD Secretariat in 1986, however, it was stressed that there was no certainty that increases in the grant element (at either uniform or differentiated discount rates) would significantly improve development quality. The OECD Secretariat stated that the requirement of a grant element regardless of whether it was set at 25 or 35 % could not replace “*[...] careful economic appraisal and cost-effective procurement methods*” (DAC/FA(86)12; TD/CONSENSUS/86.53: 30). In addition to an increased minimum permissible grant element, strong DAC guiding principles, combined with standards for project appraisal and procurement, were thought to be necessary to make sure that development goals could be met with tied aid credits. Finding agreement on principles that “*really bite, however, had not been possible at that stage*”. This lack of progress was explained by the Secretariat with the “*[...] unwillingness by Member governments to accept restrictions on the use of their aid, inherent difficulties in determining developmental criteria and, in consequence, scepticism that such criteria would be applied uniformly by all members*” (DAC/FA(86)8: 6, 7). The first reason mentioned, the standstill due to unwillingness of members to accept restrictions, reflects the very way

¹⁴⁹ Empirical evidence, however, suggests that the third scenario described above came to be true, i.e. the extension of rather hard credits just above the new minimum threshold.

of the functioning of the OECD¹⁵⁰. Although the Secretariat is the heartbeat of the Organization (Woodward 2009: 49 et seqq.), its members are the reins – or as Richard Woodward puts it: “*They are the gatekeepers for the issues that enter the organization, they hold the purse strings, and their representatives far outnumber those of the OECD*” (Woodward 2009: 60 et seqq.). This means that no important decisions can be made without the agreement of all members. Consequently, diverging opinions on the usefulness of mixed credits might have weakened the position of the DAC/FA as a whole vis-à-vis the Participants.

While DAC/FA Members recognized that aid could be improved through an increase in the grant element, if “[...] *acrimony and suspicion among donors about the use of aid for commercial advantage could be reduced*” through the measure envisaged by the Participants, potential trade-offs between the development assistance and the trade impact of the proposed measures were addressed in the Note. Especially the potential loss of flexibility in ODA-stretching was recalled and the fear that such a measure might make aid management somewhat more complicated for certain donors was addressed (DAC/FA(86)12; TD/CONSENSUS/86.53). Concerns about stagnating or decreasing ODA volumes due to fewer possibilities of ODA-stretching were an integral part of early DAC/FA discussions on the issue. Up to today this argument paired with concerns about reduced public support for aid spending has been brought forward as a justification of slow progress in untying or rather of the refusal to consider the untying of certain activities. The Note concluded by saying that “[a] **clear signal to the business community and to developing countries that Official Development Assistance is for financing development and not for gaining commercial advantage over competitors** would in any case be useful” (DAC/FA(86)12; TD/CONSENSUS/86.53: 30; emphasis added). Unequivocally, this statement reflects the need to take into account the interests of the business community, which appears as an important interest group influencing national policy-making. Excluding or insufficiently accommodating these interests, it was feared, could lead to the erosion of the adopted rule set.

These discussions on the modification of the grant element illustrate how attentive the DAC/FA was towards the developments in the Participants Group. But which possibilities did the DAC/FA have to communicate its objections or proposals to the Participants? The circulation of the same Notes of the Secretariat to both the Participants and the DAC/FA suggests that the respective directorates of the Secretariat exchanged views and expertise. The next section will examine the forms of interaction which took place on the level of the two groups.

¹⁵⁰ Examples such as the U.S. Tied Aid War Chest show that the lack of sanctioning power of the Organization leads to a situation in which “it is up to each government to [...] follow up on violations” (Forster/Stokke 1999a: 39-40, 50; quoted in Petermann 2013: 421).

6.1.3.2. Forms of Interaction between the Two Groups

In the mandate given to the DAC Working Party on Financial Aspects of Development Assistance it says that the Working Party will maintain close relationships with the Export Credit Bodies, that is the ECG and the Participants Group (DAC(75)18 quoted in DCD/DAC/(FA/99)6: 13). At several occasions, for instance in 1989, DAC/FA Members reaffirmed older commitments and “[...] stressed the need to **move in tandem** with progress made in the export credit bodies and to co-operate with them to the maximum extent possible. It was felt, however, that **on aspects of particular importance for aid and development policies the DAC should have the leadership**” (DAC/FA/M(89)1(Prov.): 2; emphasis added).

Also the Participants acknowledged the aid distorting effects of tied aid financing and declared from an early stage on that it was necessary to cooperate with the DAC on this issue. And indeed, the document analysis shows that reciprocal reporting and (informal) joint meetings¹⁵¹ between the DAC Working Party and the Participants Group took place and opened communication channels between delegates in the respective groups. Forms of direct contact between members of the DAC/FA and the Participants Group were preceded and accompanied by cooperation between the Directorates of the Secretariat, which jointly prepared Notes to be considered by both the Participants and the Working Party and which should increase a mutual understanding of each other’s concerns and goals.

The most frequent form of communication between the two groups was the reporting done by the respective Chairman to members of the other group. Especially, though not exclusively, in the difficult period shortly before the adoption of the Wallén and up to the agreement on the Helsinki Package – the respective Chairmen were invited to report to the other body on relevant developments in the field of associated financing and tied aid credits. The most obvious act of cooperation on the level of Chairmen can be seen in the well-coordinated reports and recommendations presented by the DAC/FA’s and the Participants’ Chairman to the Ministerial Council in 1991 (Ray 1995: 94 et seqq.).

The second communication channel that the DAC/FA could use to present its ideas to the Participants Group, were the joint meetings, which took place on an *ad hoc* basis. The first one of these meetings was held following the recognition by the Participants Group of the need to coordinate measures taken in the field of tied aid credits:

*“In order to improve coordination and communication, especially where ‘unwritten rules’ are being developed, the Secretariat proposes that the Participants decide to co-operate with the DAC/FA in mutually extending and accepting **standing invita-***

¹⁵¹ Occasionally – and especially in the early years – also joint meetings between the DAC/FA and the Export Credit Group (ECG) were held.

tions to conduct jointly discussions on individual transactions” (TD/CONSENSUS/89.4: 2; emphasis added).

Based on the discussion of individual transactions as well as the implementation of the 1987 DAC Guidelines and the Arrangement on the example of projects, the joint meetings provided an opportunity to make recommendations to both the DAC/FA and the Participants. The Participants and the DAC/FA decided not to set up a separate Working Group to deal with issues of mutual interest. Instead, joint meetings were to take place whenever the DAC/FA or the Participants were in sessions and were chaired by either the DAC/FA Chairman or by a member of the bureau of the Participants if the meeting took place within the framework of a Participants’ meeting. Hence, meetings “[...] would be composed, on an ad hoc basis, of participants in the two parent bodies”¹⁵² (TD/CONSENSUS/89.4/Annex: 3). It needs to be noted, however, that these meetings aimed at discussing specific transactions, not at the negotiation of rules per se. Although commenting on the problems that stemmed from existing disciplines might have given the DAC/FA in specific cases a means of indirectly influencing the Participants’ perception of the rules or the problems, the Working Party was never a negotiator of the rule set-up itself. When putting the making of tied aid disciplines into the broader context of the pursuit for untying aid in general, the picture becomes more nuanced. Joint meetings between the two groups happened more frequently after the Helsinki disciplines had been adopted and concerned implementation problems, the development of the Ex ante Guidance for Tied Aid and/or specifically addressed initiatives of how to foster “Global Untying” and how to deal with untied aid (see for instance TD/CONSENSUS(91)31).

6.1.4. “(Re-)Claiming its Territory”: Adoption of Complementary Guidelines by the DAC

In addition to monitoring the Participants’ work, reporting to them on relevant developments within the DAC/FA and occasional joint meetings on specific issues such as untying, the Development Assistance Committee itself also adopted a series of Guiding Principles in the field of associated financing and tied and partially untied ODA, thereby ascertaining its role in designing tied aid disciplines.

¹⁵² In 1990, for instance, DAC/FA members were invited by the Participants to jointly discuss the “Krakatau Steel Project”. Several Participants (Austria, Germany, Japan and Spain) were involved in the bidding process for the project. Japan sought clarification on the offers made by OeKB to the potential supplier Voest Alpine (DCD/DAC/FA(90)5; TD/CONSENSUS/90.26; TD/CONSENSUS(90)43/Annex I). The project involved the construction of a slab steel plant for the Indonesian Krakatau Steel Company (TD/CONSENSUS(90)43/Annex I: 4). Although several questions with regard to the project’s development impact and compliance with DAC standards were on the agenda, not a single member of the DAC/FA participated in the meeting. Another joint meeting, actually deserving the name “joint” meeting, took place in 1990, this time under DAC/FA Chairmanship. In this meeting participating delegates investigated terms and procedures of the “Second Digital Exchange Project” in Indonesia (TD/CONSENSUS/90.52; DCD/DAC/FA(90)8).

Already in 1984 the then Chairman of the DAC/FA Group, Robert Ainscow, stated that “[i]t was [...] apparent that both Participants and the DAC/FA are interested in the same kind of transactions whilst they look at them from different angles” (TD/CONSENSUS/84.23). While the Participants’ efforts in the 1980ies resulted in the Wallén Package (1987), the DAC’s discussions led to the adoption of the *Guiding Principles for the Use of Aid in Association with Export Credits and Other Market Funds* (1984) and subsequently the *DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance* (1987), in which the foundation-stones were laid for defining and distinguishing tied aid, partially untied aid, and untied aid and wherein the importance of greater transparency in the use of these financial packages was stressed (OECD/DAC 1987).

However, neither the measures taken by the Participants nor those adopted by the DAC put an end to trade and aid distorting practices. Consequently, the DAC worked in parallel to the Participants on fulfilling the Ministers’ mandates formulated at the Ministerial Council Meeting of 1990 and 1991, which had urged both competent bodies to take further action. The same year that the Helsinki Package came into effect (1992), the DAC also approved *New Measures in the Field of Tied Aid* (SG/PRESS(92)35). This new set of measures, which was also adopted by the Participants, built on older DAC guidelines on tied aid credits and especially strengthened the 1987 *DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance* as well as the 1988 *DAC Principles for Project Appraisal* (SG/PRESS(92)35: 3).

With the intermediate goal of disciplining tied aid credits achieved, the DAC re-intensified its efforts to fully untie ODA, which eventually culminated in the adoption of the *DAC Recommendation on Untying of Official Development Assistance to Least Developed Countries* in 2001.

6.1.4.1. Guiding Principles for the Use of Aid in Association with Export Credits and Other Market Funds (1983)

Early DAC discussions on associated financing led to the adoption of the *Guiding Principles for the Use of Aid in Association with Export Credits and Other Market Funds* in 1983.

In the preamble DAC members recognized the need to avoid aid and trade distortion and declared to “[...] undertake to ensure that associated financing will promote priority developmental objectives and is consistent with fair trade competition” (DAC(83)7: 3). Under this first version of *Guiding Principles* DAC members undertook to “[...] confine Associated Financing to priority projects and programmes which are carefully appraised against the developmental standards and criteria applicable to official development assistance programmes and which form part of the recipient country’s development programme” (DAC(83)7: 4 et seq.; DAC/FA(85)2: 4).

Furthermore, members committed themselves to undertake actions to “*strictly restrain the use of Official Development Assistance for associated financing in the case of stronger developing countries*” and to “*assist developing countries to receive a fair value for the price paid and, in particular in case of large projects, use associated financing as far as possible on the basis of international competitive bidding*” (DAC(83)7: 5; DAC(83)17). Through the Working Party on Financial Aspects members also agreed to review their policies concerning associated financing against the new set of guidelines” (DAC(83)7: 5).

The adoption of these early guidelines was considered by the DAC Secretariat a “[...] *result of major negotiation effort and [...] a difficult compromise between widely varying country positions*” (DAC/FA(85)2: 5). Similarly, when presenting the proposed text for agreement, the then Chairman of the DAC/FA, Mr. Ainscow, emphasized that the “[...] *adoption of this text would be an important step towards forestalling the potential distorting effects of associated financing on aid and trade*” (DAC(87)17: 2).

Discussions accompanying the adoption of the Guiding Principles had been characterized by intense bargaining between those who considered associated financing valuable additional financial flows to developing countries which could counteract overall stagnating ODA and declining bank credits and those stressing the risk of aid distorting effects stemming from associated financing practices. Members had to accept that these considerable differences in view could not be resolved for the time being (DAC/FA(85)2: 5).

6.1.4.2. DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance (1987)

In 1987 the *DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development* were adopted. They superseded the *Guiding Principles for the Use of Aid in Association with Export Credits and Other Market Funds of 1983* and stressed that the DAC was aiming at re-negotiating associated financing programs in conjunction with the Participants Group (OECD/DAC 1987). Furthermore, this document laid the cornerstones for defining and distinguishing tied and partially untied aid and associated financing (OECD/DAC 1987: paras. 2-7) and put particular emphasis on the importance of greater transparency in the use of these financial instruments. The latter, for instance, shall be ensured by using a system of national contact points and by promptly providing information on specific projects to other members if requested (OECD/DAC 1987: paras. 8, 17).

Earlier in 1987, the Wallén Package was agreed upon by the Participants Group in which they decided to increase the grant element, henceforth called concessionality level, to 35 and 50 % for LDCs and changed the method of computing the concessionality level by no longer using the DAC’s uniform 10 % discount rate but a

more market-oriented Differential Discount Rate (DDR). These newly adopted rules were incorporated into the DAC Guidelines. Henceforth, the DAC Guiding Principles no longer had an independent paragraph on the minimum grant element, but cited the Arrangement rules on the required concessionality level¹⁵³. Accordingly, the 1987 Guiding Principles replaced the notion of grant element by the Participants' wording and method of computation of the "concessionality level"¹⁵⁴. This usage of Arrangement definitions concerns, however, only the stage of notification of tied aid transaction and affects neither the DAC's ODA definition per se (based on a 25 % grant element) nor the reporting of ODA disbursements or commitments (SG/PRESS (92)35: 6). In essence, this means that these flows must meet both the special concessionality tests for tied aid credits and associated financing as set out in the Arrangement and the DAC grant element (OECD/DAC, ODA Factsheet 2008).

The integration of Arrangement components into the DAC Guiding Principles, however, was not a one-way street. In a similar vein, also the Participants adapted elements of the DAC's "rule set", most notably the definition of associated financing and tied and partially untied development assistance provided in the DAC Guiding Principles. Therein, members reiterated those considerations that according to them needed to be taken into account when examining "[...] *the developmental priority of all projects and programs financed with ODA*" (OECD/DAC 1987: para. 13). Essentially, they recall earlier proposals. Furthermore, the Guiding Principles instructed the DAC Secretariat to establish a reporting system to monitor the tying behavior of its members and to integrate the findings thereof into so-called *Associated Financing Reviews* to be produced regularly by the Committee and to be submitted to the DAC High Level Meeting (OECD/DAC 1987: para. 12). In addition to monitoring, the Guidelines spelled out that evaluation of the untying measures should take place *ex-post* (OECD/DAC 1987).

Concluding, the Guiding Principles suggested that as follow-up to the then present guidelines, more stringent guiding principles should be developed in cooperation by the DAC/FA and the Export Credit Group and all other parties to the Arrangement (Petermann 2013: 216).

¹⁵³ Since agricultural products were (and still are) not covered by the Arrangement, the Secretariat urged DAC members to examine these cases (DAC/FA(87)6: 3). Up to today, the failure to integrate agricultural products is considered one of the main weaknesses of the Arrangement rules. One interview partner considered this loophole even the "single biggest failure" of the Participants (Interview VI).

¹⁵⁴ As has been mentioned before, the mode of computing the concessionality level differs from the usual (and up to today used) DAC practice in that a differentiated discount rate rather than the uniform 10 % discount rate is used. This entails varying results: when using a differentiated discount rate transactions in currencies with market rates higher than 10 % the conveyed concessionality level is higher than the grant element in other DAC purposes, and vice versa (DAC/FA(89)2: 8, 9). In a later Note the differences not only in discount rate, but in the perspective behind the calculations are recalled (DCD/DAC/FA(2002)2: 2, 4; see also DCD/DAC/FA(2002)9).

6.1.4.3. New Measures in the Field of Tied Aid (1992)

“Policies for export credit and aid credit should be complementary: those for export credits should be based on open competition and the free play of market forces and those for tied aid credits should provide needed external resources to countries, sectors or projects with little or no access to market financing, ensure best value for money and minimise trade distortion and contribute to developmentally effective use of these resources”

(SG/PRESS(92)35: 3; original emphasis)

None of the above measures truly succeeded in containing aid and trade distorting practices of Consensus and DAC Members via tied aid credits. A major breakthrough in negotiations was reached in 1992 with the adoption by both DAC Members and Participants of *New Measures in the Field of Tied Aid* (SG/PRESS(92)35). This new set of measures built on older DAC guidelines on tied aid credits and especially strengthened the 1987 *DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance* as well as the 1988 *DAC Principles for Project Appraisal* (SG/PRESS(92)35: 3).

The rules set out in this document parallel the Arrangement rules agreed upon by the Participants and pursue the same goal of separating export credits and tied aid credits by redirecting tied aid credits away from richer to poorer development countries and from commercially-motivated to developmentally-sound projects (SG/PRESS (92)35). The document is divided into a chapter on large projects, a second one on limitations on use of tied aid credits and a section on future work.

In the chapter on the limitations on the use of tied aid credits, repeatedly references to the Arrangement are made and the DAC's commitment to contribute to the implementation of the Helsinki Discipline¹⁵⁵ is declared. The measures presented not only take up the Helsinki Disciplines (most notably the key tests and the concessionality level) but also contain the same exemptions as the Helsinki Package with regard to very concessional loans (above a concessionality level of 80 %) or grants that go to Least Developed Countries and do not cover projects smaller than SDR 2 million (de minimis projects) (SG/PRESS(92)35: 5).

In addition to the incorporation of tied-aid relevant elements of the Arrangement on Officially Supported Export Credits, the 92 Measures contain some additional development assistance oriented principles such as the provision of a checklist of considerations along which the development priority of projects or programs should be assessed (Chang et al. 1999: 88; see (DCD(99)6: 88).

¹⁵⁵ Petermann (2013: 217) even concludes that the Helsinki Package “[...] paved the path for further approaches to discipline policies of export promotion with the help of tied aid”, such as the 1992 *DAC Measures in the field of tied aid*. This statement suggests that he assumes an influence of the Participants on the DAC's work. A spill-over of ideas and concepts from the DAC into the Participants work is at this point not mentioned by the author.

Another specificity of the 92 DAC Measures, which is not part of the Participants' Helsinki disciplines, concerns highly concessional credits directed to "better-off" developing countries (DCD/DAC/FA(92)1: para. 13). With regard to these the 92 DAC Measures state that "[...] they might be used mainly for exceptional balance-of-payments support and for financing of projects in such areas as the social field, environment, good governance and emergency aid" (SG/PRESS(92)35: 5). Petermann interprets this as ruling "out the permission of tied and partially tied credits for richer developing countries" (Petermann 2013: 217). Since this provision is specific to the DAC rules, the Secretariat urged members "[...] to consider appropriate procedures to ensure that credits to the 'better-off' developing countries with a concessionality level of 80 per cent or above are notified and, as appropriate, discussed by Members" (DCD/DAC/FA(92)1: para. 14).

As large projects have been a matter of concern for the DAC/FA basically since the Working Party started to deal with associated financing and tied and partially untied aid, some more light shall be shed on the agreed principles for large projects. With regard to projects above SDR 50 million, which are subject to mandatory consultation, the DAC agreed on mutual appraisal, appropriate financing terms as well as procedures of International Competitive Bidding (ICB)¹⁵⁶. Mutual appraisal means that DAC members should cooperate with each other as well as with the World Bank Group "[...] on project preparation and appraisal, including a joint review of the project prior to the final commitment of aid funds". In addition, consultation among DAC members and with recipient countries should lead to an agreement on appropriate financing terms which are "consistent with the economic situation of the recipient country" (Ray 1995: 94, 95). The DAC's call for using international competitive bidding means that tied aid credits should be awarded to the lowest evaluated bid, concerning both *price and technical factors*. As a supplement to older recommendations on ICB¹⁵⁷, the 92 Measures state that *financing terms* should be taken into account in a second step only (SG/PRESS(92)35: 4). This clause introduced a mechanism of "advance bidding", trying to ensure that "*tied-aid financing is only extended in cases where the donor's exporter would have won the contract anyway*". By this procedure¹⁵⁸ both trade distortion and aid diversion provoked by tied aid credits are thought to be minimized (Ray 1995: 95). It is, however, recognized in the 1992 Measures that "*seriously resource-constrained poor countries, in awarding a contract, may need to take into account the availability of financial resources at concessional terms, provid-*

¹⁵⁶ This required also recipient authorities to undertake arrangements for international competitive bidding (Ray 1995: 95).

¹⁵⁷ Most notably these were addressed in the DAC Good Procurement Practices, published in 1986 (OECD/DAC 1992).

¹⁵⁸ According to John Ray (1995: 95) this system works best "when an aid credit line or protocol is in place. Then the recipient country is assured that, if it does not find that the potential donor's exporter has submitted the lowest evaluated bid, the aid credit will not be lost to it but will remain available for future projects".

ed the award goes to a supplier which ranked second or third in bid evaluation for price and quality or where the price margin is reasonable" (SG/PRESS(92)35: 4).

6.1.4.4. Global Untying and Good Procurement Practices: Mutual Concern and Ongoing Struggle?

"The ideal solution would be international agreement on reciprocal untying of ODA loans along the lines of the earlier DAC proposals"

(DAC/FA(81)1: 19)

Already in its first note on tied aid credits and associated financing, the DAC Secretariat presented aid untying as the ideal solution to problems stemming from the use of these instruments (DAC/FA(81)1: 19). Over the years the DAC did not get tired of promoting this goal, albeit with sobering results. Still, these continuous efforts show that tied aid credits and associated financing packages cannot be understood without the context of the larger (un)tying debate. This section complements an earlier chapter on the "Untying Debate" by breaking it down to discussions within the DAC/FA and the Participants Group. The issue of untying is of interest here for yet another reason. It is in the field of untying that mutual interests between the two groups crystallized and vivid interaction took place.

After an agreement on tied aid disciplines was reached in Helsinki, both the Participants' and the DAC/FA's focus¹⁵⁹ shifted from disciplining tied aid credits to propagating untying, thereby pushing negotiations to the next level. From 1991 onwards, most Aide-Mémoires of Participants' meetings and Notes by the Secretariat contain a section dedicated to "Global Untying". This shift was prepared by the Helsinki Package, in which the Participants agreed to develop targets for the global untying of aid, believing this to be "one of the best ways to reduce trade distortions" (Lammersen 1998: 64; TD/CONSENSUS(92)12). Not only did the Participants declare their will to cooperate with the DAC in developing these targets, but on several occasions also acknowledged the DAC's expertise in the field (see for instance TD/CONSENSUS(91)31; TD/CONSENSUS(92)12; TD/CONSENSUS(92)42). The following statement made in a follow-up paper to the Helsinki Package illustrates this recognition of the DAC's leading role:

"The field of global untying may be new to the Participants, it is not new to the DAC. The DAC is currently studying the subject. At the same time, it is considering the issue of the definition of untying: in practice it is sometimes very difficult for exporters that are not from the donor country to use untied aid. [...] The DAC will seek to improve the situation so that the environment for global untying will improve. There is at the moment little the Participants can add to this effort" (TD/CONSENSUS(92)12; emphasis added).

¹⁵⁹ In parallel, emphasis was put on the effective implementation of the rules.

So in a way, the Helsinki Package provided the DAC with a quasi “mandate” to take steps towards the untying of aid. This declared preference of the Participants for untied aid, certainly gave leverage to the DAC’s untying agenda.

In the following years, the Secretariat and the DAC/FA investigated the feasibility and implications of different approaches¹⁶⁰ towards greater untying. Confronted with slow progress in untying due to “commercial pressures” in donor countries, the DAC Secretariat stressed that in order “**to counter accumulated rent-seeking pressures for tying, exporters have to be convinced of the benefits of this initiative. In line with the approach shared by OECD countries in general, their support should be forthcoming in the expectation of competitive access to a much larger pool of untied aid offers, as opposed to preferential access to a much smaller domestic pool**” (DCD/DAC/FA(97)8: para. 17; emphasis added). This liberal underpinning of the OECD in general, had pushed Bill Nicol, from the Development Co-operation Directorate, to conclude that “[...] the Participants’ and the DAC/FA objectives were similar and compatible and need not move along divergent tracks” (TD/CONSENSUS (94)50)¹⁶¹.

In an attempt to minimize mixed financing practices still at disposal to member states, DAC Members at the DAC High Level Meeting in 1998 (DCD/DAC/FA(98)12) recalled their willingness to phase out tying practices and mandated the DAC/FA with preparing a recommendation for the untying of aid. In a Note by the Secretariat a series of proposals was made of how to carry out the HLM mandate on untying ODA to the least developed countries. The Secretariat therein recalls that in carrying out this mandate “[...] **it will be important to co-operate with the Participants to the Export Credit Arrangement, who have reconfirmed their willingness to contribute relevant experience in consultations with the DAC on the development of procedures to assist with the implementation of the initiative**” (DCD/DAC/FA(98)3: 5; original emphasis).

¹⁶⁰ For instance, Members of the DAC/FA discussed the pros and cons of “global” and “selective” strategies and the usefulness of setting quantitative targets for untying (see for instance DCD/DAC/FA/M(92)3; DCD/DAC/FA(93)3; DCD/DAC/FA/M(97)1). In preparation of the DAC/FA’s spring meeting in 1993, the Note “Greater Untying of Aid”, prepared by Professor Jepma, was distributed to the Working Party’s members. In this paper Jepma outlined several policy options for further untying and identified the following policy directions: a standstill scenario, a gradual reduction of aid tying, a greater use of earmarked facilities as well as selective untying (DCD/DAC/FA(93)3). With regard to scenario 3, which may not be self-explanatory, Jepma explained that “[...] the emphasis would be put on the option to earmark parts of a donor’s tied aid budget for the financing of projects to be procured through international competitive bidding (ICB). When the latter is not the case, the project would not be financed by that donor, but the aid would continue to be available to the recipient for future projects on the same provisions” (DCD/DAC/FA(93)3: para. 13).

¹⁶¹ The mutual interest in pushing for economic liberalization alone, however, is an insufficient explanation of why the untying agenda gained momentum in the past two decades. Petermann’s analysis of the rationale behind untying suggests a gradual shift from “donor interests” to “recipient needs”, a shift conducive to the DAC’s untying agenda (Petermann 2013: 409 et seq.).

Intense discussions¹⁶² as well as an exchange of views between the respective Chairs and Secretariats took place concerning the areas which should be covered by respectively exempted from such a recommendation. On the basis of the discussion an agreement was reached in 2001 in the form of the *Recommendation on Untying of Official Development Assistance to Least Developed Countries and Heavily Indebted Poor Countries* (DCD/DAC(2001)12/FINAL/Annex III: 10)¹⁶³.

In line with the general approach of the OECD of combining discipline with transparency (Interview VII), also the DAC/FA and the Participants regarded parallelism in addressing both disciplines and transparency as important (TD/CONSENSUS(94)50). While the DAC/FA was preparing what became known as the 2001 Recommendation on Untying and even more so after its adoption, transparency issues related to the untying of ODA came to the attention of both Participants and DAC/FA. The lack of transparency in the use of untied aid, as such not covered by the Helsinki rules, was increasingly perceived as disguising *de facto* tying practices.

The post-Helsinki movement away from tied aid credits, which were subject to the new rules, towards untied credits, which were not touched by the new provisions, made transparency in aid procurement become an ever more indispensable condition of the elimination of distorting practices (Ray 1995: 108). Already in 1993, several Participants such as Canada, the European Commission, and the U.S. expressed concern in a Participants' meeting about insufficient transparency with regard to untied aid (TD/CONSENSUS(93)46). In response, the DAC/FA issued a questionnaire on untied aid practices, policies, and procurement (DCD/DAC/FA(93)10/REV1; TD/CONSENSUS(93)46). The following year, a joint meeting between the DAC/FA and the Participants was held on the need for greater transparency in the use of (*de jure*) untied aid credits (mentioned in TD/CONSENSUS(94)12). Just as in the case of untying, the DAC/FA claimed leadership in further sharpening definitions of untied aid, thereby contributing to filling this transparency gap. In this respect, John Ray states that "*[i]n this urgent work, the Participants needed to cooperate with the DAC, which has primary responsibility for rules and guidelines covering aid procurement*" (Ray 1995: 109).

Because of the absence of concrete steps taken in subsequent years, Stafford remarked on the occasion of the Arrangement's 20th birthday that "*[as] the tied aid credit disciplines bite, there has been a shift toward untying of aid credits – which is another example of efforts to avoid the Arrangement disciplines*" (Stafford 1998: 48).

¹⁶² Similar to earlier discussions on the appropriate regulation of tied aid credits, concern was raised about the potentially adverse effects of additional rules on total ODA volumes. The same argument had earlier been brought forward with respect to the potential effects of the disciplines for tied aid credits. Thus, finding agreement appears as a balancing act.

¹⁶³ Petermann (2013: 218) underlines the comprehensive importance of this event in stating that "[a]t that point, demand for more effective inter-donor coordination of aid commitments also became part of the general policy debate".

In line with proposals made by the U.S. delegates, he suggested that the Helsinki test of “non-commercial viability” should be extended to all aid credits so as to avoid further circumvention and an eventual breakdown of the rules (Stafford 1998: 49).

Based on findings of a series of “*Shadow Helsinki Review of Untied Aid Credit Notifications*”¹⁶⁴ conducted on yearly bases from 2001 onwards and with input of the DAC Secretariat (TD/PG(2005)8), the Participants finally concluded in 2004 the *Agreement on Untied ODA Credits Transparency*, which is thought to complement both the DAC Recommendation on Untying and the Helsinki Disciplines (TD/PG(2005)8/Annex).

In the *Agreement*, the Participants recognized that untied ODA “[...] can offer enhanced development benefits from increased efficiency in procurement of goods and services, and better value for money to the recipient. In their continuing effort to enhance transparency on untied ODA credits generally, and to enhance confidence in, and therefore the use of, untied aid as a developmental tool, OECD Participants [...] agree to implement a pilot programme to provide ex-ante and ex-post transparency over the use of untied ODA credits that finance the provision of goods and services in developing countries” (TD/PG(2005)8/Annex: 2). Therein, they laid down transparency modalities, agreed on procedures for information exchange, and committed themselves to use procedures of international competitive bidding “[...] where possible and practical” (TD/PG(2005)8: 5). For instance, as a central mechanism of increasing ex-ante transparency, Participants were encouraged to make notifications of untied aid credits available to Participants through either the DAC’s Internet bulletin board¹⁶⁵ or the Export Credit Secretariat (TD/PG(2005)8/Annex: 3).

In a similar vein, the afore mentioned 2001 Recommendation on Untying suggests that procurement procedures should follow the DAC practice and that international competitive bidding should be applied (DCD/DAC(2001)12/FINAL). Thus, the Committee’s work in the field of aid procurement practices is related to the DAC’s call for the untying of aid. Just like untying, good procurement practices are thought to be critical for the effectiveness of aid projects and programmes. Accordingly, the DAC recommended that procurement should be seen as an integral part of the whole project cycle – from design to implementation (Jepma 1991: 25).

In the 1986 DAC document on *Good Procurement Practices for ODA*, up to today referred to in the Arrangement (TAD/PG(2013)1: 124), a distinction is made between international and national competitive bidding, informal competition or direct negotia-

¹⁶⁴ In November 2000, the Participants “commissioned” the Secretariat to “prepare an analysis of untied aid credit notifications simulating the application of the so-called “Helsinki” tied aid rules of the Arrangement” (TD/PG(2003)8). For the reports see, for instance, TD/PG(2003)8; TD/PG(2004)8; TD/PG(2005)7; TD/PG(2006)9).

¹⁶⁵ In order to increase transparency and prevent de facto tying, untied aid credits should be notified on the so-called “Untied Aid Notification Bulletin Board”, see <https://community.oecd.org/streamPage.jspa?cwsDb=Xuntied&community=2249>

tions and the importance of transparency in rules of procurement and in information on individual supply contracts is stressed (OECD/DAC 1992: 113-115; DCD(99)6: 96).

The underlying assumption for good procurement practices is that transparency pre-conditions competition and competition in turn increases the efficient use of aid resources. By describing International Competitive Bidding as the best way of proceeding with aid-related procurement of goods and services, the principles suggest that untied aid is a prerequisite for good and effective procurement.

“However, since most Member countries feel obliged to tie large parts of their bilateral aid to procurement from the donor country or permit only partial untying, it is useful to develop and apply procurement practices that promote the efficient use to tied-aid funds” (DAC Good Procurement Practice for Official Development Assistance see Ray 1995, Annex F: 240-246; emphasis added). The Principles state that in cases where ICB¹⁶⁶ is or cannot be applied, members should use National Competitive Bidding as the main procedure for procurement under tied aid conditions (OECD/DAC 1992: 113).

With regard to the relation of the untying initiative and procurement practices, one of our interview partners explained: *“I keep saying, look untying is an instrument, it is a tool. Look beyond the tool to see what it exactly is you are trying to achieve. It’s development. In terms of the areas where this can have an impact, it’s government procurement systems in developing countries”* (Interview V). This emphasis put on conceptualizing untying as means and not an end in and of itself, is also reflected in donors’ commitments in Paris and Accra. At the High Level Forum in Accra 2008 donors, for instance, reaffirmed that they *“[...] will promote the use of local and regional procurement by ensuring that their procurement procedures are transparent and allow local and regional firms to compete”*. This way, aid’s “value for money”¹⁶⁷ is thought to increase (OECD 2005-2008: 18).

¹⁶⁶ Again cautious formulations are chosen. For instance, it is recommended that Members use International Competitive Bidding “to the extent compatible with their procurement policies” (OECD/DAC 1992: 113).

¹⁶⁷ Numerous DAC documents (e.g. 1992 Measures, Paris Declaration, Busan Declaration, etc.) refer to the concept of “value for money” (VFM). Essentially, “VFM” is described as “a way of thinking about using resources well” by “striking the best balance between [...] economy, efficiency, effectiveness” (Jackson 2012). Aid effectiveness, as described most notably in the Paris Declaration constitutes an important component of “value for money” and its focus on the quality of outcomes. A description of the often cited though not uncontested concept is provided by Penny Jackson (2012) in the document “Value for money and international development: Deconstructing myths to promote a more constructive discussion”.

6.2. Tracing Development Policy Aspects in Today's Arrangement

*"So in terms of aid, I think I would like to hear a critique that the development and aid elements of the [Helsinki] rules undermine development.
I think I could argue from almost every angle
that these are actually good for developing countries"*

(Interview VI)

As has been described, the DAC/FA made a series of proposals with regard to tied aid credits and associated financing. Up to the agreement on the Helsinki Package discussions concerned the fundamental question of whether tied aid credits could be considered an instrument of development finance and policy on the one hand and technical/conceptual issues such as the appropriate calculation of the grant element on the other hand. With the adoption of the Helsinki Disciplines and the New Measures in the Field of Tied Aid respectively, the DAC/FA shifted its focus and concentrated on ways of assessing the development content of tied aid credits as well as revived the discourse on untying. As shown development and trade concerns, discussed in two separate bodies, overlapped at times. Whenever this was the case, a number of "communication channels" between the two groups (reporting by the Chairmen to the other group respectively, joint meetings and "coordination" efforts by the Secretariat) allowed the exchange of views. This section tries to trace those development policy aspects that entered the Arrangement. With the exception of explicit references to the DAC principles, direct causalities between the DAC/FA's suggestions and the actual outcome in form of "development aspects" in the Arrangement can, however, not be assumed. In the above quote reference is made to the "development and aid elements of the rules". This makes us wonder what these "development elements" are and where they can be found in the Arrangement.

6.2.1. The Key Tests – Capable of Assessing Aid Quality?

"The two key tests for aid eligibility described in [...] the Arrangement concern commercial viability, not aid quality"

(TD/CONSENSUS(93)6, para. 8)

"So in some sense creating a market test for the investment in capital goods actually is smart for long term development. It ends up allowing you to choose appropriate technologies, it allows you to choose¹⁶⁸ appropriate levels of capital intensity and scope of capital intensity"

(Interview VI)

¹⁶⁸ Considering that tied aid credits, however, are per definition tied to the procurement of goods and services from donor countries reduces the ability of recipients to truly choose the most appropriate technology, equipment and so forth.

The two key tests on financial and commercial viability, the heart of the Arrangement's provisions for tied aid credits, directly investigate the potential commercial distortions resulting from a transaction, but do not explicitly target potential aid distortions. Conclusions on the soundness of a project for financing development are derived from the results of the commercial-viability test, to the design of which the former DAC/FA Chairman Barrie Ireton decisively contributed (Interview VI; Ray 1995: 91). The core idea of the "market test" – as the commercial viability test was referred to by the above interview partner (Interview VI) – is that commercially viable projects should not be financed with official support and certainly not with aid monies which should be reserved for projects in countries with no or severely restrained access to finance and which otherwise would certainly not take place. This being achieved, officially supported flows in form of a tied aid credit are truly additional and contribute to the maximization of total flows to developing countries.

When examining the concept of commercial (non-)viability from the perspective of aid quality it becomes evident that this key test is based on several assumptions with regard to the basic relationship between investment in the provision of (quasi) public goods and development.

*"When the rules started, tied aid was happening in a number of sectors including quite commercial ones, so you had tied aid for instance in power generation, in power transmission to name a few because these were probably some of the best examples. And with the rules tied aid has been eliminated and has been concentrated on a limited number of projects. Most projects of tied aid now are in water, water sanitation, water treatment, and urban transportation – these are the big fields nowadays for tied aid. **And these are sectors, erm I mean, you still have commercial aims, but you are doing things which are not really profitable in the short term and which benefit the development of countries**"* (Interview VII).

Following this logic, the commercial viability test, is occasionally also referred to as "aid quality test" and wants to ensure that projects financed by tied aid credits represent *good* development projects. The Participants see the "contribution" to development as a welcome by-product of the disciplines, legitimizing the use of what would otherwise be forbidden subsidies. Understanding this very logic seems important if one wants to judge on the ODA-eligibility of these flows. In order to fall into the ODA category official flows have, by definition, to be driven by an intention of the donor to promote development in the recipient country.

Furthermore, the country eligibility criterion laid down in the Arrangement tries to prevent not only trade, but (indirectly) also aid distortion, in that it hinders the use of tied aid financing to richer countries and channels resources to those most in need. As was shown, this distortion of flows in terms of recipient countries was one of the main concerns raised by the DAC.

In addition, tied aid credits going to LLDCs must have a concessionality level of 50 % – an attempt to assure softer terms for those countries that have a lower debt servicing capacity. By this rule the Helsinki Disciplines aim at containing another core concern, repeatedly evoked in the DAC/FA over the years – the accumulation of external debt in large parts of the developing world.

Box 7: DAC Members' Views on the Commercial Viability Key Tests

A Questionnaire circulated by the DAC Secretariat in the late 1990ies revealed that a number of Members judged the commercial viability tests as being too inflexible to assess the eligibility of a project for tied aid financing and called for greater importance of aid quality (and other non-commercial factors) in determining tied aid eligibility. These concerns were brought forward much earlier and were discussed extensively by the DAC/FA Members. In the responses to the questionnaires others, however, " [...] emphasised that the sole aim of the Disciplines was to avoid trade distortion, and that aid issues should remain solely within the domain of the relevant Member state" (DCD/DAC/FA(99)8: 9; emphasis added). These contrasting perceptions of the rules and their purpose are yet another illustration of the ambiguity surrounding the use of tied aid credits as an instrument for development policy.

The analysis of the questionnaires also suggests that *"there was limited support for extending the coverage of the Disciplines to include more specific provisions concerning the assessment of the aid quality of specific projects. The general view was that the aid quality of projects was primarily a donor responsibility. Joint (i.e. trade and aid) evaluation of tied aid project proposals would be both burdensome and rather difficult to manage"* (DCD/DAC/FA(99)8: 9). Likewise, in a note circulated in 1998, the Secretariat stated that it had generally been considered infeasible that the Participants and the DAC/FA jointly discussed both commercial viability and aid quality of a project. Such a procedure, believed to be valuable by the Secretariat, was thought to be not feasible and partly even inappropriate by the majority of member states (DCD/DAC/FA(98)4: 8). With regard to the tools available for assessing the relevance of a project for development, the returned questionnaires revealed the limited usefulness of the AQuA – Checklist to be found in the Arrangement's Annex and in a more detailed version in the Ex-ante Guidance. This was due to the fact that most Members reported to have their own internal aid quality guidelines. Some, however, recognized that the AQuA-Checklist was a useful benchmark that helped develop their internal guidelines (DCD/DAC/FA(99)8: 8).

6.2.2. Explicit and Implicit References to DAC Principles

The Participants' rules on tied aid credits clearly overlap with principles for development co-operation, but the Participants perceived it neither as their duty nor within their field of competences to tackle issues related to development co-operation. In order to fill this gap, development-related topics were "outsourced" to the DAC.

Following this strategy, the Arrangement contains several references to official DAC documents that acknowledge the expertise of the Committee in the field of development and development co-operation. Most notably the Arrangement follows the definition of tied, partially untied and untied aid in the form of ODA loans and grants as laid

down in the *DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance* from the year 1987. The adoption of the DAC's definition of tied ODA by the Participants demonstrates that the issue of tied aid credits is subject to both groups, the DAC and the Participants, and it clearly reaffirms the "monopoly position" of the DAC on conceptual matters of Official Development Assistance.

Furthermore, in Annex IX the Arrangement provides a *Checklist of Developmental Quality*, which is reproduced in a more detailed version in the Ex ante Guidance for Tied Aid in the section on Aid Quality Assessment. The latter was prepared by the DAC and demonstrates that questions regarding the developmental quality of projects that are partly or entirely financed by ODA fall into the competence of the DAC. The Checklist – as such a summary statement of various DAC principles (DCD/DAC/FA(95)1: 5) – draws on older sets of guidelines and gathered those components that were particularly relevant in the case of tied aid financing. The following three documents are referred to by the Participants as benchmark, as status quo of good development practice:

- DAC Principles for Project Appraisal (1988)
- DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance (1987)
- Good Procurement Practices for Official Development Assistance (1986)

The main components, combined in the Checklist of Developmental Quality, are grouped into three main areas: i) Project selection on grounds of recipient country's investment priorities; ii) project preparation and appraisal; and iii) procurement procedures (TAD/PG(2013)1/Annex IX: 133-135).

In Article 33 c of the Arrangement the Participants state that the principles on tied aid credits do not prejudice the views of the DAC on the quality of tied and untied aid, which implicitly goes along with the DAC's call for untying. The Participants' recognition of the DAC's competences in the field of development co-operation might also entail a shift of responsibility for the developmentally effective use of aid resources from the Participants to the DAC exclusively. If in an institutional setting, in which tied aid credits are dealt with by export credit agencies, aid agencies have the means to ensure the developmentally effective allocation of aid funds, however, requires further examination. In this respect, development considerations might have been of higher priority, had they become an integral part of the Helsinki package and not an add-on referred to "en passant". Whether this fragmentation and dispersion of responsibilities hamper the appropriate consideration of development aspects will depend on the institutional set-up in the individual donor country.

While it can be concluded that the explicit development content in the Arrangement is rather limited, one has to bear in mind that the Arrangement deliberately leaves considerable room-for-maneuver to the national implementers and actively encourages them to follow DAC Guidelines. On a national level countries are free to apply stricter rules, for instance in assessing the development impact of a supported project. One way to give non-commercial aspects, not specifically development considerations, more weight – as suggested by the Trade Union Advisory Committee of the OECD (TUAC) – would be to make government support for exporters subject to adhering to the Guidelines for Multinational Enterprises¹⁶⁹ (Interview VIII).

6.2.3. Grasping the Participants' Notion of Development

"I don't think the Export Credit Group has a perception of development other than the development of their own export subsidies. Sorry (Laughter)"

(Interview VI)

The Arrangement was designed in the attempt to prevent trade distortion stemming from the use of export and tied aid credits. Since the Participants' rules, however, clearly touch upon the provision of development assistance and overlap with the DAC's ODA criteria, the question of the Participants' notion of development comes up. Considering that not even the DAC – as such the body of the OECD in charge of development co-operation issues – gives an explicit definition of what constitutes development, it comes of little surprise that the Participants Group does not explicitly define its understanding of development either. Tracing a subtle or implicit notion of development in archive documents and in the Arrangement itself proved difficult. Directing this question to our interview partners was not very fruitful either. Only two of them gave, somewhat hesitantly, answers that can help us understand what development and development assistance mean for the Participants Group.

When asked about the Participants' notion of development, a representative of the Export Credit Division explained:

*"This is a question which is a bit difficult to answer because really, **the Arrangement guys they do not discuss on development per se.** They don't have the discussion you could have within the DAC on what is development and what would be strategies for development and what would be necessary for recipient countries"* (Interview VII).

Considering, however, his subsequent explanations on the public goods character of most projects financed with tied aid credits and putting it in the context of the re-

¹⁶⁹ Further information on these OECD guidelines setting voluntary principles and standards for responsible business conduct can be found on the OECD's homepage, see <http://www.oecd.org/daf/inv/mne/>. Therein, traditional export credits rather than tied aid financing are addressed; development policy is indirectly touched upon by calling for compliance with labor rights, environmental standards etc.

quired commercial non-viability, give reason to presume that above all it is a sectoral approach that is the basis of the Participants' understanding of development: The provision of public goods, which in absence of the tied aid financing would not have been produced or not in the required amount by the market, is key a to the development¹⁷⁰. The explanations provided in the Ex ante Guidance for Tied Aid back up this assumption. Therein, the Participants conclude that "[t]he general characteristics of financially non-viable projects include projects whose **principal output is a public good**, capital-intensive projects with high per unit production costs and slow capacity uptake, and/or where the beneficiary group (normally household consumers) is deemed unable to afford the output at the appropriate market-determined price" (TD/PG(2005)20: 5; emphasis added).

Another interviewee provided a somewhat vague definition of development assistance or rather development finance:

"Development assistance is any financing that actually supports a development process. The terms of that financing are the only thing at issue. So in some sense export credits and the market can actually finance development, it's just that they finance it on market terms whereas aid finances development on concessional terms" (Interview VI).

Considering that the need for external resources in many developing countries cannot be met due to persisting 'financial gaps', any financial flow to developing countries might in this reading contribute to growth and with that to development. These presumed linkages between financial flows and development on the ground suggest that the Participants Group adheres to a rather "traditional" economic notion of development, by equating investment with economic growth with development that will eventually trickle down and benefit the "local population". On the other hand, the fact that tied aid credits primarily flow into sectors such as health or water is used as a legitimation of their development impact. Consequently, this contrasts the above statement that Participants have a predominantly macroeconomic and aggregated understanding of development. The concentration of projects in health, water and sanitation, education and the like resulting from the Arrangement rules could also be interpreted as sign of a concept focused on "human development".

In any case, the lack of a definition of development confirms what has been said earlier on the motivation and field of interest of the Participants: Development aspects are not and never have been their main concern or driving force. Everything explicitly referring to development was left to be dealt with by the DAC. While this means the

¹⁷⁰ The role of public goods for development, and more recently the importance of "global public goods" is discussed extensively in the development literature; see for example the UNIDO (2008) report "Public goods for economic development", in which the importance of public goods for any poverty reduction strategy is emphasized. The key role, which is attributed to public goods, is reflected in the MDGs' focus on indicators of health, education, environment etc.

acknowledgement of the DAC's expertise on development issues, it is partially also a way of shifting responsibilities for the developmental impact of tied aid financing to the DAC and its national counterparts. Whether this is in the spirit of concept of *Policy Coherence for Development* will be assessed in the subsequent chapter. The analysis of the Arrangement's evolution has shown that from the very beginning the Participants Group did not deal with tied aid credits because they wanted to design particularly effective development policies, but because tied aid credits happened to be a tool of backdoor subsidization with trade distorting effects. The Participants' attempt to eliminate the latter, led to their rising interest in tied aid credit. So in some sense they were interested in another form of aid: the aid given to domestic companies. Thus, it is not surprising that the Arrangement as such does not deal with the development quality of tied aid finance projects per se, but refers those responsible to various DAC guidelines that should be applied in addition to the Arrangement so as to ensure the developmental soundness of selected projects.

6.3. Assessment of the DAC/FA's Influence on the Participants Group

"Well, the DAC was upset when the tied aid credits were agreed on by the Participants" (Interview IV) – after all this meant a partial loss of control over an issue interfering in the DAC's very field of competence.

Throughout this chapter it has been shown that in parallel to the Participants Group the DAC/FA dealt with tied aid credits and associated financing. In order to increase the weight of aid considerations in tied and associated aid financing, the DAC adopted several sets of guidelines, the importance of which was also recognized by the Participants and which up to today have been referred to in the Arrangement. The most apparent "intervention" of the DAC into the Participants' work, was the preparation and subsequent incorporation of the Aid Quality Assessment into the Participants' *Ex Ante Guidance for Tied Aid*. It is here that the respective rules and guidelines by the DAC/FA and Participants overlap. These overlaps and cross-references, which illustrate that the respective sets of rules do not merely co-exist, might be attributed to the cooperation and coordination between the two groups in the course of the decades of rule-making.

At several occasions from the 1980ies onwards both the Participants and the DAC/FA declared the importance of cooperating with each other and of coordinating certain measures. The effectiveness of this cooperation declared on paper was experienced or perceived differently by different observers.

Steve Tvardek (2011) – from the Export Credit Division – underlined the close cooperation between the two groups in designing the rules. In contrast, Birgitta Nygren (1998: 56) argued in an OECD publication on the occasion of the Arrangement's

anniversary that the aid community found itself in a situation where it had to abide by rules that it had not designed. Her statement gives reasons to presume that she observed or experienced only low levels of cooperation. Otherwise the role of the “aid community”, that is the DAC, in making the rules would have probably been described as a more active one. In a similar vein, the interviews with OECD representatives delivered mixed results with regard to the importance of the DAC for establishing and implementing rules for tied aid credits. Strikingly, the perception of the DAC’s degree of influence varied with the “institutional background” of the interview partners. While those working for the Trade and Agriculture Directorate (Export Credit Division) tended to emphasize the DAC’s involvement and hence stressed the Participants’ willingness to consider development issues, representatives of the Development Co-operation Directorate were less enthusiastic about the DAC’s degree of influence and were skeptical about the Participants’ intentions behind the occasional involvement of DAC representatives. These contradictions, or at least inconsistencies, also become apparent when comparing the following interview extracts:

*“Well, when we designed the rules **we consulted closely with the DAC**. I can tell you that the commercial viability concept came from a previous DAC Chairman, we were trying to figure out how to discipline and the concessionality itself wasn’t going to be the answer, so we needed to find some other common measurement. And it was actually the DAC chairman, who was I think the head of the UK’s aid department – I forgot the name of the institution...Anyways, the guy who suggested the concept of commercial viability was Chairman of the DAC [the DAC/FA]. So it was never done in a vacuum” (Interview VI).*

This emphasis of close cooperation between the two bodies is, if not contradicted, so at least interpreted differently by one of our interview partners affiliated with the Development Co-operation Directorate:

*“No...my friends in the export credit world, they were really nice to me, ya, but basically **they kind of keep the aid people in a cupboard and bring them out from time to time and shake them about and show them, you know, we are politically correct, we have someone from the aid side and then put them back into the cupboard and get out of our way...these guys do not want to know...they really don’t want to know...they appreciate that certain things they can kind of get away with, but certain things they must do...but aid considerations were not – and never were – a very big influence**. And anything – in my perspective – anything, any concessions that were made towards the development side of things was to commit them to still use aid in the mixed credits” (Interview V).*

Departing from this description of the DAC’s role as a rather limited one, the question arises why the DAC, via its Working Party on Financial Aspects of Development Assistance, did not more emphatically articulate its concerns and suggestions, which it

evidently discussed intensively in the framework of the DAC/FA, to the Participants. The analysis of the interviews shows that reasons for the DAC's limited role in negotiating rules for tied aid credits can be seen both in the Committee's own shortcomings and the Participants' rather closed character and highly specialized field of expertise.

All of our interview partners saw the somewhat "secretive"¹⁷¹ or "exclusive" character of the Participants Group as an obstacle to stakeholder participation. When asked for outside influences in the Participants' work one interviewee, for instance, argued:

*"No, there is not an awful lot. I mean it's a very closed group in many ways and I don't mean that in a negative way. **But technically it is a very complex area which serves a little bit as an excluding device, it's a massive investment to actually get into it**" (Interview V).*

From what he explained afterwards, not many representatives of the aid community were willing or in the position to make this investment. Above all the technicality of the issues at hand figured as an entry barrier for non-experts to participate in discussions on tied aid credits. Whether this high degree of technicality, which was also reflected in the language and structure of the Arrangement, resulted solely from the complexity of the issues discussed or was intentionally introduced as a subtle barrier to limit outside involvement remains open for discussion¹⁷². The latter interpretation was suggested by one of our interview partners, who labeled the Arrangement the "**most reader unfriendly book you have ever seen**" (Interview V). The fact that the Participants undertook major efforts from 1995 to 1997 to rewrite the Arrangement¹⁷³ might undermine this hypothesis.

In cases in which the DAC sought involvement despite these obstacles, for instance, in form of the afore mentioned reporting, our interview partners estimated the real influence exerted to have been rather low. In this respect, a representative of the Development Co-operation Directorate (DCD), who personally believed to have a good working relationship with the Export Credit Bodies, argued: *"I mean I go there periodically, I give them a 10 minute speech on aid untying and there is barely ever a question. [...] Yeah, you know it, **it doesn't really 'pierce the skin', it doesn't influence or change their behavior, I don't think, but it looks good on their agenda**" (Interview V). Aide-Memoires of Participants' meetings provide further evidence of this observed limited interest among Participants in the reporting by DAC representatives. After the*

¹⁷¹ Even the OECD archive staff, whom we informally spoke to, was astonished to find out that a considerable number of documents from Participants meetings we requested were up to today held confidential. This was interpreted as a sign of the closed character of the group due to sensitive issues at stake during negotiations.

¹⁷² This evokes Dorothy Smith's idea "[...] that written texts are not passive interpretations of reality handed over, so to speak, to its interpreters but that they actively structure its social readability" (Wolff 2004: 287).

¹⁷³ In a report to the Ministers in 1997 the Chairman of the Participants Group considered the new Arrangement text "user-friendly, comprehensive and a vast improvement on its predecessor" (TD/CONSENSUS (97)21: 3).

presentation of development-related issues given by a DAC *rapporteur*, the Chairman usually asked the Participants for follow-up observations, comments and questions. Noticeably, there were hardly ever any replies from delegates of the Participants Group (see for instance TD/CONSENSUS(96)20: 35).

Moreover, the limited influence of the DAC was explained with the hierarchy between different ministries transplanted to the OECD level. In a somehow provocative way one of our interview partners affiliated with the Development Co-operation Directorate put it the following way: *"The representatives of the Ministry of Finance in any national government, they are the boss, the aid agency is at the bottom"* (Interview IV). This observation of hierarchies and power imbalances between actors involved can be subsumed under what Jakobi and Martens label "internal dynamics". Jakobi and Martens (2010b: 13) use this term to describe the structure which constrains the organization. In this respect, internal dynamics refer *"[...] to organizational conditions that most organizations face: the competition or frictions among different organizational units, as well as different or even conflicting aims, targets and politics"* (Martens/Jakobi 2010b: 13). In a similar vein, Roche (2007: 281) emphasises the "fragmented realities" of organizations and identifies functional divisions between different departments as one of the factors on which diverging interests and power relations might be based. Consequently, he states that organizations are not monolithic entities, but are characterized by internal divisions and that their actions are *"[...] the result of the interactions of sets of rational actors pursuing material goals"* (Moore et al. 1994; quoted in Roche 2007: 277, 281).

Interestingly, however, the reasons for the DAC's limited influence were not solely attributed to the Participants' unwillingness to cooperate or to at least consider outside proposals or to OECD internal dynamics, but rather turned into criticism on the DAC itself and the "aid community" in general. Several interviewees – amongst them also two DCD representatives – criticized the preoccupation of the DAC with qualitative issues and buzzwords such as "gender mainstreaming" or "ownership" at the expense of an examination of the technical details of, for instance, different aid modalities (Interview IV, V, VI)¹⁷⁴.

Furthermore, long-lasting difficulties with formulating a common position on tied aid credits within the DAC/FA suggest that internal difficulties due to suspicion among DAC members additionally weakened their position towards the Participants. While there might have existed a minimum consensus among the DAC/FA members in the analyzed time-period that untied aid was in principle more favorable than tied aid, country positions and members' willingness to undertake corresponding measures varied considerably. According to one interview partner this reluctance to make decisions and adopt guidelines contributed to the loss of competence of the regulation of

¹⁷⁴ Repeatedly this argument was also evoked when addressing the DAC's decision to stick to the 10 % uniform discount rate to compute the grant element (Interview IV, V, VI).

tied aid credits. Due to their tied nature these have been a matter of concern for the DAC from the very onset – before it made its way to the centre of attention of the Participants Group, in fact before the Group even became operational. The DAC, however, missed its opportunity to take the lead in regulating tied aid credits (Interview IV).

When imagining the outcomes of a scenario in which the DAC was the main “regulator”, one should not forget that the DAC is, just as the rest of the OECD, driven by its member states. This important feature of the Organization constrained the Committee’s scope of action (Interview IV, V, VII). In this respect, at times discussions within the DAC/FA resembled those led in the Participants Group and were “blocked” by omnipresent concerns about potentially negative repercussions of regulating tied aid on domestic companies. Whenever we asked why the DAC did not take a more “progressive” stance by threatening to no longer accept tied aid credits being reported as ODA, if the Arrangement did not incorporate more “development safeguards”, we were referred to the fact that “*everything that is black and white like that is too harsh*” (Interview VI). Considering the very functioning of the Organization this question seemed to be absurd or at least irritating to some of our interview partners. This suggests that the institutional setting made such a mechanism not only impossible but even inconceivable. Similar dynamics can be found also with regard to the DAC’s ODA reporting in general. As long as most members have an interest in producing high ODA volumes (numbers) and peer pressure is rather low, they will not agree on too restrictive reporting practices.

Concluding this assessment of the DAC’s role it can be said that ever since tied aid and associated financing appeared on the DAC/FA’s agenda, the DAC/FA has defined its work in relation to the Participants Group. The screening of Aide-Memoires from the 1980ies up to Helsinki and of the New Measures on Tied Aid gives the impression that discussions within the DAC/FA mainly pop-up as a reaction to Participants’ undertakings. The best example of how discussions in the Participants Group spilled over is the debate on the appropriate computation of the grant element and the concessionality level respectively.

Putting the struggle over the appropriate regulation of tied aid credits in the broader context of the untying discourse reveals that the role of the DAC is more nuanced than it might appear at first glance. In all the years in the run-up to the Helsinki Package, the DAC/FA was following closely Participants’ discussions, but the Participants had the primacy over the regulation of tied aid credits. The untying issue has somewhat reversed this relationship (see e.g. TD/CONSENSUS(93)55) and illustrates that the role of the DAC was more sophisticated in shaping the rules on tied aid. While already the adoption of DAC guidelines on tied aid and associated financing were an attempt by the DAC to claim its role in dealing with development-related issues, it is especially when taking the lead in the untying initiatives of the second half of the

1990ies that the DAC/FA ascertained its role in the field. The DAC appears to have managed to make use of external developments in the field of officially supported export credits in particular and the international trading system in general to push one of its utmost concerns, the untying of aid.

6.4. Recap and Concluding Remarks

This chapter has approached the evolution of the regulatory framework for tied aid credits and associated financing from a development angle. For that purpose minutes and room documents of meetings of the DAC Working Party on Financial Aspects of Development Assistance (DAC/FA) in the period from 1981 to 2003¹⁷⁵ have been analyzed with regard to concerns voiced about the use of these instruments as well as the taken measures by the Participants. Unlike in the Participants' meetings, the usefulness of these instruments for development finance was discussed against the backdrop of the indebtedness of many recipients on the one hand, and the scarcity of aid resources on the other hand.

Soon it became apparent that these mostly commercially-motivated flows triggered the distortion of aid flows from countries most in need to those developing countries and projects that promised to be profitable for donors' domestic businesses. Not only was this allocation pattern running against the DAC's philosophy of what aid should achieve and whom it should benefit, but it also undermined recipients' "rights" to determine their own development strategies. In this respect, it was certainly the tied nature of these finance instruments that was the biggest thorn in the DAC/FA's side. Confronted, however, with the reality of aid politics, a strategy of containing the most harmful effects was chosen, joining the Participants efforts to design them in a way that would lead to less aid and trade distortions. For that purpose the DAC adopted a series of guidelines to increase the transparency of donors' policies in the field of tied aid and associated financing and to enhance their development orientation. One of the most emphatically pursued proposals by the DAC/FA was the call for a greater role of aid agencies in the design and implementation of projects financed with tied aid credits.

Central to the DAC/FA's discussions was the idea that it is the degree of "additionality" of resources channeled through tied aid and mixed credits that determines their "usefulness" for development (finance), their "development scoring". Furthermore, if the resources used to fund the concessional component compete with the general aid budget their additionality has to be questioned. In this case, other forms of aid, which are de-coupled from potentially contradictory commercial goals, might be more favorable. Likewise, if the financial flow would also occurred in the

¹⁷⁵ In 1981 the DAC Secretariat circulated the first note on tied aid credits and associated financing. In 2004 the group was closed and was officially merged with the Task Force on Donor Practices to become the *Working Party on Aid Effectiveness and Donor Practices (WP-EFF)* (De Milly 2012: 3).

absence of the concessional element, that is on market (or Arrangement) terms, they would also not be additional and the concessional element would be better invested otherwise, so as to maximize total flows. The underlying question, implicit to the DAC/FA's reasoning, is how these public monies would have been invested alternatively.

The DAC/FA's treatment of tied aid credits is to be understood as embedded in the larger untying discourse that the DAC triggered early on. A look at the minutes of DAC/FA meetings and distributed room documents from 1981 onwards gives the impression that the DAC/FA was torn between calling for untying (and thus for the elimination of tied aid credits) and on the other hand, trying to improve the development quality of tied aid financing packages (hence de-facto accepting their very existence). In a pendulum-like fashion the DAC/FA had promoted the untying of aid in the 1960ies and 70ies. Confronted with the reticence of members to adopt corresponding measures and in view of parallel efforts undertaken in the Participants Group with regard to export credits and tied aid credits, the DAC/FA shifted its strategy in the 1980ies and joined the Participants in the more moderate attempt of disciplining tied aid use, that is accepting their existence, but at improved conditions. Once disciplines had successfully been set up with the adoption of the Helsinki rules and the New Measures in the Field of Tied Aid in 1991/1992 and in the light of a general shift in development policy from "donor interests" to "recipient needs" after the end of the Cold War (Petermann 2013), the DAC/FA reiterated its call for the untying of aid altogether, a first step of which was certainly accomplished with the adoption (and implementation) of the 2001 *Recommendation on Untying Bilateral Development Assistance to Least Developed Countries*.



7. Statistics on Tied Aid Credits

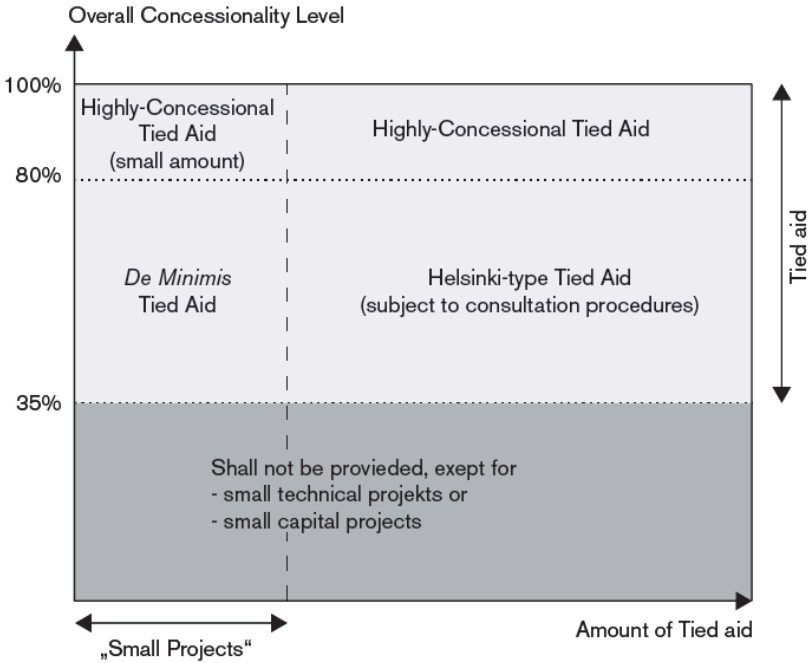
The quantitative analysis of tied aid credit flows provided in the following aims at complementing the predominantly qualitative analyses of the regulatory framework in which these hybrid instruments are embedded.

From the introduction of the Helsinki tied aid disciplines in 1992 onwards, the Participants Group and the Secretariat respectively, has conducted a semi-annual review of notifications. The following chapter is almost exclusively based on Participants' records monitoring tied aid notifications provided in the document TD/PG(2006)23. The data corresponds to the time span from 1991 to July 2006. More recent data is not available for public purposes due to restricted access to Participants' documents. Additionally, the DAC databases were consulted with the aim of identifying data on tied aid credits. Given the short time span a comprehensive quantitative analysis of tied aid credits is not feasible. Therefore this chapter provides a descriptive analysis of quantitative data on tied aid credits. For future quantitative research more data is needed.

In order to get a better understanding of the different forms of notifications monitored, which is needed for the following analysis, 7.1 classifies tied aid according to the overall concessionality level (OCL) and amount.

Figure 7.1 summarizes different forms of tied aid which are defined by the Arrangement terms. Financing arrangements with an Overall Concessionality Level (OCL) of less than 35 % and less than 50 % for Least Developed Countries (LDCs) are not conform to Arrangement terms except small technical assistance projects or small capital projects. De minimis tied aid is in conformity with the minimum concessionality levels for tied aid but it is not subject to consultation procedures. Helsinki-type tied aid, on the other hand, is subject to consultation procedures and corresponds to an OCL between 35 % (50 % for LDCs) and 79 %. Tied aid with a concessionality level of 80 % and more is called highly-concessional tied aid.

Figure 7.1: Classification of Tied Aid Based on the Overall Concessional Level (OCL) and Amount



Source: TD/PG(2006)23

Note: The classification does not apply to tied aid for LDCs except for the minimum OCL (50 %).

7.1. Introduction to the DAC Statistical Concept

Since tied aid credits are also a form of development finance and their subsidy element is Official Development Assistance (ODA) eligible, it was investigated how they are reflected in the statistics published by the Development Assistance Committee (DAC). In order to understand the DAC statistics and interpret the data well, context information was needed. Further information was collected through interviews. The problems of statistical recording of aid will be addressed in depth. An introduction to the DAC's recording practices of aid and other developmentally relevant flows is provided in the following paragraphs.

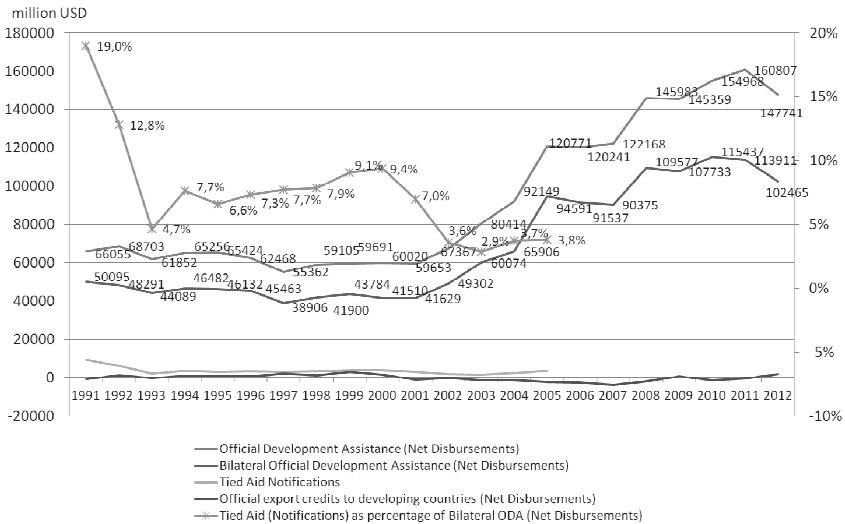
The DAC statistics record flows to developing countries in different categories. Credits are categorized according to the grant element, motivational objective, and tying status. The DAC distinguishes credits according to their motivation, whether a credit is aid or trade motivated. Credits that have as a main motivation "contribution to development" qualify as ODA. Export credits per definition are not ODA eligible, but a developmentally motivated subsidy to an export credit can be reported as ODA. In order to be ODA eligible loans additionally have to pass two tests. They require a grant element of at least 25 % (calculated at a discount rate of 10 %) and to be concessional in character. The second test is rather vague and leaves room for interpretation. So far the DAC has not agreed on an operationalization of the term "concessional in character" and has not determined any measurable criteria (Interview X). Aid is recorded according to its tying status (tied, untied, or partially untied). The following analysis looks exclusively at tied aid and the recording of export credits. "Partially untied" refers to a selection of countries eligible to enter competitive bidding. "Untied" refers to procurement which is not limited to certain countries and subject to International Competitive Bidding (ICB). This can be achieved through publishing an offer on an internationally recognized bulletin board. The problematic issue regarding "untied aid" as well as a discussion about the ODA criteria "concessional in character" will be picked up at the end of this chapter with the help of a recent example of the ODA statistics.

The DAC statistics further distinguish between commitments and disbursements. A commitment is "[...] a firm written obligation by a government or official agency [...] to provide resources of a specified amount under specified financial terms and conditions and for specified purposes for the benefit of a recipient country or a multilateral agency" (OECD stats 2013a). On the other hand, disbursements represent actual flows of resources e.g., to a recipient country or agency. The ODA/GNI ratio of a donor is calculated based on disbursements (Interview X). A loan may be disbursed in several tranches and consequently each tranche is listed in the ODA statistics according to the year of disbursement.

7.2. Evolution of Quantitative Importance of Tied Aid

After this overview on statistical recording of the DAC and the Participants, the importance of tied aid credits as an instrument of development finance will be examined. The first two figures of this chapter show the quantitative importance of tied aid credits as well as the DAC category “officially supported export credits” and compare their volume with total and bilateral ODA. Additional information is needed in order to read and interpret the figures. The evolution of the quantitative importance of tied aid credits cannot be identified properly for two reasons. First, OECD members restrict comprehensive access to data on officially supported export credits. The DAC’s Creditor Reporting System (CRS) database records ODA flows as well as Other Official Flows (OOFs) to developing countries. Access to data on OOFs including officially supported export credits is restricted. Data is published in aggregate form only (DCD/DAC(2007)39/FINAL: 5 et seq.). Second, the descriptions provided by the DAC to read and interpret properly the statistics on ODA and OOFs to developing countries are lacking for most categories. The latter argument explains why misinterpretation constitutes a serious problem for anyone attempting to work with the statistics. Expert support is inevitable in order to interpret the statistics accurately. Based on the limited data, Figure 7.2 and Figure 7.3 show the volume and quantitative importance of tied aid credits compared to total ODA.

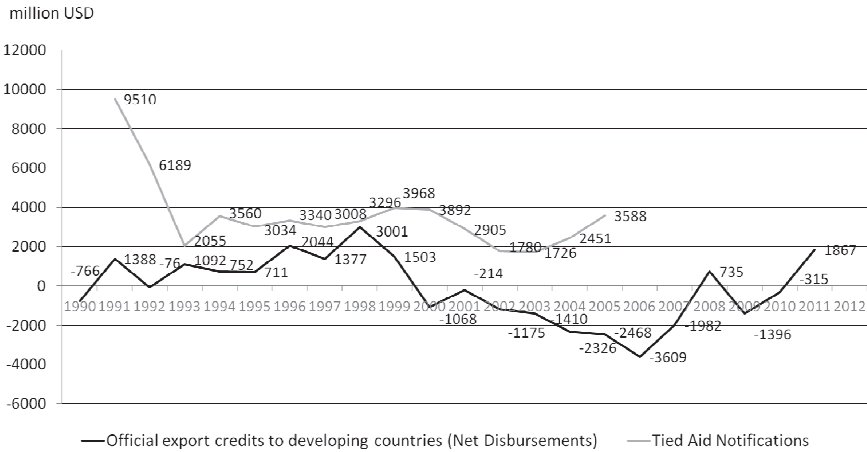
Figure 7.2: Quantitative Evolution of Tied Aid and Export Credits compared to ODA



Source: OECD stats (2013b), TD/PG(2006)23, TD/CONSENSUS(97)57

Note: Participants' data on tied aid credits (notifications) is available for the years 1991 to 2005. The DAC category "Official export credits to developing countries" (code 265) is only available as net disbursements. The category applies to export credits from official ECAs to developing countries. (DCD/DAC(2010)40/REV1: 30)

Figure 7.3: Evolution of Tied Aid and Official Export Credits to Developing Countries



Source: OECD stats (2013b), TD/PG(2006)23, TD/CONSENSUS(97)57

Note: Participants' data on tied aid credits (notifications) is available for the years 1991 to 2005. The DAC category "Official export credits to developing countries" (code 265) is only available as net disbursements. The category applies to export credits from official ECAs to developing countries. (DCD/DAC(2010)40/REV1: 30)

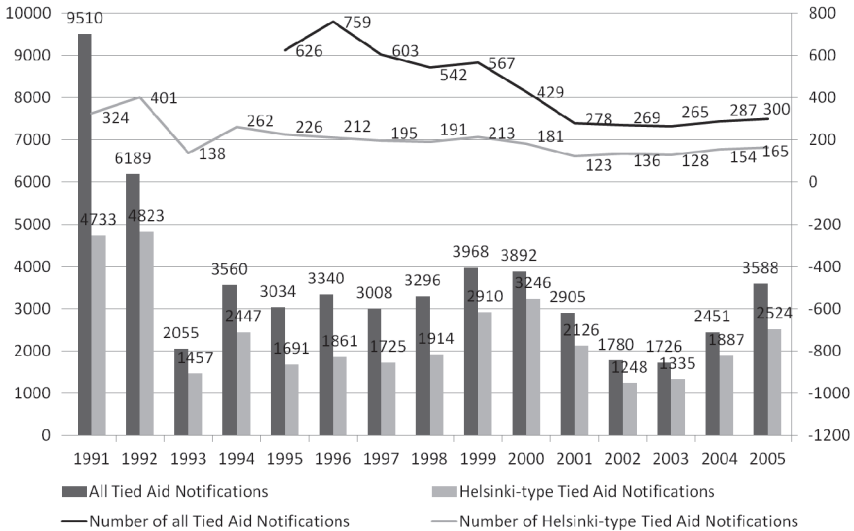
These two figures compare the volume of tied aid notifications with ODA. Yet, these data have to be interpreted with great caution – in particular so with regard to the volume of tied aid (notifications) as percentage of “Bilateral ODA (Net Disbursements)”. First of all, the data presented is calculated using three different sources: Participants' semi-annual reports, DAC statistics, and historical exchange rates databases. Participants report the tied aid notifications. The amount notified as tied aid corresponds to the nominal value of the loan. The notification of a credit represents an offer. Not all notifications necessarily lead to the finalization of a contract and consequently a resource flow. With regard to the category “Official export credits to developing countries (Net Disbursements)”, the category does not include the concessional element (DCD/DAC(2007)39/FINAL: 25). In the case of officially supported export credits which are classified by the DAC as associated financing, the concessional element is reported as ODA grant and the non-concessional element as OOF. These facts explain why the Participants' statistical recording of tied aid does not match the DAC statistics. Further the Participants use SDR to notify loans, the DAC uses USD. All data is based on current prices. Additionally, it has to be highlighted that data on ODA includes the concessional element of a tied aid credit (if it was reported).

Keeping these constraints in mind, Figure 7.2 and 7.3 provide a rough comparison between the amount of tied aid as recorded by the Participants and total ODA reported to the DAC. These figures show that in more recent years tied aid constitutes a

small fraction relative to ODA or rather compared to ODA. Looking at the volume of tied aid (notifications) expressed as percentage of total bilateral ODA (net disbursements) in a given year, it becomes visible that tied aid has lost importance over the years. This is almost exclusively explained by the increase of bilateral ODA as from 2002. In 1991, prior to the inception of the Helsinki rules, tied aid (notification) amounted to 19 % of the volume of bilateral ODA. Tied aid (notification) experienced a sharp fall as percentage of bilateral ODA in the following two years. From 1994 to 2001 the volume of tied aid compared to bilateral ODA remained fairly stable.

The following figures will focus on the different forms of tied aid as described at the beginning of the chapter. They are entirely based on the Participants' statistical review of tied aid. Figure 7.4 shows the volume of total tied aid and Helsinki-type tied aid notifications. The figure reveals a sharp decrease in the volume of tied aid notifications in the first years of the 1990ies. After a 2-year transition period, following the inception of the Helsinki disciplines in 1992, the volume of Helsinki-type tied aid remained fairly stable. Additionally, Figure 7.5 focuses on the effect of the introduction of the Helsinki criteria.

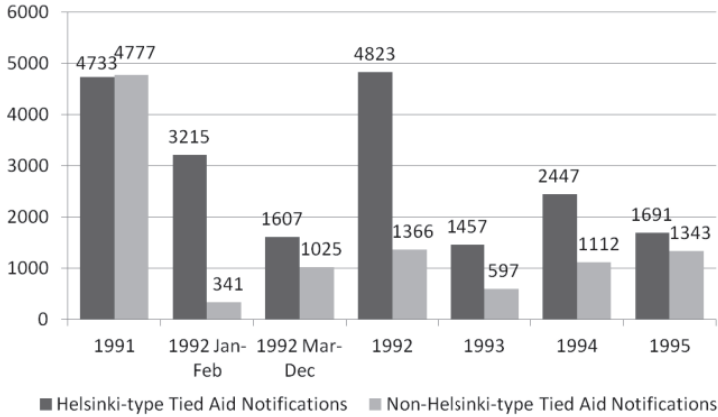
Figure 7.4: Overview of the Volume and Number of Tied Aid Notifications (million USD)



Source: TD/PG(2006)23

Note: Data for the number of tied aid notifications is not available for the years 1991 to 1994. The category "All tied aid notification" includes Helsinki-type tied aid notifications.

Figure 7.5: Overview of the Volume of Tied Aid and Helsinki-Type Tied Aid (1991-1995) (million USD)

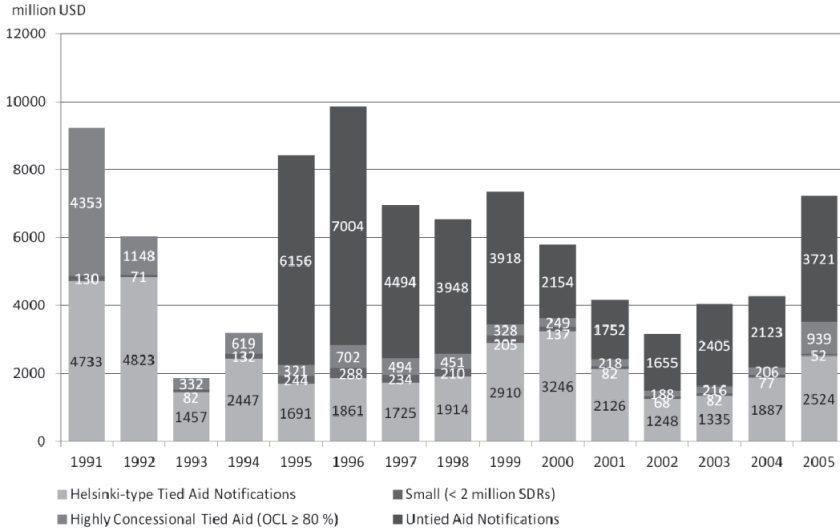


Source: TD/PG(2006)23

Figure 7.5 demonstrates the sharp drop of tied aid not being in conformity with the Helsinki criteria in 1992. 57 % of total tied aid in 1992 was notified in the first two month prior to the introduction of the Helsinki Package.

The Participants differentiate between different forms of tied aid based on the Arrangement terms. This differentiation is demonstrated in Figure 7.1 above. Figure 7.6 gives an overview of the volume and composition of different forms of tied aid and untied aid notifications.

Figure 7.6: Composition of Tied Aid and Untied Aid Notifications



Source: TD/PG(2006)23

Note: Data for untied aid notifications is available as from the year 1995. The category highly-concessional tied aid (OCL ≥ 80 %) includes tied aid for ships for the years 1992-1994.

The aim of Figure 7.6 is to demonstrate the absolute volumes of different forms of tied and untied aid. It clearly shows that the greatest part of aid is attributed to untied aid notifications. 42 % of all aid notified falls under the category tied aid¹⁷⁶.

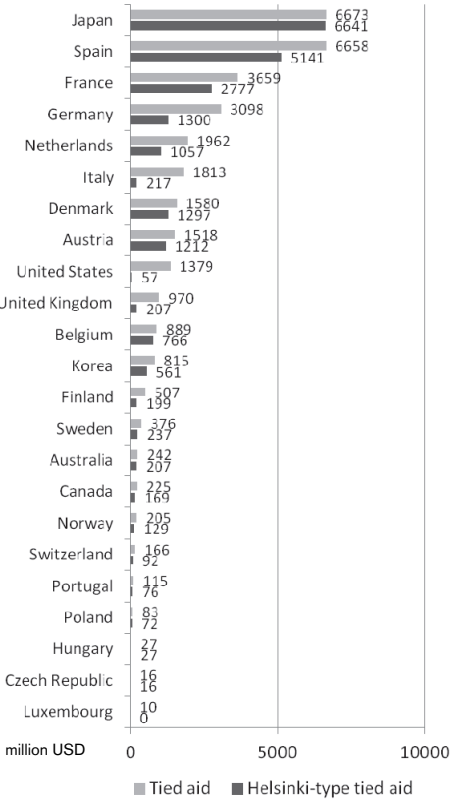
Looking at Figure 7.6, some trends are observable. Given the short period of data, reliable trends are difficult to observe. Helsinki-type tied aid as already stated remained fairly stable as from 1993 on. The use of highly-concessional tied aid dropped sharply in the year 1992 and remained at a fairly stable level until 1999. The years 2000 to 2004 show an even lower level of highly-concessional tied aid. In 2005 a comparably high amount of highly-concessional tied aid was notified. Small projects (SDR < 2 million), most of which is attributable to de minimis tied aid, experienced a downward trend starting in 1996. Furthermore Figure 7.6 clearly demonstrates a downward trend for untied aid notifications until 2002 and a subsequent increase in the years 2003 to 2005. Due to lack of data for the years after 2005 it is unclear whether increased volumes for untied aid, Helsinki-type tied aid and highly-concessional tied aid in 2005 represent an outlier or mark the start of a new upward trend.

¹⁷⁶ The calculation is based on notifications during the period from 1995 to 2005.

7.3. Donors

After the brief overview on the different forms of tied and untied aid, the following figures show the donor's side. Figure 7.7 shows all donors according to the accumulated volume of Helsinki-type tied aid as well as total tied aid notifications for the period 1995-2005.

Figure 7.7: Donors According to the Volume of Helsinki-Type Tied Aid and Tied Aid per Donor Country (1995-2005)



Source: TD/PG(2006)23; TD/CONSENSUS(97)57

Note: The data represents the tied aid (notifications) from 1995 to 2005. USD-based calculation.

Figure 7.7 shows that in the period from 1995 to 2005 the five donors notifying the largest amount of tied aid were Japan, Spain, France, Germany, and the Netherlands. Additionally it identifies those donors having high volumes of Helsinki-type tied aid.

Table 4 lists the donors' share of Helsinki-type tied aid as percentage of total tied aid. The table shows that Germany and Italy have low shares of Helsinki-type tied aid given their large volume of total tied aid. This means that the share of tied aid must consist of small projects and/or highly-concessional tied aid.

Table 4: Relative Shares of De Minimis, Highly-Concessional, and Helsinki-Type Tied Aid of Total Tied Aid (1995-2005)

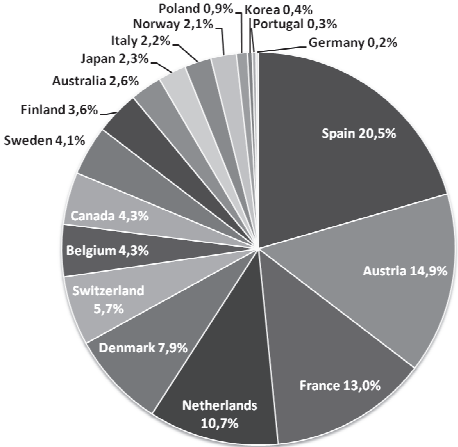
Donor country	percentage of	de minimis tied aid	highly-concessional tied aid	Helsinki-type tied aid
Australia		14.56 %	-	85.44 %
Austria		12.71 %	4.45 %	79.86 %
Belgium		6.44 %	0.33 %	86.13 %
Canada		24.84 %	-	75.16 %
Czech Republic		0.00 %	-	100.00 %
Denmark		6.60 %	-	82.08 %
Finland		9.01 %	18.80 %	39.31 %
France		4.64 %	3.06 %	75.90 %
Germany		0.10 %	25.60 %	41.96 %
Hungary		0.00 %	-	100.00 %
Italy		1.68 %	74.83 %	11.95 %
Japan		0.48 %	-	99.52 %
Korea		0.73 %	5.58 %	68.79 %
Luxembourg		0.00 %	-	0.00 %
Netherlands		7.42 %	0.66 %	53.84 %
Norway		12.97 %	-	63.14 %
Poland		13.39 %	-	86.61 %
Portugal		3.10 %	5.80 %	65.87 %
Spain		4.02 %	4.93 %	77.22 %
Sweden		14.14 %	4.93 %	63.09 %
Switzerland		44.59 %	-	55.41 %
United Kingdom		0.00 %	40.65 %	21.30 %
United States		0.00 %	78.18 %	4.14 %

Source: TD/PG(2006)23

Note: The calculation is USD-based and presents values for the time period 1995-2005. The percentage values do not necessarily add up to 100 % because tied aid (notifications) additionally include tied aid for LDCs and other small (SDR < 2 million) tied aid.

Table 4 shows that in the cases of the United States, Italy, and also to some extent the United Kingdom and Germany most of their non-Helsinki-type tied aid is explained by highly-concessional (OCL > 80 %) tied aid notifications. Switzerland and Canada notify a fairly small volume of tied aid but have comparably high shares of de minimis tied aid. The countries United Kingdom, Netherlands, Finland, and Germany have large shares of tied aid which is attributable to neither Helsinki-type tied aid, de minimis tied aid, nor highly-concessional tied aid. There is no detailed country data available for categories such as tied aid for LDCs and other forms of small (SDR < 2 million) tied aid which is not de minimis tied aid.

Figure 7.8: Relative Shares of the Cumulated Volume of De Minimis Tied Aid by Notifying Country



Source: TD/PG(2006)23

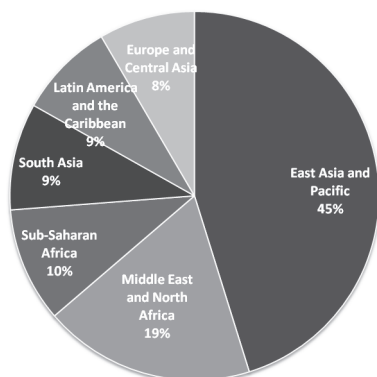
Note: Luxembourg, United Kingdom, Czech Republic, Hungary, and the United States did not notify de minimis tied aid. The data presents the volume of de minimis tied aid (notifications) from 1995 to June 2006; SDR-based calculation.

Figure 7.8 demonstrates that a group of three countries, Spain, Austria, and France, is responsible for almost half of all de minimis tied aid (1995-June 2006). When looking at the relative share of de minimis tied aid to total aid on a country level, the above figure in combination with Table 4 shows that those countries with a great share of de minimis tied aid have a small absolute volume of total tied aid.

7.4. Recipient Countries and Regions

The figures above have focused on donor's use of different forms of tied aid. The following figures provide an overview of the recipient countries. The first two figures show the distribution of tied aid and Helsinki-type tied aid notifications according to the beneficiary region. This section further provides more detailed information on the recipient countries.

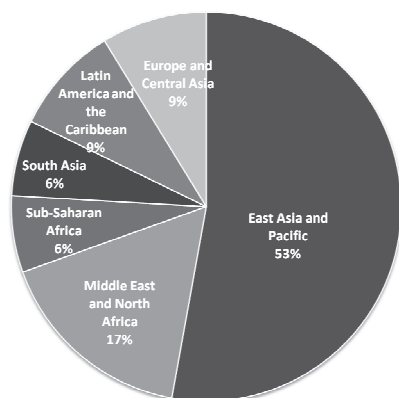
Figure 7.9: Recipient Regions of Total Tied Aid Notifications



Source: TD/PG(2006)23

Note: The data represents the total tied aid from 1995 to June 2006; SDR-based calculation.

Figure 7.10: Recipient Regions of Total Helsinki-Type Tied Aid Notifications



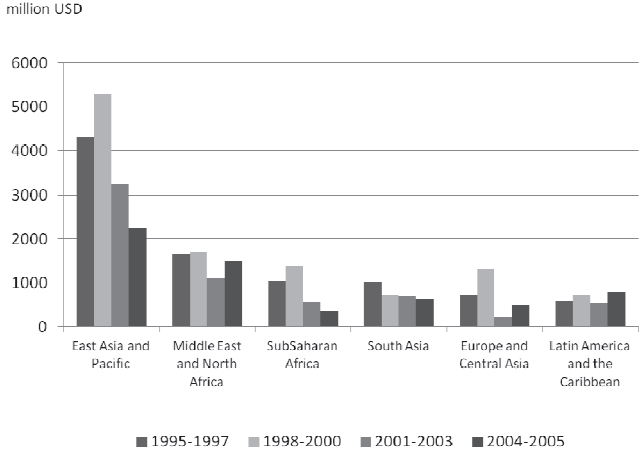
Source: TD/PG(2006)23

Note: The data represents the total Helsinki-type tied aid from 1995 to June 2006; SDR-based calculation.

Figure 7.9 and 7.10 demonstrate that 45 % of tied aid and more than half (53 %) of Helsinki-type tied aid goes to the region East Asia and the Pacific. This suggests that most Helsinki-type tied aid was concentrated on emerging economies in Asia, while the poor developing countries of Sub-Saharan Africa and South Asia received disproportionately higher shares of non Helsinki-type tied aid, i.e. either de minimis or highly-concessional aid.

Figure 7.11 takes a look at absolute changes in the geographic distribution of tied aid over time. It demonstrates that tied aid fell sharply in the East Asia and Pacific region having an exceptionally high peak in the year 2000 of USD 2675 million.

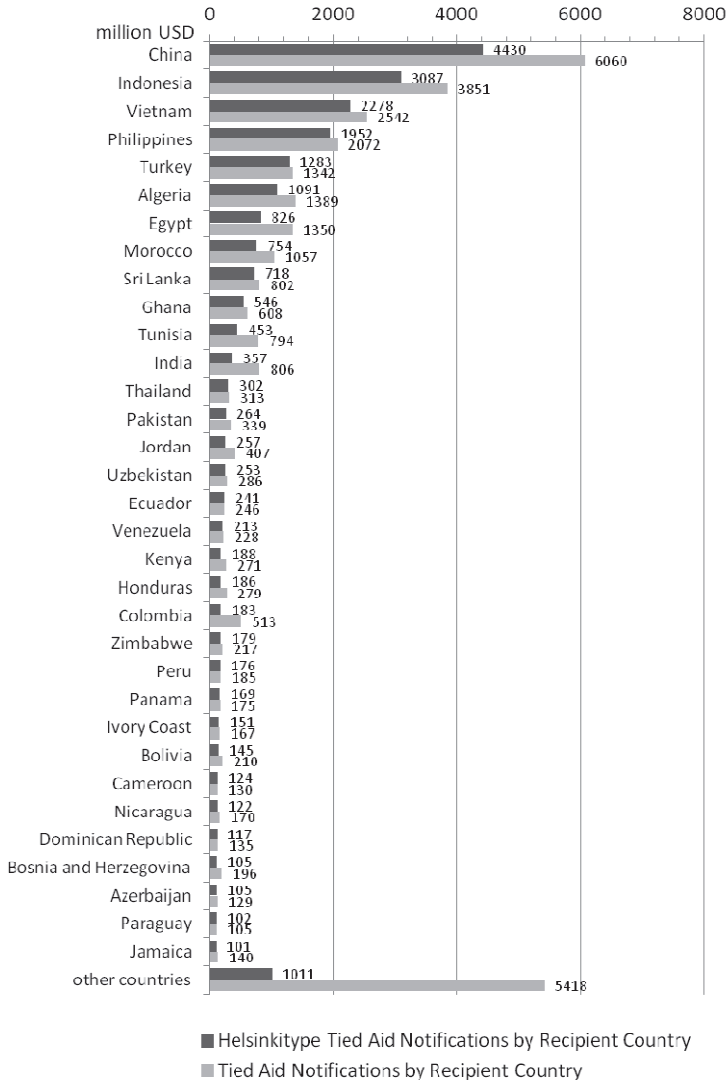
Figure 7.11: Geographic Distribution of the Volume of Tied Aid by Recipient Region According to Time Periods



Source: TD/PG(2006)23

Downward trends over time can also be observed in all other regions, with only Latin America and the Caribbean experiencing a modest upward trend.

Figure 7.12: Absolute Helsinki-Type Tied Aid and Total Tied Aid by Recipient Country



Source: TD/PG(2006)23

Note: The data represents notifications from 1995 to 2005.

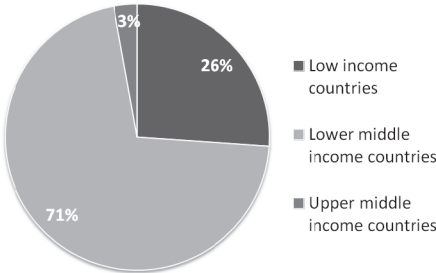
Figure 7.12 clearly demonstrates that the largest share of tied aid and Helsinki-type tied aid goes to a small selection of countries. Only four countries, China, Indonesia, Vietnam, and the Philippines, received roughly half of all Helsinki-type tied aid.

Between 1995 and 2005 China received 20 % of all Helsinki-type tied aid, Indonesia 14 %, Vietnam 10 %, and the Philippines 9 %. In contrast, Sub-Saharan Africa, as a region, only accounts for a share of 6 % of total Helsinki-type tied aid and 10 % of total tied aid (Calculation based on TD/PG(2006)23). According to the World Bank classification (2013a) China, Indonesia, and the Philippines were lower middle income countries in 2005. Vietnam was categorized as a low income country in 2005.

The subsequent set of figures illustrates the distribution of tied aid, Helsinki-type tied aid, and non-Helsinki-type tied aid according to the World Bank Analytical classification. The classification lists countries according to their GNI per capita (USD) in four categories: low income, lower middle income, upper middle income, and high income countries.

Figure 7.13 shows that 71 % of total tied aid notified goes to lower middle income countries, and 26 % to low income countries. Lower middle income countries receive 76 % of total Helsinki-type tied aid, but only 61% of non-Helsinki-type tied aid (see Figure 7.14 and 7.15). In contrast, low income countries receive 21% of Helsinki-type tied aid, but 36 % of non-Helsinki-type tied aid (see Figure 7.15). Upper middle income countries are not eligible for tied aid. Note that changes in the classification during the observed period are the reason why the figures display tied aid for upper middle income countries. Some countries, e.g. Turkey, had received the status of an upper middle income country by 2005.

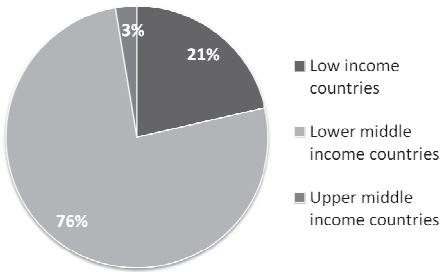
Figure 7.13: Total Tied Aid According to World Bank Analytical Classification



Source: TD/PG(2006)23; Word Bank 2013a

Note: The data represents the cumulative volume of tied aid (notifications) from 1995 to June 2006. Recipient countries were classified according to World Bank estimates of 2005. Changes in the classification are the reason why the figure displays tied aid of upper middle income countries.

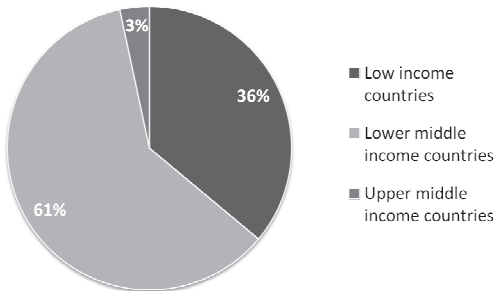
Figure 7.14: Helsinki-Type Tied Aid According to World Bank Analytical Classification



Source: TD/PG(2006)23; Word Bank 2013a

Note: The data represents the cumulative volume of Helsinki-type tied aid (notifications) from 1995 to June 2006. Recipient countries were classified according to World Bank estimates of 2005. Changes in the classification are the reason why the figure displays tied aid of upper middle income countries.

Figure 7.15: Non-Helsinki-Type Tied Aid According to World Bank Analytical Classification



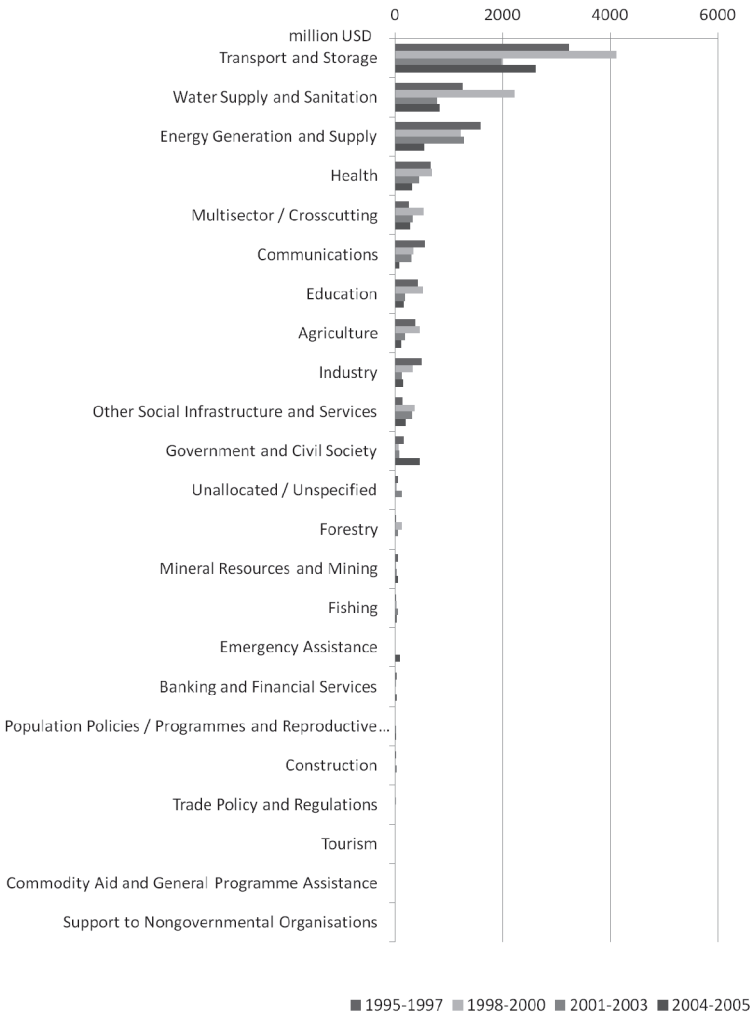
Source: TD/PG(2006)23; Word Bank 2013a

Note: The data represents the cumulative volume of non-Helsinki-type tied aid (notifications) from 1995 to June 2006. Recipient countries were classified according to World Bank estimates of 2005. Changes in the classification are the reason why the figure displays tied aid of upper middle income countries.

7.5. Sectors

In addition to the distribution of tied aid according to donor and recipient country or region the Participants further record tied aid notifications according to sectors.

Figure 7.16: Total Tied Aid by Sector

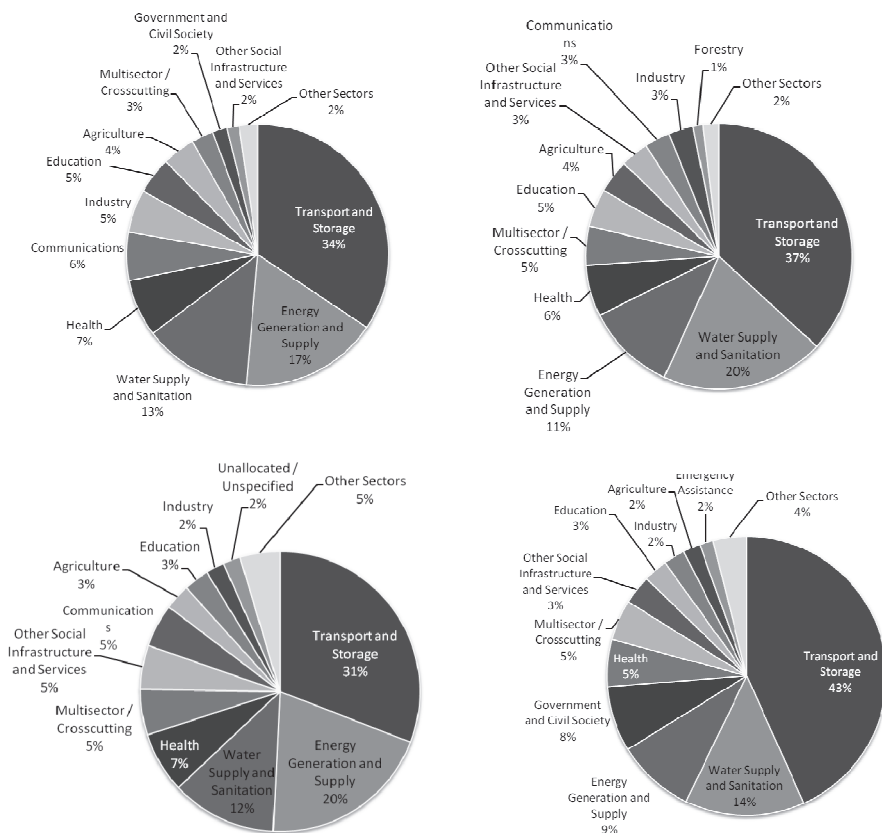


Source: TD/PG(2006)23

Note: The data represents the cumulative volume of tied aid (notifications) from 1995 to 2005.

Analysis of statistical data on the total tied aid notifications by sector suggests that a large share of tied aid is fuelled into the sectors transportation and storage, water supply and sanitation, and energy generation and supply. It is very likely that projects in these sectors are large capital-intensive projects and infrastructure projects. Between 1995 and 2005 35 % of tied aid was provided for projects in the sector Transport and Storage. The sector Water Supply and Sanitation accounts for 16 % and Energy Generation and Supply for 15 %. The sectors Health and Education have shares of 7 % and 4 %, respectively.

Figure 7.17: Sectoral Distribution of Tied Aid – Changes Over Time



Source: TD/PG(2006)23

Note: The data represents the volume of tied aid (notifications, USD).

The figures above illustrate that in all of the periods analyzed the largest sector is Transport and Storage, before Energy Generation and Supply and Water Supply and Sanitation. These three sectors account for roughly two thirds of the volume (USD) of tied aid notifications and Figure 7.17 demonstrates that the sectoral distribution is persistent over time.

Differences in the distribution are very susceptible to outliers. Due to the fact that data is only available for the period 1995-2005, conclusions about sectoral changes have to be drawn with caution. The most notable change is the large share (8 %) of the sector Government and Civil Society in the time period 2004-2005, which had only passed the 2 % mark in the time period 1995-1997. Further the sector Transport and Storage increased its share to 43 % in the period 2004-2005.

Examining the sectoral distribution of tied aid the question arises whether specific forms of tied aid show a similar or divergent distribution. Unfortunately, the Participants do not provide comprehensive data to answer that question in detail.

Table 5: Volumes of Helsinki-Type and Non-Helsinki-Type Tied Aid, De Minimis, Highly-Concessional, and Other Non-Helsinki-Type Tied Aid

Notifications (1995-2005)	Helsinki-type tied aid			Non-Helsinki-type tied aid		
	Volume (USD)	average volume (million USD)	no.	Volume (USD)	average volume (million USD)	no.
Education	902.2	8.8	102	400.5	2.9	138
Health	1601.1	6.8	237	534.8	2.0	264
Population policies / programmes and reproductive health	25.8	12.9	2	33.9	2.3	15
Water supply and sanitation	3861.1	8.2	473	1225.2	3.6	343
Government and civil society	88.3	6.8	13	701.9	10.8	65
Other social infrastructure and services	573.4	8.1	71	472.4	3.2	147
Transport and storage	8689.1	23.5	369	3248.9	6.4	505
Communications	812.5	8.2	99	494.5	2.7	181
Energy generation and supply	3100.7	11.5	269	1532.6	3.8	399
Banking and financial services	19.0	3.8	5	57.7	2.3	25
Agriculture	787.7	8.0	99	359.0	1.9	185
Forestry	157.7	17.5	9	51.5	1.8	28
Fishing	87.2	5.8	15	47.9	1.9	25
Industry	456.7	7.1	64	668.0	1.4	476
Mineral resources and mining	116.4	9.0	13	46.1	1.4	33
Construction	2.6	2.6	1	45.5	2.5	18
Trade policy and regulations	10.3	10.3	1	35.2	11.7	3
Tourism	2.9	2.9	1	1.5	0.4	4
Multisector / Crosscutting	921.0	12.8	72	487.6	4.0	123
Commodity aid and general programme assistance	0.0	-	0	3.9	1.9	2
Emergency assistance	105.5	52.8	2	0.3	0.3	1
Support to nongovernmental organisations	0.0	-	0	2.0	1.0	2
Unallocated / Unspecified	146.2	20.9	7	68.9	3.6	19
All sectors	22467.8	-	1924	10519.9		3001

Source: TD/PG(2006)23

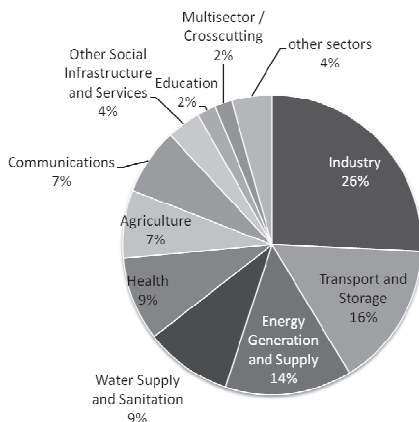
Note: Non-Helsinki-type tied aid includes de minimis and highly-concessional tied aid, as well as other small projects (SDR < 2 million) tied aid.

Looking at the average volume of Helsinki-type tied aid notifications in Table 5, the sector Emergency Assistance, accounting for only two notifications, accounts for the largest average volume (USD 52.8 million). Notifications of the sector Transport and Storage have an average volume of USD 23.5 million. The sectors Forestry and Population Policies/Programmes and Reproductive Health account for only small numbers of projects but their average volume of notification is USD 17.5 million and USD 12.9 million respectively. Data on average volumes is less susceptible to outliers the higher the number of notifications is. Therefore, when looking only at sectors with a high number of notifications, apart from the sector Transport and Storage (USD 23.5), also Multisector/Crosscutting (USD 12.8 million) and Energy Generation and Supply (USD 11.5 million) show high average volumes. The sectors Education, Communications, Water Supply and Sanitation, Other Social Infrastructure and Services, and Agriculture all have average volumes between USD 8 and 9 million. The sector Health accounts for a high number of notifications (237) and an average volume of USD 6.8 million.

When looking at the absolute volume of non-Helsinki-type tied aid¹⁷⁷ the three largest sectors are Transport and Storage (USD 3248.9), Energy Generation and Supply (USD 1532.6), and Water Supply and Sanitation (USD 1225.2). The sectors Trade Policy and Regulations, Government and Civil Society, and Transport and Storage have the highest average volumes of non-Helsinki-type tied aid. The sector Trade Policy and Regulations accounts for only three notifications of non-Helsinki-type tied aid, of which two are highly-concessional tied aid notifications. 43 % of non-Helsinki-type tied aid notifications of the sector Government and Civil Society are attributable to highly-concessional tied aid notifications. In the case of Transport and Storage 48 % of all non-Helsinki-type tied aid notifications are de minimis tied aid notifications. Sectors having a large share of de minimis projects are the following: Industry, Transport and Storage, and Energy Generation and Supply.

¹⁷⁷ Non-Helsinki-type tied aid is calculated as the difference between tied aid and Helsinki-type tied aid.

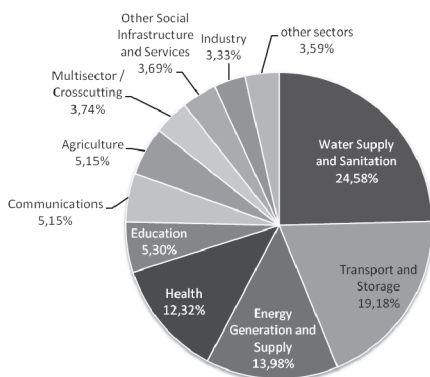
Figure 7.18: Share of De Minimis Tied Aid by Sector



Source: TD/PG(2006)23

Note: The data represents the number of notifications of de minimis tied aid from 1995 to June 2006.

Figure 7.19: Share of Helsinki-Type Tied Aid by Sector



Source: TD/PG(2006)23

Note: The data represents the number of notifications of Helsinki-type tied aid 1995 to June 2006

Comparing Figure 7.18 and Figure 7.19, it becomes visible that a quarter of all de minimis tied aid notifications were made in the sector Industry. This sector only accounts for 3 % of all Helsinki-tied aid notifications. This leads to the question whether this difference is a consequence of the nature of the projects or of different procedures for de minimis tied aid. De minimis tied aid is in conformity with the minimum concessionality levels for tied aid but it is not subject to consultation procedures.

7.6. Summary of the Findings of the Statistical Data

The following paragraphs summarize the findings drawn from the statistical data. The data above is almost exclusively based on Participants semi-annual review of notifications. The data covers a period from 1991 to 2005 but note that not all data is available for the entire period. Due to limited access to Participant's data there is no available data as from 2006 onwards.

The most obvious question regards the importance of tied aid as a form of development finance. From a bird's eye view, the quantitative importance of tied aid credits compared to the volume of total bilateral ODA is declining. This is largely explained by the absolute increase of bilateral ODA. In 1991, prior to the inception of the Helsinki rules, tied aid, expressed as percentage of the volume of bilateral ODA, accounted for roughly one fifth. The relative importance of tied aid experienced a sharp decline in 1992 and 1993. In the period from 1994 to 2001 the relative volume of tied aid remained fairly stable. As from 2002 tied aid constitutes a small fraction (less than 4 %) relative to bilateral ODA. Looking at the volume of tied aid expressed as percentage of total bilateral ODA in a given year it becomes visible that tied aid has lost most of its relative importance over the years.

When looking at tied aid notifications and more particularly at Helsinki-type tied aid notifications one sees that the overall number of notifications has declined over the years. The volumes experienced a sharp decline after the inception of the Helsinki rules. However, neither a clear upward, nor a downward trend can be observed for the following years up to 2005.

Other forms of tied aid, such as small projects (SDR < 2 million), of which most part is attributed to de minimis tied aid notifications, have experienced a downward trend since its peak in 1996. The use of highly-concessional tied aid (OCL > 80 %) dropped sharply in the year 1992 and remained fairly stable until 1999. In the period from 2000 to 2004 highly-concessional tied aid remained at an even lower level. In 2005 a comparably high amount of highly-concessional tied aid was notified.

In the next step, the focus was put on the donor's side. Donors with the largest volumes of tied aid (1995-2005) were Japan, Spain, France, Germany, and the Netherlands. Germany and Italy have low shares of Helsinki-type tied aid given their comparatively large volumes of total tied aid. The United States, Italy, and also to some extent the United Kingdom and Germany have high shares of highly-concessional tied aid (OCL > 80 %). Switzerland and Canada notify a small volume of tied aid but have comparably high shares of de minimis tied aid. When looking at the biggest donors of de minimis tied aid Spain, Austria, and France account for almost half of the volume of total de minimis tied aid.

When looking at the recipients' side the region East Asia and the Pacific receives 45 % of total tied aid and 53 % of Helsinki-type tied aid. On a country level, China is

by far the largest recipient of tied aid, receiving 18 % of all tied aid and 20 % of Helsinki-type tied aid. China is followed by Indonesia, Vietnam, the Philippines, and Turkey. 69 % of all tied aid goes to only 12 countries. In case of Helsinki-type tied aid 10 countries receive roughly three quarters the volume.

Looking at the distribution of tied aid according to the World Bank Analytical classification, we see that 71 % of all tied aid goes to lower middle income countries, and 26 % to low income countries. Lower middle income countries receive a share of 76 % of Helsinki-type tied aid. 36 % of non-Helsinki-type tied aid goes to low income countries and 61 % to lower middle income countries.

Referring to the sectoral distribution, the statistical data shows that the largest sector is Transport and Storage with a share of 36 % of total tied aid, followed by Water Supply and Sanitation (15 %) and Energy Generation and Supply (14 %). The large average volume of notifications leads to the assumption that projects in these sectors are large capital-intensive projects and infrastructure projects. Further, these three sectors account for roughly two thirds of the volume (USD) of tied aid notifications and Figure 7.17 demonstrates that this sectoral distribution persists over time. It is likely that projects in these three sectors generate revenues. Sectors, which typically receive more grants, such as health or education, appear to receive comparably small shares of tied aid. Further the question arises whether sectors with large shares of tied aid match those sectors in donor countries that are strong in exports, e.g., about 40 % of the sector Transport and Storage is attributable to the subsector Rail Transport. It is generally acknowledged that European companies are market leaders in this field. If this assumption holds true, the hypothesis is supported that the selection of projects financed by tied aid credits is donor driven. The sectors health account for 6 % and education for 4 % of the volume of tied aid. When looking at highly-concessional tied aid one observes that most notifications are attributed to the sectors water supply and sanitation (91), transport and storage (59), and energy generation and supply (58). Health accounts for 33 and education for 32 notifications. The distribution changes when looking at the de minimis tied aid. 26 % of all de minimis tied aid notifications (number) were made in the sector industry.

7.7. Reading and Interpreting the DAC Statistics

The analysis of the statistical records has shown that tied aid credits are reported differently by the Participants and the DAC and that detailed data is partly not available. The aim of reviewing the DAC statistics was to understand how the DAC reports grants to export credits and gain more information e.g., on the concessional level of credits. The following paragraphs show that the field of tied aid credits is characterized by a lack of transparency.

First, the DAC collects data on financial commitments and disbursements, pledges are not covered in the statistical collection. Data users often mix up commitments and pledges. The DAC statistical directives define the term *commitment* as a binding (contractual) obligation to provide a specified financial volume for a specified undertaking (project or activity), whereas *pledges* are political promises of a more general nature, usually made at high-level international meetings. *Disbursements* represent the actual transfer of resources (cash flow in a given period) (Interview X).

The DAC publishes quantitative but also descriptive data on ODA and other resource flows. It records four different flows of resources to developing countries, of which ODA is one – the one most closely defined and monitored (Interview X). This distinction is made based on the sector-source of funds (official or private) and whether they are extended at concessional or non-concessional terms.

Table 6: Main Types of Resource Flows

	concessional	non-concessional
official	ODA	OOFs
private	private charitable flows (from NGOs, foundations etc.)	private flows at market terms

Source: Own Elaboration, based on Interview X

The typology demonstrates that ODA is one of four resource flows to developing countries captured in DAC statistics. Within the DAC context, “aid” is often used as a synonym for ODA or a concessional flow¹⁷⁸. In contrast, the Participants use the term “aid” to describe an official subsidy to a credit. This leads to different interpretations of the term “tied aid credit”. DAC Statistics uses the term “tied aid credits” to describe tied ODA loans (“aid” being understood as a synonym for ODA). The DAC makes a distinction between tied ODA loans and official export credits, because export credits, by definition in the statistical directives, are excluded from ODA (Interview X). The Participants, on the other hand, use the term “tied aid credits” to describe tied credits with a concessional element (subsidy). The Participants’ concept, therefore, includes export credits.

This leads to the question how the DAC statistics record financing that is subject to the Arrangement’s tied aid disciplines. Export credits (i.e., credits extended by export credit agencies under an export-promotion framework), by definition in the statistical

¹⁷⁸ “Official aid” is a synonym for ODA and “private aid” for charitable giving by NGOs, foundations or private companies (Interview X).

directives, are excluded from being classified as ODA. They are understood as being extended with a primarily commercial – not developmental – motive and therefore are recorded in the OOFs category (DCD/DAC(2010)40/REV1: 9, 12). However, any government subsidies to these credits for developmental purposes (financially non-viable projects) can be reported as ODA grant (Interview X).

In order for a loan to qualify as ODA, the following criteria must apply. Promotion of the economic development and welfare of developing countries must be the main objective. DAC statisticians refer to this criterion as “motivational test” (Interview X). And flows must be concessional in character. Both criteria are fairly vague. The “concessional in character” requirement of the ODA definition is not underpinned by additional detailed criteria and therefore leaves wide room for interpretation.

This leads to the question what criteria determine whether a credit is granted based on developmental or commercial motives. According to DAC representatives, the motivation is derived from the institutional and legal framework of the credit. Whether an ECA or a bilateral DFI (development bank or a comparable institution) issues a credit gives an indication of the underlying motivation. The motivation is assumed to be a commercial rather than a developmental one for export credits. Official ECAs have a distinct mandate, often backed by a detailed legal framework, to promote national exports (Interview X). Development finance institutions (DFIs), such as bilateral development banks, on the other hand, operate based on a mandate to promote development in recipient countries and often have mechanisms for development results management in place. Therefore, loans extended by DFIs can be reported as ODA loans, provided they meet the other criteria for ODA, including on concessionality. Although bilateral DFIs act upon the mandate to promote development, they also operate in a commercial environment and often with market-like instruments (Interview X). Therefore, it is reasonable to assume that they also support the interests of the national economy. This can be seen as a secondary objective or side benefit.

The DAC records gross disbursements of loans and repayments of principal. The difference gives net disbursements, which is the basis for calculating the ODA/GNI ratio (UN ODA target of 0.7 % of GNI) (World Bank 2013b). Interest payments are recorded as well, but separately – they do not enter the ODA/GNI calculation (Interview X).

There are many different forms of debt instruments that receive government support, which often takes the form of an official guarantee. However, guarantees are contingent liabilities and therefore not covered in DAC statistics, which is a flow-based system at present. But guarantees can be developmentally motivated and are deemed relevant in promoting development in many contexts, therefore the DAC is elaborating options for valorizing guarantees in order to incorporate them in a new statistical measurement framework post 2015 (Interview X).

7.8. Problems of Statistical Recording of Development Assistance

This chapter addresses three problems arising from the current statistical recording of official development assistance. The first issue focuses on the tying status of credits and whether a loan is in effect tied or untied. The second issue relates to the motivation of a credit and its subsequent statistical recording. The third issue addresses the question whether a loan is considered “concessional in character” or not. Related to that is the problem of a low grant element (measure of concessionality in an aid loan). These aspects will be analyzed using a recent example from ODA statistics. The following example is relevant in a broader context and demonstrates that the analysis of “tied aid credits”, as the Participants define it, is too narrow. The existence of instruments, that fall under the definition of ODA, having similar financial terms as “tied aid credits” give rise to the questions (a) whether the Arrangement is effective in monitoring “de facto” tied aid credits and (b) whether all ODA flows reported by DAC members are credible.

7.8.1. The Tying Status of ODA and “De Facto” Tying

The DAC and the Participants distinguish tied from untied aid. This differentiation is important because DAC member countries have committed to untie their aid. As already stated the tying status is published only for ODA¹⁷⁹.

The existing definitions of tied and untied aid are rather general and difficult to apply in practice, because there are only few additional, detailed criteria (on what types of aid are considered as tied or untied by their nature) that would help operationalize the rules. In practice, some donors use the timely publishing of an untied aid offer on an international bulletin board in English language as a criterion for untied aid. Reasons why DAC members have not been able or willing to agree on a more detailed definition of untied aid and more guidance for operationalization of existing rules, is that for some DAC members this is a highly political issue related to international pledges to untie aid. Since some types of ODA simply cannot be untied e.g., in-donor-country costs for asylum seekers, there is an on-going discussion whether or not such types should be excluded from tying status reporting and from the coverage of the untying ratio published by the OECD in the Development Co-operation Report. With no final consensus on this issue, the existing definition cannot be amended and, given the lack of operational guidance, too much room is left for interpretation and thus differing reporting practices (Interview X).

¹⁷⁹ Of the four main types of flows, the tying status is only recorded for ODA (commitments) and excluding technical cooperation.

The definitions of untied and tied ODA are rather general and practical guidance is scarce. For example, the DAC states that if a credit is under suspicion of being tied the donor shall present evidence in support that such practice is untied. The DAC does not provide details on the form of evidence that should be provided, nor on the process of how to challenge aid that is suspected of being tied.

DAC members are obliged to report the tying status for ODA (commitments). In practice, the de facto tying status of a concessional credit may not be transparent. Credits reported as untied may be in effect tied to donor country procurement. For example, some “hidden” contract terms could favor national exporters even in ICB processes. Furthermore, publication of offers in less common donor languages can de facto exclude a wide range of potential bidders.

Apart from issuing biased tender documents in order to favor national exporters, donors may prefer to finance projects in certain sectors where national businesses have a competitive advantage and are likely to win the contract. In this case we would not speak of manipulation leading to market distortion. But donors may have a preference for financing certain sectors and projects. Taken to the extreme this could lead to distortion of aid allocation. Recipient countries and donors need to identify sectors and projects with the highest potential to enhance development for priority funding by ODA. In extreme cases donors can limit their support to sectors that are most attractive to their national exporters, while recipient countries will aim at their national development and sector priorities.

There is reason to doubt that all ODA loans reported as untied are in fact untied. However, if those loans are in some form tied to procurement from the donor country, this would require them to comply with Arrangement terms. If de facto tying would be uncovered, donors would suffer political damage by losing credibility and missing their targets for untying of ODA (Interview X).

7.8.2. Reporting of Credits According to their Motivation

DAC statistics distinguish ODA loans from commercial credits based on their primary motivation (developmental versus commercial). Export credits are understood as commercially motivated, since their main objective is export promotion, and thus are excluded from ODA by definition. Loans with a primarily developmental objective are ODA eligible, if they meet the other criteria for ODA.

As already stated, export credits are not ODA eligible, but the concessionality element (i.e., a subsidy to lower the lending costs) to an export credit can be ODA eligible. In DAC statistics this is recorded as an ODA grant in an associated financing package, with the loan component of the package being recorded as official export credit in the Other Official Flow category (Interview X). The ODA eligible subsidy to an export credit can derive from an interest rate subsidy, grace periods, long maturity, coverage of credit fees, premium charges, or part of principal payment. Unfortunately detailed

data such as the maturity of the loan or the concessionality level of OOFs are not publicly available. The DAC only publishes aggregate data on OOFs. This makes in-depth analyses impossible for external researchers.

7.8.3. The Term “Concessional in Character” in the ODA Definition

The last issue to address regards the interpretation of the term “concessional in character” which is part of the ODA definition. The question is whether all ODA loans meet the criteria of “concessional in character”. In this respect, it needs to be kept in mind that *“[t]he ODA concept was developed within a measurement system based on actual cross-border transfers of resources”* (OECD/DAC 2012b: 8). Some experts use a more restrictive understanding of ODA. ODA should represent a budgetary effort by the donor country. Using the more restrictive concept, if the concessional element of a credit is the result of a budgetary effort of the donor country this element may qualify as ODA. In contrast, if solely the favorable interest rate of a donor country is passed on to the developing country no budgetary effort is necessary. According to the restrictive concept of ODA, the latter flow would not qualify as ODA. Nevertheless, also these non-concessional credits can be developmentally relevant.

The DAC currently discusses whether certain ODA loans are “concessional in character”. Particularly France and Germany issue ODA loans that have a low concessionality level, close to the 25 % grant element margin (see Table 7). As has been mentioned earlier in this study, Richard Manning, the former DAC chair, recently stated that *“[t]he OECD is now quietly allowing large volumes of loans to be counted as ODA even though they do not meet any reasonable definition of being “concessional in character”, which is the basis of the OECD’s definition of aid”* (Manning 2013). The DAC measures concessionality using a universal 10 % discount rate. A 25 % grant element calculated at this fixed discount rate makes even loans with a very low concessionality level eligible as ODA: “In an era of low interest rates this can be reached by loans made with no government subsidy whatsoever” (Manning 2013). Richard Manning (2013) explains that in the past donor countries *“[...] used to respect the overall intention by refraining from making loans that only narrowly met the metric”*. A possible reason why some donors have become impudent in their ODA reporting practices by applying a broad interpretation of “concessional in character” is that donors have pledged to achieve the ODA target of 0.7 % of GNI by the year 2015 and national budgets currently suffer from austerity. Therefore, there is an incentive to report low-concessional loans as ODA loans. This reporting practice is only effective as long as more ODA loans are disbursed than repaid. DAC members have agreed to revise the ODA concept by 2015 (OECD/DAC 2012b: 8). There is reason to assume that those members which are currently applying a broad definition of “concessional in character” speculate that the new definition will leave uncovered future reflows stemming from repayments of ODA loans. The current DAC definition

for the ODA criterion “concessional in character” leaves ample room for interpretation and thus allows for reporting of credits as ODA that some DAC members and stakeholders consider as non-concessional. The defined grant element of 25 % is not effective in measuring concessional under the current capital market conditions (Interview X). Further, it is not appropriate to use the uniform 10 % discount rate in times when donor countries are able to borrow capital at very low interest rates. Richard Manning (2013) requests the OECD to “[...] put in place a definition of concessional that reflects the real cost of capital and requires real fiscal effort”.

Table 7 show recent data published by the DAC. Based on these data one can question whether all of the recorded ODA loans are “concessional in character”.

Table 7: Selected Parameters of ODA Loans (Commitments)

	Australia	Belgium	Finland	France	Germany	Italy	Japan	Korea	Portugal	Spain	Total DAC	
Loan share of total ODA (%)	1,2	0,3	0,0	27,4	17,4	3,3	43,4	54,7	45,8	1,2	11,8	
Terms of bilateral loans	Average maturity (years)	40,0	30,0	3,1	16,5	16,1	32,4	32,0	41,3	31,6	12,0	26,6
	Average grace period (years)	10,0	11,0	3,1	6,8	5,4	17,9	8,8	13,7	12,8	1,0	8,1
	Average interest rate (per cent)	0,0	1,6	0,0	3,3	2,1	0,0	0,7	0,1	1,8	1,5	1,4
	Grant element (per cent)	87,4	70,4	30,2	42,5	47,3	88,2	75,0	88,9	70,5	36,7	64,3
Terms of the bilateral loan with the lowest grant element	Maturity (years)	40,0	30,0	3,1	25,0	8,0	21,0	18,1	35,0	31,1	12,0	22,2
	Grace period (years)	10,0	11,0	3,1	6,0	3,0	10,1	0,1	11,1	22,1	1,0	4,4
	Interest rate (per cent)	0,0	2,0	0,0	5,0	3,4	0,2	2,5	0,1	3,3	1,5	1,7
	Grant element (per cent)	87,4	66,9	30,2	25,0	26,0	75,5	40,3	85,1	61,5	36,7	52,6
	Concessional level ^a	80,4	53,8	13,3	7,1	1,7	57,0	5,0	70,7	34,6	11,8	..
Volume of loans below 50% grant element (USD million)	-	-	1	2 167	2 053	-	240	-	-	56	4 518	

Source: OECD/DAC 2011b

Note: The data does not include debt reorganization and equities. The concessional level uses discount rates calculated on the basis of CIRR. The grant element for ODA loans uses a flat discount rate of 10 %. The table is published by the DAC Statistics on resource flows to developing countries and shows commitments of ODA loans according to country. Note that some countries do not give ODA loans and are therefore not listed in the table.

As already stated, export credits by definition do not fall under the category ODA loans. Assuming that some ODA loans are also commercially motivated, the data in Table 7 appear relevant in the context of this study. Two countries, France and Germany, are selected because of their large amount of ODA loans with a grant element of less than 50 %. They attract attention in respect of high average interest rates combined with a comparably low grant element. Looking at the terms of the bilateral loan with the lowest grant element it becomes clearer that donors issue loans with a grant element that barely meets the ODA criterion. Keeping in mind that the grant element is calculated using a fixed 10 % discount rate¹⁸⁰, there is reason for doubt that these loans meet any reasonable definition of “concessional in character”. In the German example, the concessionality level calculated on the basis of CIRR is even negative. Currently the DAC Secretariat is investigating with France and Germany whether all the loans included in their ODA figures are truly concessional in character¹⁸¹. The example above highlights that certain flows are eligible as ODA but do not translate into a real fiscal effort of donor governments. It demonstrates that ODA figures are the result of what is reported as ODA by donors. When looking at the figures and tables on ODA loans, the motivation to promote development on concessional terms is not visible.

¹⁸⁰ The Participants, on the other hand, uses a more accurate discount rate based on the respective CIRR.

¹⁸¹ OECD/DAC, aid statistics: <http://www.oecd.org/dac/stats/concessional-note.htm>



8. Critical Assessment of the Institutional Framework for Tied Aid

This chapter brings the jigsaw pieces together and assesses tied aid credits as well as the disciplines governing them (essentially the Helsinki tied aid disciplines) against the conceptual framework that has been elaborated by the DAC on *good* development policy. As will be shown tied aid credit disciplines and policies are in overt contradiction with some of the pillars of the international development architecture, in particular the principles of *ownership*, *alignment* and (*global*) *partnership*.

8.1. Assessment of the Arrangement Terms

The Arrangement regulates terms and conditions for official support for export credits and tied aid. “*Goods and services exported to the most developed OECD countries on credit periods less than two years (consumer goods, raw materials, and certain lighter capital goods) can [...] be covered by the private sector [...], while government-supported insurance is usually only allowed for longer periods or for covering other countries where the private insurance market generally is less competitive*” (Grath 2012: 118). This timeframe is also reflected in the Arrangement terms. The Arrangement limits official support to projects where market failure occurs. The framework applies to export credits with a maturity of more than two years. Therefore the intervention in the market and the provision of credits by governments or its executing entities is justified.

Regarding the duration of the credit the Participants follow the principle by which the “[...] *repayment terms do not exceed the useful life of the good*” (TAD/PG(2013)1: Article 10). Applying this principle to an investment appears reasonable because revenues generated by the investment should be used for repayment of the credits. The life of the good represents the maximum duration of the credit. Some goods such as social infrastructure, may take decades to generate economic return to investment. Therefore, those goods and services should be financed by grants rather than loans. Long repayment periods, on the other hand, can create a problem of ownership and accountability because of changing political leadership.

The Arrangement regulates that official support for local costs is limited to 30 % of the contract value and by that limits the amount that can be spend in the recipient country. Local procurement supports the private sector in the recipient country. Since tied aid credits are also used as an instrument of development finance, in order to be developmentally sound local procurement should be maximized. Sheppard et al.

(2009: 566) state that in case of tied aid the recipient “[...] *country must rely more in the secondary long-term impact of foreign aid on development, and less on the immediate impact of the money lent*”. Imports from donor countries may represent essential inputs for an investment. If substitutes are not domestically available recipient countries are dependent on imports anyways. In conclusion, it is questionable whether this limit is appropriate. The limit can be interpreted as a mechanism which favors donor countries’ exporters.

The minimum interest rate applied to official financing support for loans is the Commercial Interest Reference Rate (CIRR), which should represent market interest rates. Whether interest rates for tied aid credits are appropriate has to be studied empirically. Additionally, according to Arrangement terms, appropriate credit risk premiums shall be charged. In practice, credit risk premiums for some high-risk developing countries may not fully cover credit risk (Interview X). In cases, in which there is no functioning credit market e.g. LDCs, the calculation of premiums is problematic.

8.1.1. Assessment of Eligibility Criteria

The Arrangement sets rules for limiting eligibility of tied aid to certain countries. It is reasonable to assume that richer countries have enough resources and sufficient access to financial markets to finance projects. As already stated, the country eligibility criterion can be interpreted as a targeted subsidy strategy. Only lower middle and low income countries are eligible for tied aid. This is a very rough form of targeting and does not take into account regional differences within countries. The country-eligibility criterion is a weak targeting strategy because it can be interpreted as a strategy to exclude richer countries rather than defining an intended target group of beneficiaries. The Participants do not define who the intended beneficiaries of tied aid credits are. A reasonable explanation is that the original purpose of the Arrangement was not to provide financing for developing countries, but to limit market distortions following an export credit race among industrialized countries.

The Participants have agreed on a targeting strategy for tied aid credits based on project characteristics. Only financially and commercially non-viable projects are eligible for tied aid. The so called two key tests assess whether projects (1) have the capacity to generate sufficient cash flow to cover the project’s operating costs and additionally service the capital employed (financially viability) and (2) are able to access financing for the project at market or Arrangement terms (commercial viability).

The first key test on financial viability is grounded in economic reasoning. As described earlier, certain goods, either public goods, or goods with public-good characteristics “[...] *lack capacity with appropriate pricing determined on market principles*” (TAD/PG(2013)1: 21). Consequently these goods are not produced in a socially desired quantity, if left to the market. In this case market intervention is justified. The second key test on commercial viability assesses whether a project can be financed

on market or Arrangement terms. Financial non-viability most likely leads to commercial non-viability. But even if a project is financially viable it can lack access to financing on market terms. Consequently, market intervention is justified. Concessional financing by donors should only be provided for those projects that would otherwise not be funded.

The two criteria financial and commercial non-viability can be interpreted as a needs-oriented targeting strategy justified on economic grounds. According to the Arrangement terms, the key tests *inter alia* do not apply for tied aid with a concessionality level of 80 % or more, except for associated financing packages. Highly-concessional loans and grants are therefore not subject to the eligibility criteria. If however it is true that the key tests are an instrument to identify market distortions and consequently enhance transparency, it is hard to see why highly-concessional tied aid should not in principle be subject to the two key tests.

The country and project criteria are specific but not easily measurable. Consultation procedures are intended to discuss eligibility of projects. The Participants have responded to this problem by providing ex ante guidance to potential exporters and financial institutions on whether a project is likely to be eligible for tied aid, or not.

8.1.2. Assessment of Minimum Concessionality Levels

The Arrangement defines a minimum concessionality level for tied aid of 35 and 50 %, if the recipient country is a Least Developed Country (LDC). The required higher minimum concessionality level for LDCs is based on the assumption that projects in poor countries lack commercial viability to a greater extent and have a higher need of affordable external resources. Consequently the higher required concessionality level appears reasonable in principle. The concessionality thresholds define a lower bound of the subsidy element, irrespective of the specific financing need of individual projects. It is, certainly, economically reasonable that the concessionality level should vary according to the project, sector, and country. Nonetheless, the two thresholds are to some extent arbitrary and may lead to inefficient allocation of financial resources in the case that a project would need a concessionality level below the respective threshold. On the other hand, the Arrangement terms set no explicit rules for maximum concessionality levels. Implicitly, official support is limited to 85 % of the contract value because the Arrangement terms require a down payment of at least 15 %. Empirical research is needed to show if national programs apply additional criteria and if concessionality levels vary according to sector, country, or project. The case study analysis provided in Part III of this study will *inter alia* shed light on this aspect.

8.2. Assessment of Tied Aid Credit Policies against the ‘Principles of the OECD’s Development Agenda

*“Do you believe in silver bullets, you know the silver bullet that kills two guys at one go?
This does not work”*

(Interview V)

With tied aid credit policies and programs OECD member states claim to “kill two birds with one stone”: Export promotion benefiting domestic enterprises and promotion of economic development and welfare in the recipient country. They are, thus, located at the “strategic nexus between external trade and international development” (Petermann 2013; back cover). Resulting from the hybrid nature of the instrument, corresponding policies draw on two fields of reference – export promotion and development policy – and claim to bridge these. In the following, the emphasis will be put on assessing the consistency and compliance of tied aid credits as stipulated by the Arrangement with the reference field of development policy, more precisely the DAC’s guidelines and principles of development policy.

As a result of this officially stated motivation to contribute to economic development and welfare (and complying with the 25 % grant element threshold set by the DAC), the concessional part of a tied aid credit becomes ODA eligible. Consequently, if it is reported to the DAC, it contributes to a donor’s overall ODA performance¹⁸². While tied aid credits may be a “hybrid”, they officially endeavor to contribute to development, are included in ODA statistics and might use resources from the aid budget. Therefore, their effectiveness and appropriateness to finance development with donor public resources should be assessed against the same set of criteria applied to any other flow of Official Development Assistance. This attempt to assess the compliance of tied aid credit policies with the DAC’s ideas on *good* development assistance can also be interpreted as an analysis of the OECD’s internal coherence, i.e. coherence type (i)¹⁸³ of the Policy Coherence for Development concept transplanted from the national to the international/regional level. It is not the consistency of various elements of development assistance policy of *one single donor* that is of interest here, but the *consistency of aid policies of an international organization – the OECD*.

In short, this chapter brings together the jigsaw pieces and assesses tied aid credits as well as the disciplines governing them (essentially the Helsinki Tied Aid Disciplines) against the conceptual framework that has been derived from the DAC’s debates; thereby grasping the extent to which the OECD lives up to its own promise of coher-

¹⁸² Especially in the context of the approaching 2015 target the political dimension of ODA reporting becomes evident.

¹⁸³ Piccotto identifies four dimensions of Policy Coherence for Development. Type (i) coherence is defined as “the consistency between goals and objectives, modalities and protocols of a policy or program carried out by an OECD government in support of development (e.g. aid)” (Piccotto 2004: 8).

ence. Where appropriate the subsequent analysis takes into account both the process of negotiating the rules as well as the resulting set of rules, which decisively determines the basic design of the instrument.

In Part II of this study, three highly intertwined and largely DAC-driven debates on what constitutes *effective* development policy and practice have been identified. At the core of the DAC's agenda lie the Paris Principles of ownership, harmonization, alignment, mutual accountability and managing for results. Furthermore, the idea of *Policy Coherence for Development* (PCD), as well as the long-lasting call for the untying of aid flows were presented as core debates characterizing the DAC's work in the past twenty years. The categories analyzed below are derived from these debates on development policy and will be assessed through the lens of *Policy Coherence for Development*, particularly the internal coherence of the Organization's aid policies. For that purpose the Participants Group is treated as part of the OECD despite its *de jure* autonomous character. Considering that the group is served by the Secretariat and that the participating states are for the most part OECD and DAC members, this subsumption seems justified.

8.2.1. The OECD – Living up to Policy Coherence (for Development)?

"We resolve to continue our efforts to ensure that development concerns are taken into account across relevant policies inter alia through improved impact analyses and better policy co-ordination both at country level and within the OECD, taking into account in particular the impact on the international development objectives of our environmental, agricultural, fisheries, economic and financial policies, as well as our policies in the areas of trade, migration, security, energy, science and technology."

(OECD 2008b, Declaration on Policy Coherence for Development, original emphasis)

Departing from the OECD's, and particularly the DAC's, vehement call for Policy Coherence for Development, it shall be asked to which extent the Organization lives up to its own principle of coherence. Due to their hybrid nature and the myriad of institutional actors involved, tied aid credits appear to be perfectly suited for studying the OECD's policy coherence as well as the internal coherence of policies subsumed under the concept of Official Development Assistance.

In its basic meaning, the idea of policy coherence means that development policy shall cross-cut through all relevant policy fields to ensure that development co-operation efforts are not (or no longer) offset, but actively supported by donors' policies in other fields. In the more sophisticated concept of Policy Coherence for Development, this aspect, however, constitutes only one of at least four dimensions of PCD:

"(i) Internal coherence: the consistency between goals and objectives, modalities and protocols of a policy or program carried out by an OECD government in support of development (e.g. aid).

- (ii) *intra-country coherence: the consistency among aid and non-aid policies of an OECD government in terms of their contribution to development.*
- (iii) *inter-donor coherence: the consistency of aid and non-aid policies across OECD countries in terms their contribution to development.*
- (iv) *donor-recipient coherence: the consistency of policies adopted by rich and poor countries to achieve shared development objectives” (Picciotto 2004: 8)*

Even if the institutional set-up¹⁸⁴ at first glance might suggest otherwise, applying a “do no harm” approach as stipulated in the above introductory quote and traditionally applied to assess the coherence of a policy area with development policy, i.e. departing from the existence of two separate policy areas, is too narrow considering the postulated goal of contributing with tied aid credits to development processes in the recipient country. As tied aid credit policies are here considered to be part of both development aid policies and trade (export promotion) policies, dimension (i) of the concept of Policy Coherence for Development will be at the centre of this chapter. By assessing the compatibility of the regulatory framework for tied aid credits with the DAC’s principles of ownership, harmonization and alignment as well as with the key concept of (global) partnership, however, also other dimensions of PCD are indirectly addressed, i.e. inter-donor coherence, and donor-recipient coherence.

In a first step, it shall briefly be recalled how the Arrangement, *the* reference document giving tied aid credits their basic design, deals with the DAC’s principles for development co-operation. This is expected to give a hint as to whether the policy framework is conducive to the creation of coherent policies or gives reasons to presume that incoherencies are likely to occur. The Participants left topics explicitly referring to development (co-operation) to be dealt with by the DAC. While this can be interpreted as an acknowledgement of the DAC’s expertise on development issues, it is partially also a way of shifting responsibilities for the developmental impact of tied aid financing on the DAC and its national counterparts. This argument builds on the assumption that development would probably be promoted more actively, if aspects of development policy had become an integral part of the Arrangement and not only references to the DAC principles had been made. In view of potential frictions resulting from this “fragmentation”, studying the compatibility of tied aid credits with the DAC’s development principles appears to be crucial for any assessment of the adequateness of the instrument as a tool of development policy.

Essentially, this means assessing whether the Organization’s own policies (or policy recommendations) in the field of export promotion actively take into consideration repercussions on development (co-operation). Even more so, not only the coherence

¹⁸⁴ Often tied aid credits are administered by the export promotion institutions, i.e. the export credit agency, not the governmental bodies charged with development co-operation. At first glance, this would suggest an analysis of policy coherence between different policy fields.

of trade/export policies with development policies, but the internal coherence of the OECD's development policy itself is to be examined – after all, tied aid credits claim to be an instrument of both aid and trade policy.

Living up to the premise of Policy Coherence for Development would mean to more actively take into account the repercussions of the Arrangement rules on development prospects of recipients, thereby not merely trying to “do no harm” (as such a rather passive approach), but to pro-actively make a positive contribution. The ODA-eligibility of the concessional element of those credits provides the main justification for the call for alignment with development co-operation principles in the whole project cycle of tied aid financed projects.

8.2.2. In Line With the Paris Principles on Aid Effectiveness?

In an assessment of the Helsinki tied aid disciplines conducted in 1998/99, the DAC Secretariat found the disciplines to be broadly compatible with the goals and objectives of the DAC's Strategy for the 21st Century (OECD/DAC 1996; DCD/DAC/FA (99)6: 7) – the key document paving the way to the Paris Declaration. Even more positively, it is concluded in the summary report that the disciplines promote the DAC's strategic objectives (DCD/DAC/FA(99)8: 8).

In its undertaking to assess the 1992 tied aid disciplines, the DAC Secretariat circulated a questionnaire among its members asking them to present their opinion on the effectiveness of the existing rules and procedures. Unfortunately, only the DAC Secretariat's interpretation of the returned questionnaires is at our disposal, whereas the individual country replies could not be retrieved from OLIS. Despite the fact that the findings are presented on aggregated levels and do not give very detailed information on country positions, they are worth looking at and help identify major strengths and weaknesses of the regulatory framework from a development perspective (for the subject matters to be addressed in the questionnaire please see DCD/DAC/FA(98)4/Annex I).

In the questionnaire Members were asked to present their views on whether the 92 Disciplines were compatible “[...] with the strategic goals and modalities for development co-operation – i.e. as they stand, are the Disciplines a useful discipline to contribute positively to the implementation of the [21st Century] Strategy¹⁸⁵, e.g. in terms of promoting ownership, partnership, capacity development, local impact of ODA disbursements, etc.?” (DCD/DAC/FA(98)4: 5).

Answers concerning the compatibility of the disciplines with the Development Partnerships Strategy (OECD/DAC 1996), varied considerably among Members. While

¹⁸⁵ In 1996 the DAC published the key document “Shaping the 21st century: the contribution of development co-operation”, in which the foundations for the DAC's development strategy were laid (OECD/DAC 1996). Therein, the idea of partnership appears as fundamental to any further efforts of the OECD in the field of development co-operation.

some saw the disciplines as not fitting in well with the concept of partnership, others stressed that “[...] by encouraging the use of more untied aid, the Disciplines promoted the strategic goals and modalities of the Partnerships Strategy”. When asked to describe changes in the uses of tied aid credits arising from the Disciplines, most emphasized that “[...] any changes in their uses of tied aid were predominantly partner-country-driven”. More precise information on these changes is, however, not given in the summary report by the Secretariat. Also with regard to the question whether there exists a “[...] systemic and coherent approach to implementing the Disciplines given the different perspectives of the Participants (trade distortion) and the DAC (aid quality)”, a mixed picture is drawn (DCD/DAC/FA(99)8: 8).

Building on these findings, this section will further explore the consistency of the OECD’s rules for export promotion practices in the form of tied aid credits with the Organization’s development co-operation principles, thereby taking into account more recent debates, most notably the call for greater effectiveness of invested aid funds. Given the centrality of the Paris Principles in the DAC’s work, the question arises whether the tied aid disciplines actively promote compliance with these principles, strengthen these or are potentially even counteracting the DAC’s intentions. The subsequent analysis will focus on the principles of harmonization, ownership and alignment. The two remaining pillars of the Paris Declaration – mutual accountability and managing for results – are of very technical nature and are best examined on the national level.

8.2.2.1. Harmonization

“Donors’ actions are more harmonised, transparent and collectively effective”

(Paris Declaration, OECD 2005-2008: 6)

At a relatively early stage, harmonization of donor practices became one of the core tasks of the DAC. Eventually, the idea that harmonized policies could considerably contribute to the improvement of donor-recipient relations and concomitantly increase aid effectiveness led to the adoption of the “Rome Declaration on Harmonization” in 2003 and was reiterated at several occasions, most notably at the Paris High Level Forum in 2005, where DAC Members upgraded the principle of harmonization to one of the 5 pillars for effective development co-operation.

Unequivocally, the adoption of the Helsinki disciplines on tied aid has contributed to the harmonization of tied aid credit practices among the participating states. By agreeing on a set of rules covering tied aid credits, the Participants succeeded in leveling the playing field and contained a disguised export credit race. Up to today the minimum conditions laid down in the Helsinki Package and further elaborated in the Ex ante Guidance provide a common basic framework for “soft loan” policies of participating states, most notably by requiring a minimum concessionality level of 35 % and the application of two key tests, by limiting the pool of recipients and harmonizing

notification procedures. Nevertheless, the fact that the concessionality level may lie between 35 and 80 % of the loan amount provides a considerable range for diverging national practices, which has an impact on the presumed development orientation and aid quality of a tied aid financed project.

Also with regard to implementation procedures the loose character of the Arrangement – as such the product of negotiations between sovereign states on a sensitive issue – leaves considerable room for maneuver to national actors. This “flexibility” of the rules potentially results in diverging national policies and implementation practices. It is interesting to see that the Arrangement and the Ex ante Guidance respectively do not spell out any preference for which kind of national agency should be in charge of soft loan programs. Hence, the responsible agency might be an export credit agency, an aid agency or a bank commissioned by the state, for instance. This means that the implementing agency might or might not have a “development mandate” to fulfill. It is thus conceivable that the governmental institution in charge of development cooperation does not have any decision-making power with regard to the selection, implementation and/or evaluation of tied aid financed projects. This raises the question if – in an institutional setting in which tied aid credits are dealt with by the export credit agency – the aid agency has the means to ensure the developmentally effective allocation of aid funds. In this respect, development considerations in soft loan practices might have been of a higher priority, had they become an integral part of the Helsinki Package. Whether this ambiguity with regard to the institutional responsibilities hampers the appropriate consideration of development aspects will crucially depend on the institutional set-up in place in the individual donor country. However, it appears likely that the lack of integration confronts “practitioners” with implementation difficulties.

Considering that the development of recipient countries is an officially stated goal pursued with tied aid credits and results in the ODA-eligibility of the concessional element inherent to tied aid credits, states running tied aid credit programs should ensure that the responsible implementing agencies have the necessary development competences in order to attain the stated goal of promoting development.

By means of clearer Arrangement provisions in this field, not only practices could have been harmonized, but also the development orientation of tied aid programs could have been fostered, if not increased. It would be an important step towards a greater transparency of national practices if this insufficient harmonization were to be addressed. So far inconsistent wording, differences in reporting of tied aid credit flows to the DAC, diverging systems of and requirements for project selection, implementation and evaluation have somewhat obscured the transparency of tied aid credit practices.

8.2.2.2. Ownership

"[Y]ou know, he who provides the money should have the say in how it is used"

(Interview VI)

At the High Level Meeting in Paris in 2005, DAC members declared that partner countries should "[...] exercise effective leadership over their development policies, and strategies and co-ordinate development actions" (OECD 2005-2008: 3).

Any analysis of the space given to ownership within the regulatory framework (as well as in the design of specific projects) must set out with an examination of recipients' ownership in setting the rules in the first place.

The screening of Participants' documentation has shown that recipient countries did not participate in negotiations on the regulation of tied aid credits and that the Participants did not take their perspective into account. The fact that recipient countries were left outside the negotiation room raises questions with regard to the OECD's self-obliged commitment to ownership of and partnership with recipient (or rather partner) countries in setting development strategies. One might argue that *ownership* had not yet been as big an issue at the time the Helsinki Tied Aid Disciplines were negotiated. However, also today, with the principles of ownership and partnership ranging high on the OECD's agenda, active engagement¹⁸⁶ of recipient countries with regard to tied aid credits has not been sought. A possible way of integrating the recipients' perspectives and expectations towards the instrument would have been to hold consultation meetings with groups of recipients, such as the G77. Furthermore, the tied aid disciplines do not provide any specific mechanisms for ex post project evaluation in a systematic manner. Thus, recipients' possibilities of commenting on implemented tied aid projects appear to be rather limited. It is incumbent upon the donor's national institutions to conduct ex post evaluations and to provide sufficient space for exchanges with recipients. An inquiry of how to repair the "broken feedback loop"¹⁸⁷ which is characteristic for aid planning, would hence be particularly interesting in the case of tied aid credits.

¹⁸⁶ To put this lack of recipient involvement in the Participants' work into perspective, it needs to be noted that also in the work of the DAC/FA recipient or later labelled "partner" countries were not actively involved. The archive material at our disposal suggests that the only exemption constituted a workshop held on procurement practices in which a number of recipient countries were invited to participate (see e.g. DCD/DAC/FA(95)14; DCD/DAC/FA(96)1). With the exception of this "event", the recipients' perspective on the appropriate regulation of tied aid credits was of astonishingly little interest to the members of the Working Party. Although no direct voice was given to recipients, the DAC/FA at least attempted to design rules in the interest of recipients, e.g. the emphasis put on prevention of indebtedness.

¹⁸⁷ According to Owen Barder (2009: 10) this broken feedback loop, which is challenging aid administration, results from the political and geographical dispersion of donors and beneficiaries. The author argues that the feedback loop is not functioning in foreign aid, "because there is a lack of both information and political influence connecting decision makers to the intended beneficiaries" (Barder 2009: 11).

A second important component of ownership affects the implementation of policies on national levels. The importance thereof is illustrated by the following quote taken from a Note by the DAC Secretariat: *"The greater the recipient's "stake" in the project, the more will this contribute, in general, to its sustainability. "Stake" has many dimensions, e.g. ownership of the project and related processes, the degree to which its benefits depend on the recipient's involvement, the extent to which the project meets high priority recipient needs, financial commitment, etc. This is valid for all projects (whether tied or untied) but **may be more difficult to attain for tied aid projects. Donors thus have a stronger challenge to achieve a meaningful recipient stake in such projects, but at the same time it is all the more essential for sustainability**"* (DCD/DAC/FA(95)3/REV1: 7; emphasis added).

In how far ownership has been implemented by the parties to the Arrangement will be scrutinized by the country case studies in Part III of this study.

Finally, the consistency of the instrument "tied aid credits" itself with the call for recipient owned development co-operation shall briefly be addressed. At a fundamental level, the tied nature of the instrument appears to raise concerns with regard to the compatibility of tied aid credits with both ownership and alignment claims such as stipulated in the Paris Declaration. As has been addressed earlier, several studies find that tying practices might interfere with ownership of recipients with regard to their development processes. Tied aid in general is judged by the DAC to be incompatible with ownership principles and in contradiction with the call for demand-driven purchases as particularly stressed in the Accra Agenda for Action (OECD 2005-2008: 16: para. 14a). The extent to which the tied nature of the instruments constitutes an irresolvable contradiction to the principles of ownership and alignment will be addressed in greater detail in the subsequent section of this chapter¹⁸⁸.

8.2.2.3. Alignment

In the Paris Declaration donors commit themselves to *"[...] base their overall support on partner countries' national development strategies, institutions and procedures"* (OECD 2005-2008: 3). Part of this commitment to align donor interventions with the recipient country's poverty reduction strategies, as well as thematic and sectoral priorities (Harmer/Ray 2009: 8) is the target of *"making continuous progress"* in untying aid (OECD 2005-2008: 10).

On the level of formal statements evidence can be found that the Participants' rule set is taking this call for "alignment" into account. In the Participants' Ex ante Guidance for Tied Aid the DAC gives guidance in preparing Aid Quality Assessments (AQAs), which can be requested by any Participant on a notified project whose aid quality is

¹⁸⁸ This structure has been chosen because the Paris Declaration discusses the tying status of aid under the heading of alignment. It is, however, obvious that the untying of aid is closely intertwined with the call for ownership. In a way, if ownership is not acknowledged, alignment will not take place.

questioned. As part of such an Aid Quality Assessment, the potential donor should demonstrate the “[...] **consistency of the project with the recipient country's overall investment priorities**” (TD/PG(2005)20: 10). In this way, the recipient's ownership as well as the need for alignment with national development priorities and strategies are recognized.

*“This section of the AQuAs should also **state whether the project in question is in a sector for which there is a sectoral adjustment programme** agreed between the recipient and donors and, if so, the compatibility of the project with that reform programme. Where there is no such adjustment programme for the sector in question, the donor should give its views on the adequacy of the recipient's sector plan, how the project in question is related to or compatible with that plan, and the extent of donor co-ordination, to ensure a coherent approach to supporting projects in the sector in question”* (TD/PG(2005)20: 10; emphasis added).

The reasoning underlying the above guidance for conducting an assessment of aid quality reflects the spirit of the Paris Declaration and recalls the importance of aligning donor practices with recipients' development strategies and priority setting so as to ensure the ownership of the latter. In calling for donor coordination, also the principle of harmonization of donor practices and requirements is reflected¹⁸⁹. Despite the formal acknowledgement of the need to align donor practices to recipient strategies, there appear to be contradictions inherent to the instrument that undermine the principle of alignment. In an Aid Quality Guidance Note circulated in 1995 the Secretariat expresses this concern:

*“Particularly when projects are supported through tied aid credits, care must be taken not to bias priority setting. Recipients should not have to take undue account of the fact [that] the ODA availability may be conditional on its procurement being tied to the donor. **Donors must, therefore, discipline their use of tied aid project support by offering tied aid credits only for those projects with a clear and high recipient priority**”* (DCD/DAC/FA(95)3/REV 1: 8; emphasis added).

Assessed against the backdrop of alignment efforts, the most obvious incoherence of tied aid credit practices with the principles of development policy certainly stems from the tied nature of the instrument. Especially indicator 8 of the Paris Declaration reiterates the principles laid down in the *DAC Recommendation on Untying of Bilateral Development Assistance to Least Developed Countries* and formulates the goal of untying aid to this group of countries to the maximum extent (OECD/DAC 2001). Thereby, untying is seen as a means to a greater end, i.e. the development of local and regional markets, the local creation of value etc. At the High Level Forum in Accra 2008, for instance, donors reiterated their commitment to alignment by reaffirming that

¹⁸⁹ Although the Ex ante Guidance was last updated in November 2006, the Paris Principles are not directly referred to in the Ex ante Guidance, not even in the guidance for aid quality assessment, which was prepared by the DAC itself.

they “[...] will promote the use of local and regional procurement by ensuring that their procurement procedures are transparent and **allow local and regional firms to compete**” (OECD 2005-2008: 1; emphasis added). This way, aid’s “value for money”¹⁹⁰ is thought to increase (OECD 2005-2008: 18) and the local private sector and economy are expected to develop, thereby making the impact of a project more sustainable and durable.

In an attempt to solve this contradiction between the principle of alignment and tied aid financing or at least to limit the losses in effectiveness resulting thereof the DAC Secretariat issued the following guidance in 1995, which still seems of relevance today:

*“When aid is tied to procurement in the donor country (or partially untied to permit procurement from developing countries too), donors should take all necessary steps to **avoid or minimise the losses the recipient would otherwise gain from international competitive bidding regimes**. In particular, donors are encouraged to:*

- *Give procurement responsibility to recipient countries. This may require or be associated with institutional and capacity-building assistance. Donors should also ensure that recipient procurement regimes are compatible with DAC principles.*
- *Take all steps necessary to maximise competition between eligible suppliers to ensure value for money, including statements or guarantees of value for money from suppliers.*
- *Promote, in carrying out procurement, linkages between development projects and the local economy”* (DCD/DAC/FA(95)2/REV 1: 10; emphasis added).

Still, one of the fundamental defining features of tied aid credits – their tied nature – clearly appears to be in contradiction with the principle of alignment. Thus, the question arises if they can be designed in a developmentally sound way (as in a way suggested in the above extract from the Secretariat’s Note) or whether the analysis provided in this study must result in a call for the “abolition” of tied aid credits as instruments of development finance altogether. In the context of tensions between the tied nature of *soft loans* and the importance given to local procurement in fostering sustainable development, one specific Arrangement provision requires further examination: the permissible share of local costs. In 2007 the Participants raised the maximum threshold for local costs from 15 to 30 % (OECD 2008a), allowing for more local creation of value. This was the Participants’ reaction to an increasingly globalized economy paired with the necessity of procuring certain local goods and services

¹⁹⁰ This is assumed to be the case because, inter alia, the price for the procured goods and services is lower due to the competitive market environment, in which the procurement takes place. As mentioned earlier numerous DAC documents refer to the concept of “value for money” (VFM), which is described as “a way of thinking about using resources well” by “striking the best balance between [...] economy, efficiency, effectiveness” (Jackson/OECD/DCD 2012).

when setting up a project. If one assumes that the higher the share of local costs, the more goods and services can be locally procured, and the greater the presumed impact on development will be, this change might be judged positively from a development perspective.

8.2.2.4 Aid Quality Matters: Assessing the “Demonstrated” Development Quality of Tied Aid Credit Projects

The realization that the quality of aid must and can be improved is inextricably linked with the call of the “aid community” for a greater effectiveness of aid. Throughout this study concerns about the “quality” of tied aid credit projects as they are shaped by the Helsinki Tied Aid Disciplines have been addressed. Albeit in-depth examination of the concrete project implementation on national levels appears to be indispensable, the DAC Secretariat has strived to provide preliminary conclusions on the demonstrated aid quality of tied aid credit projects to the extent possible on the OECD level.

This section is based on the findings of the study “Assessment of the Tied Aid Disciplines”¹⁹¹ issued by the DAC Secretariat and conducted by an independent consultant, as well as on the analysis of a questionnaire circulated among the DAC/FA Members in 1998. The essential question the study tackles is whether there is reason for “[...] concern about the development quality of projects financed by tied aid credits”. In case the aid quality of tied aid financed projects was found to be poor, the report should draw inferences from the available information base and inquire policy-options for improvement of the disciplines. The emphasis of “demonstrated” aid quality gives hints to the methodology underpinning the study. For his assessment the author of the study drew on the information provided in the feasibility studies and/or aid quality assessments (AQuAs)¹⁹² submitted by the Participants to the Consultation Group in support of the contention that the project in question was compatible with the Helsinki tied aid disciplines, i.e. essentially the commercial non-viability requirement (DCD/DAC/FA(98)13: 4).

This means that only projects that were challenged and brought to the Consultations Group for discussion were considered for the assessment, leaving aside a considerable number of projects, the commercial viability of which went unchallenged irrespective of their aid quality. Hence, another weakness inherent to the sources results from the Participants’ focus on the commercial-viability of a project rather than on its aid

¹⁹¹ This appears to be the only OECD internal evaluation of the aid quality of tied aid credits, most other studies are preoccupied with quantitative trends.

¹⁹² The Arrangement provides special consultation processes for tied aid credits. If a Participant suspects that a tied aid offer has been made based on trade, rather than aid motivations, it may request a full Aid Quality Assessment (TAD/PG(2013)1: 28), which is to be undertaken following the criteria laid down in the Checklist of Developmental Quality of Aid-Financed Projects (TAD/PG(2013)1: 134) and explained in greater detail in the Ex ante Guidance (TD/PG(2005)20: 10-12). Donors are expected to demonstrate a project’s compatibility with criteria on project selection, preparation and appraisal as well as on procurement procedures.

quality. Consequently, development-related information was often found to be rather poor, which put limits to the quality of the study. In this respect it needs to be borne in mind that in feasibility studies Participants usually demonstrate the tied aid eligibility of a project with the help of cash-flow analyses. Cost-benefit analyses including economic and not only financial viability and usually applied by the development community to assess development co-operation projects, are not conducted. As a consequence of this priority setting the author found information on the economic benefits of a project to be at best scant, if not entirely unavailable. This information would, however, be crucial, since it could provide the “[...] *only available quantitative monetary measure of aid quality*”. In addition, more qualitative aspects of aid quality, such as “[...] *technical suitability, environmental assessment or impacts with respect to social, gender or distributional considerations*” were rather poor (DCD/DAC/FA (98)13: 5). This lack of reliable information on the aid quality of tied aid projects itself gives further rise to the assumption that the developmental impact of the invested (at least partially aid) resources is not the driving force behind tied aid credit practices. On the basis of the information available, the author of the study found that “[...] *on average, tied aid credit projects were close to the top of the ‘adequate’ development quality range*” (DCD/DAC/FA(98)13: 7). Especially projects in the transport and communication sectors “[...] *were found to lie near the top of an ‘adequate’ development quality range*” (DCD/DAC/FA(99)8: 3).

Although overall compliance with the disciplines seemed satisfactory, the author found that compliance with the disciplines on large projects was fairly low (DCD/DAC/FA(98)13: 9). To our knowledge, however, measures to improve the disciplines on large projects¹⁹³ or the compliance therewith were not taken as follow-up of the report.

The limited information pool¹⁹⁴ as well as the fact that the consultant drew on the assumed/demonstrated aid quality rather than on an ex post evaluation of actual aid quality and/or developmental impact, make his findings methodology-driven (see also DCD/DAC/FA(99)8: 6). While the results presented might give some indications of the aid quality of a tied aid credit project, the findings have to be interpreted cautiously and require further examination of de facto aid quality.

¹⁹³ After a change in disciplines covering large projects, the Participants no longer required mandatory consultations for projects above SDR 50 million (see for instance DCD/DAC/FA(98)4: 7).

¹⁹⁴ Resulting from a reduction in the number of challenged projects due to the establishment of the Ex ante Guidance for Tied Aid, the information basis for the assessment further diminished from 1996 onwards (DCD/DAC/FA(98)13: 8).

8.2.3. In the Spirit of Partnership? Global Partnership and the Role of Recipient aka Partner Countries

Emphasized already in the DAC's Strategy for the 21st Century, gradually widened and put at the center stage at the High Level Meeting in Busan 2011, the key words "partnership" and "global partnership" entered the rhetorical repertoires of the international development community in the past decade. Concomitantly, and expressing the shifting rhetoric, the term "partner (country)" has largely replaced the word "recipient" and partially also "developing" country in the DAC's official language. The wording used in the Paris Declaration is the perfect illustration thereof (see OECD 2005-2008).

The early idea of North-South Partnership, which has been dominating the DAC's development agenda since the publication of the key document "Shaping the 21st Century", is clearly linked to the recognition of the "recipient's" ownership claim. In this respect, the fact that recipient countries did not have a say in making tied aid credit rules suggests that the OECD did not only neglect its promise of ownership, but also did not strive to live up to its principle of partnership in its interaction with developing countries.

Most recently, the Busan Declaration expanded the idea of partnership on the North-South axes by two more dimensions, namely South-South cooperation and the inclusion of the "new" actors in the aid architecture, as well as partnership between public and private actors, explicitly emphasizing the key role of the private sector in promoting development (OECD/DAC 2011a, Busan Declaration). With regard to the call for intensified partnership between DAC and newly emerging donors, no major contradictions with the tied aid disciplines can be found. On the contrary, both the Participants and the DAC share a mutual interest in leveling the playing field by including new donors (of tied aid credits), such as China, that do not adhere to the same rule set and therefore, threaten to undermine OECD procedures. In contrast, taking the Busan call for partnership with the private sector and the greater role attributed to actors in the private sector seriously, means questioning the appropriateness of tied aid credits. After all, the tying of aid to imports from the donor country rather hampers than stimulates the development of the local/national private sector. Furthermore, the role of an "engine for development", which is attributed to the private sector, must go hand in hand with new responsibilities of private sector actors and raises the question of how to strengthen the development dimension in the private sector in both donor and recipient country. The key question to address in this context is which development policy commitments should and could be imposed on donor domestic companies participating in tied aid credit programs.

8.2.4. Untying: Is the OECD Coherent in its Quest for an Untying Regime?

"[T]he extent of tying can be interpreted as evidence of incoherence within the aid policy"

(Morrissey 1999: 379)

Although already addressed above in the context of alignment, the incompatibility of tied aid credits with the OECD's quest for untying of aid deserves further examination.

In a Note distributed in 1997, the Secretariat examined strategies for the promotion of untied aid. Therein, the compatibility of untying with other DAC and OECD policy objectives is stressed and the "goal of leveling the playing field among exporters" is identified as a mutually reinforcing objective (DCD/DAC/FA(97)8: 3). This implicit reference to the Participants' work shows that in principle the Participants and the DAC share a preference for untied aid over tied aid. Albeit for different, partially overlapping reasons, both groups perceive(d) the untying of aid (or at least the restriction of tied aid to certain projects and countries) as a means to achieve their respective end: "Fair" export competition based on liberal market forces and recipient-led development policies ensuring aid's "best value for money". While the untying debate was initiated by the DAC, the Participants objective of limiting export promotion in the guise of tied aid boosted the DAC's efforts to increase both ownership of recipient countries and aid' "value for money". After all, this mutual interest has to be seen in the context of the OECD's overall liberalization agenda as derived from the Organization's Convention (OECD Convention; quoted in Jepma 1991: 2).

Although the 1992 Helsinki disciplines have not been introduced with the principle aim of reducing the use of tied aid per se, the DAC Secretariat finds some prima facie indication that "[...] the Disciplines may have had some impact on the recorded decline in both the volume and share of tied aid in total bilateral aid. Further support for this is found from the trend in 'procurement-related tied aid' – on which the Disciplines have focused. **The declining trend for procurement-related tied aid was much more sharply downward after 1992 than that for tied aid in general, as would be expected**" (DCD/DAC/FA(98)4: 11; emphasis added).

Similar results – carefully formulated – are recalled in the summary report of the questionnaire conducted in 1998/98 among DAC Members. Although there was disagreement among DAC/FA Members on whether the Disciplines were an initiating or a reinforcing factor (of older trends), the contribution of the Disciplines to the reduction of flows of aid funds into tied aid projects was highlighted (DCD/DAC/FA(99)8: 7).

8.2.4.1. Provisions for Least Developed Countries

A potential inconsistency between the DAC and the Participants Group can be detected in the treatment of the group of Least Developed Countries under Arrangement provisions and the DAC Recommendation on Untying. With the adoption of the Helsinki Package, Participants agreed that tied aid credits to Least Developed Countries (LDCs) must have a concessionality level of at least 50 %, but do not have to pass the two key tests assessing the commercial-viability of a project. This way, a donor's administrative burden is reduced and tied aid credit flows to LDCs are encouraged in order to maximize total flows to those countries. In contrast, the DAC specifically targets flows to LDCs and its members have agreed to untie their aid to this group of countries to the maximum extent.

Hence, the question can be formulated whether contradictions are inherent to the policies towards and the treatment of LDCs by the respective bodies. While one forum – the development co-operation body – emphasizes that untying is especially important in cases where the recipient country is an LDC (because here the impacts of tying might be particularly detrimental), another forum – the export credit body – does deliberately exclude flows to this same group from certain requirements and obligations because the poorest countries do not range among the main beneficiaries and/or the interesting markets. According to one interviewee this might lead to “forum shopping” – essentially a situation in which inconsistent rules can be played off against each other (Interview V):

*“There is concern – certainly on my behalf – that **some might want to do a bit of forum shopping, you know play one forum against the other.** You know we say, you can't do it, but a different body in the OECD says, you can”.*

This inconsistency might have limited consequences as long as LDCs are not attractive for donor domestic enterprises. However, in a situation in which African markets with high growth potential come to the attention of business communities, this incoherence might provide a basis of legitimation for continued tying practices such as “allowed” by the Helsinki rules and excluded from the commercial non-viability criteria.

With regard to the group of Least Developed Countries, another potential inconsistency between Arrangement rules and DAC principles should be mentioned. Although the Arrangement requires tied aid credits to LDCs to meet a minimum concessionality level of 50 % (in contrast to 35 % for the remaining tied aid eligible countries), they essentially remain loans, thus requiring repayment. Already in 1978 (and reiterated at several occasions especially in the wake of the devastating debt crisis of the 1980ies), however, DAC Members agreed in principle that ODA to the group of Least Developed Countries should be provided in the form of grants (see OECD/DAC 1978: 2).

8.3. Concluding Remarks: Of Conflicting Policy Goals and Magic Bullets

Departing from the assumption that tied aid credits are – at least as long as donors claim their ODA-eligibility – part of the development policy field, this chapter has assessed the compliance of tied aid credit disciplines with some of the core principles of the DAC's development policy. In all the categories analyzed, contradictions were found. In order not to threaten the internal coherence of the OECD's development policy and to not lose credibility, ways of increasing policy coherence should be explored.

For example, although the Arrangement has contributed to some harmonization of donor tied aid credit practices, further steps in this direction are necessary. The most obvious sign of diverging tied aid credit practices is the incoherent wording used by national authorities and different (quasi) OECD bodies to describe the financial products and packages. Regarding the OECD's usual "fetish" for setting standards and harmonizing policies, this incoherence in using terms such as tied aid credit, soft loan or mixed credit is striking. Increasing transparency must start with harmonizing terminology across groups and countries. A way of increasing the transparency of the variety of products offered by national ECAs (or other institutions involved in tied aid financing) would be to establish a matrix, clearly defining the products that are offered across countries. In a subsequent step this would contribute to a better mapping of remaining tied aid credit practices in OECD donor countries, would increase comparability and make it easier to draw lessons learnt and identify "second best" practices (considering untied as best).

The most apparent and seemingly irresolvable incoherence lies in the tied nature of the instrument. It is also this characteristic that leads to the (partial) incompatibility of tied aid credits with the Paris Principles of alignment and ownership. If tied aid credits are interpreted as aid policy, the specific objective of which is to induce development and eradicate poverty, then tied aid is to be seen as incoherent with this overall aid policy. In Picciotto's (2004: 8) terms this means that the internal coherence, i.e. "[...] *the consistency between goals and objectives, modalities and protocols of a policy or program carried out by an OECD government in support of development (e.g. aid)*" is not given. The source of such incoherence can be seen in the fact that aid policy is influenced by a myriad of interest groups. Studying the role of the different actors in policy-making processes on the national level would be crucial to identifying if and potentially why "[...] *development interest and objectives are weak relative to donor self-interests*" (Morrissey 1998: 248).

While the rules adopted by the DAC and the Participants Group – despite minor inconsistencies – tend to be mutually reinforcing in their quest for a system of liberalized aid procurement, political realities have resulted in the "failure" to eradicate tied

aid credit practices, which by their very definition contradict the OECD's "liberal philosophy" and provide a breeding ground for potential policy incoherence.

Such discrepancies between proposals of the OECD Secretariat and respective outcomes in form of declarations, guidelines and recommendations, remind us that any assessment of OECD guidelines (the Participants' disciplines included) must take into account the "constraints" under which the Organization and its bodies operate and adopt "rules". The most apparent "constraint" is the institutional framework under which the negotiations of Helsinki tied aid disciplines and DAC guidelines on untying were held. These were negotiations between sovereign states on what was considered a core national issue. Understanding that the OECD is a forum, which does not provide for any sanctioning mechanisms or hold any implementation powers, helps to see that the rules cannot be better than the minimal consensus that all negotiating parties could agree upon – or as the former Chairman of the Participants said: "*Final results cannot be better than the lowest common denominator* (Chairman Report Wallén; quoted in Ray 1995: 81, 82). In the case of the Arrangement, the negotiators were neither ready to entirely abolish this relic of mercantilist use of aid nor to incorporate more far-reaching provisions on aid quality. The statement below by one interviewee is exemplary for this relation between the Secretariat (and its Directorates) and OECD member states: "***We are all here to serve our clients. I mean I can't do things against my member countries' interest. [...] Of course not, that is the political reality of it all***" (Interview V).

By concluding this assessment, it needs to be borne in mind that due to the considerable room for maneuver left by the Arrangement to its national implementers, only preliminary conclusions can be drawn at this stage. These are likely to be indicative of the development orientation of this hybrid instrument, but analysis of national policies and programs will be required to substantiate and potentially differentiate the findings derived from the international institutional and regulatory framework covering tied aid credits.

...

PART III

Soft Loan Policies of Four European Donor Countries



9. Introduction

In the previous part of this study the evolution and institutional structure of tied aid at the international level has been portrayed. To approach the complex interface of export and development interests, that part of the study adopted a historical perspective. Thus it was possible to see the historically grown interlinkages between the two fields of reference, which have shaped the design of tied soft loans. An analysis of the debates in the Participants Group between 1978 and 2005 has shown that tied aid credits originated out of the interest to promote and increase export capacities of OECD member states. The Participants' attempt to eliminate the latter, led to their rising interest in tied soft loans. Their efforts to curb tied aid practices ultimately resulted in the Helsinki tied aid disciplines of the Arrangement on Officially Supported Export Credits¹⁹⁵. At the heart of these disciplines lie the key tests for commercial viability which are focused on the commercial aspects, not the developmental aspects of tied aid financing. Although the Development Assistance Committee (DAC) also tackled tied aid credits as part of its untying quest, aid considerations clearly played a subordinate role in assessing the eligibility of a project for tied aid financing.

Yet the assessment provided in Part II demonstrated that the international regulatory framework leaves considerable room for maneuver to the national implementing agencies, in particular with regard to the development orientation of the institutional setting as well as of potential projects. Furthermore, over time the field of soft loan financing has changed and new instruments have been designed, which are not covered by the international framework, mainly because they are formally not tied to the procurement of goods and services from the donor country. Particularly since the adoption of the tied aid disciplines under the Helsinki Package of the Arrangement in 1991/1992, soft loan programs and their successors have evolved into different directions. In the light of these observations, a profound analysis of national implementation strategies of Arrangement terms as well as of analogous programs becomes indispensable.

Thus, in order to substantiate and potentially differentiate the findings derived from the international institutional and regulatory framework, in Part III of this study attention is shifted to the national scale and the implementation of and deviations from the international guidelines will be examined. For that purpose, soft loan policies of four European donor countries (Austria, Denmark, Germany and the Netherlands) will be analyzed and the development orientation of the respective programs will be assessed. The countries in the sample were selected because of their importance as European soft

¹⁹⁵ The Arrangement on Officially Supported Export Credits is hereafter simply referred to as the Arrangement.

loan donors, their common status as open, export-oriented economies, and/or their strong commitment to development assistance. Notably, the sample of case studies encompasses both de jure tied and formally untied forms of financing and includes a variety of institutional arrangements with regard to soft loan and concessional financing.

In the analysis of the respective case studies, attention will be given above all to the extent to which development policy actors are involved and development aspects are considered at both institutional and policy levels as well as in the implementation of programs, i.e. to the level of project selection and approval. More precisely the ways of articulating development policy aspects in the institutional set-up, decision-making processes, project monitoring and evaluation procedures as well as transparency and accountability provisions of the four national soft loan programs will be explored.



10. Austria

10.1. Country Facts and Figures

10.1.1. Economy and Foreign Trade

Austria is a highly developed industrialized country with a small, open and highly export-oriented market economy and an important service sector. The most important industries are food products and luxury commodities, mechanical engineering and steel construction, chemicals and vehicle manufacturing. Austria had a positive foreign trade balance in 2011, with an increase in exports by 7.9 % as compared to 2010. *“Austria mainly exports machines and vehicles, processed goods (leather and leather products, iron and steel) as well as chemicals”*¹⁹⁶. Apart from the most important trading partners within the EU, most notably Germany, Italy, and France, in recent years the country has increasingly exported to Eastern European markets. Important third country trading partners include the USA, China, the Russian Federation and Switzerland¹⁹⁷ (Statistik Austria 2013).

10.1.2. Austria’s Donor Profile

10.1.2.1. ODA Performance

According to Development Assistance Committee (DAC) statistical data on development cooperation, in 2012 Austria’s net Official Development Assistance (ODA) amounted to USD 1112.4 million. Compared to 2011, the preliminary 2012 ODA level increased slightly by 9 %. The Austrian ODA to GNI ratio remained stable as compared to 2011 and amounted to 0.28 % in 2012, despite Austria’s commitment to reach the EU target of 0.7 % ODA/GNI.

The bilateral share of Austria’s ODA rose by four percentage points in 2012 and is currently at 48 %. The development cooperation report (OECD/DAC 2012c: 196) highlights that in 2010 only 17 % of gross bilateral ODA was country programmable, which is far below the DAC members’ average of 57 %. Country Programmable Aid (CPA) is defined as “the portion of aid donors program for individual countries, and over which partner countries could have a significant say”¹⁹⁸. Austria focuses its CPA primarily on its priority countries. In 2011 52 % of Austria’s bilateral aid was untied, representing a decline compared to the level of 68 % in 2010 (OECD/DAC 2012c:

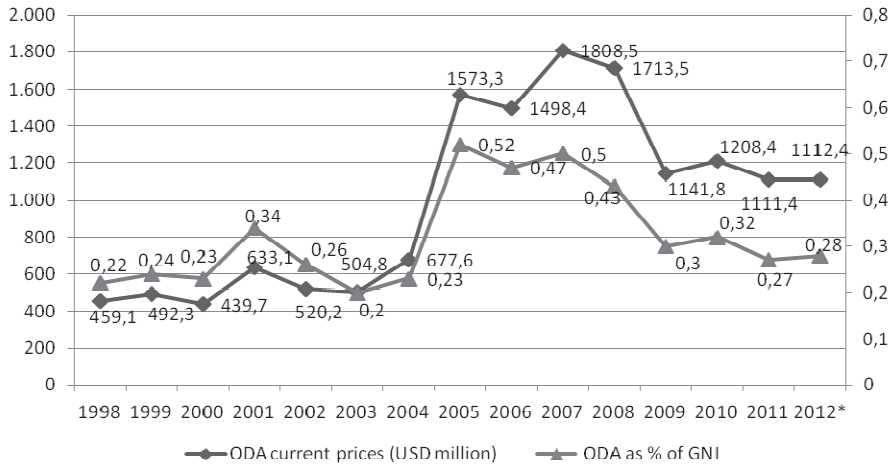
¹⁹⁶ BMeiA: <http://www.bmeia.gv.at/en/foreign-ministry/austria/facts-and-figures/economy.html>

¹⁹⁷ Ibid.

¹⁹⁸ OECD/DAC: <http://www.oecd.org/development/aid-architecture/cpa.htm>

197, OECD.stats). The DAC has urged Austria to accelerate efforts to untie its aid (OECD/DAC 2012: 197).

Figure 10.1: Quantitative Evolution of Austrian ODA (1998-2012)



Source: OECD.stats (2013), [DAC 1] (6.11.2013)

Note: * Data for 2012 is preliminary.

10.1.2.2. Institutional Setting of Austria’s Development Cooperation

Austrian development cooperation is part of Austrian foreign policy and its strategic programming is the responsibility of the Ministry for Foreign Affairs (BMeiA). Austrian development policy positions are outlined and published in a Three-Year Program (Dreijahresprogramm). The legal framework for the Austrian development cooperation is the Federal Development Cooperation Act (EZA-G), which was adopted in 2002 and amended in 2003. The EZA-G includes a list of objectives and principles, which present relevant criteria for all measures undertaken by the federal government, representing the imperative for policy coherence for development. § 22 EZA-G states that all flows which are reported as ODA are to be designed according to the objectives and principles of development policy as well as guidelines set out in the Three-Year Program.

The operational unit of the Austrian development cooperation is the Austrian Development Agency (ADA) established in 2004 as a limited liability company, assigned with the implementation of all bilateral programs and projects in priority countries of

the Austrian development cooperation and administration of the respective earmarked budget¹⁹⁹.

Table 8: List of Key Regions and Priority Countries of Austrian Development Cooperation

Region	Countries
The Caribbean and Central America	Nicaragua
West Africa	Burkina Faso, Ethiopia°, Uganda°
Southern Africa	Mozambique*
Himalayas-Hindukush	Bhutan
Danube Region/Western Balkans	Albania, Bosnia and Herzegovina, Kosovo*, Serbia
Black Sea Region/South Caucasus	Moldova*, Armenia*, Georgia*
Palestinian Territories	

Source: ADA homepage²⁰⁰

Note: Countries or regions marked with a * are eligible for soft loan financing. Countries or regions marked with a ° are currently only eligible for project preparation program.

With regard to financing ODA, the Austrian government does not provide for an explicit ODA budget. ODA “[...] flows comprise all official Austrian development disbursements which are accredited by the [DAC]”²⁰¹. ADA’s budget constitutes a small part of total ODA flows and is used to finance bilateral programs and projects. In addition to flows from the Ministry of Foreign Affairs, other ministries, such as the Ministry of Finance (BMF), as well as provinces and communities contribute to Austrian ODA²⁰².

10.2. Profile of the Program

The Austrian soft loan program is considered a hybrid instrument between export promotion and development cooperation (Interview A4). Soft loans are further considered an instrument of development finance because any subsidies, such as interest rate support or guarantee charge reductions, are ODA eligible.

Soft loans are provided for a limited circle of countries and sectors, which is primarily defined by OECD criteria and additional Austrian criteria. In 2011, the Austrian soft loan program offered financing for mostly upper and lower middle income countries, as classified by the World Bank (2013a). Soft loan-financed projects are as prede-

¹⁹⁹ ADA: <http://www.entwicklung.at/en/>

²⁰⁰ Ibid.

²⁰¹ ADA: <http://www.entwicklung.at/en/austrian-development-cooperation/actors/>

²⁰² Ibid.

financed by the OECD criteria for tied aid and have to be financially and commercially non-viable. Selected projects are generally located in developmentally relevant sectors, such as health, water, etc. In order to assess whether projects are developmentally oriented, the program design includes a questionnaire for exporters. In the Austrian context soft loans are also referred to as Framework II export credits.

10.2.1. Objectives of the Soft Loan Program

According to the Austrian soft loan policy, the program aims at (1) assisting Austrian exporters competing in international markets and (2) fostering sustainable development in recipient countries²⁰³. The soft loan program is established, organized and promoted through the Austrian export promotion organization. The objective of sustainable development presents the base for ODA eligibility of grants to a loan (Interview A4).

10.2.2. Legal Basis of the Soft Loan Program

The legal basis of the soft loan program is the Export Promotion Act (Ausfuhrförderungsgesetz – AusFG) and the Export Finance Promotion Act (Ausfuhrfinanzierungsförderungsgesetz – AFFG). The AusFG regulates issuing of guarantees for transactions and provides the framework for financing arrangements. The AFFG authorizes “[...] the Ministry of Finance, on behalf of the Federal government, to issue export guarantees for the benefit of creditors and for the raising of capital by OeKB” (OeKB 2010: 2).

The soft loan program is a program of the Ministry of Finance. The Ministry is responsible for the design, strategy and content of the soft loan program including the selection of target countries. Other ministries can issue comments and recommendations via the inter-ministerial coordination procedure (Interview A4). An example is the chapter on developmental relevance and sustainability in the soft loan questionnaire, which was designed by the Ministry of Foreign Affairs.

In order to frame bilateral financial relations and facilitate soft loan financing for projects the Austrian Ministry of Finance has signed bilateral agreements with some recipient countries' governments. In principle, soft loan financing works with and without a bilateral agreement (Interview A4). In the latter case, such as Mozambique, contracts are negotiated case by case (Interview A2). Bilateral agreements are signed to demonstrate political support for bilateral financial relations, in the first place (Interview A5). Apart from intensifying bilateral economic and political contacts and cooperation, bilateral agreements generally contribute to facilitating projects and accelerate project approval in the recipient country (Interview A5). The ministry or public entity in charge of the project always requires a guarantee for the credit from the Ministry of

²⁰³ OeKB: <http://www.oekb.at/en/export-services/financing/soft-loans/pages/default.aspx>

Finance or central bank in order to cover the risk from loan default vis-à-vis the Republic of Austria. In some countries contracts even need to be approved by the parliament. It is easier to get approval from the respective entities involved if there is an agreement the ministry in charge can refer to. In addition, an acceleration of procedures in the recipient country generally benefits the exporter (Interview A4).

Bilateral agreements are negotiated by the Austrian Ministry of Finance with the Ministry of Finance of the recipient country (Interview A5, A4). The OeKB homepage currently lists bilateral agreements with the following countries: Egypt, Cap Verde, Kosovo, Mongolia, Tunisia and Vietnam²⁰⁴. Recipient countries sometimes ask for concessional programs and initiate bilateral agreements (Interview A1, A4). Bilateral agreements are beneficial for those recipient countries that aim at a certain volume of soft loans (Interview A4). Agreements include an indicative financial framework generally set for a period of two years ranging from EUR 20 million for Kosovo to EUR 150 million for Vietnam. Some bilateral agreements stress in a separate article that project procurement is to be made in conformity with the recipient country's laws and regulations (e.g. bilateral agreement with Mongolia). On the other side, the agreement with Kosovo, which ran out at the beginning of 2013, states that bidding limited to Austrian companies and direct contracting may also be used. Only some agreements state that the soft loan program finances projects with a development purpose.

As already stated, bilateral agreements are not obligatory for soft loan financing. Possible reasons against negotiating an agreement are that Austrian actors do not want to raise expectations in the recipient country, or want to explore new markets as a first step (Interview A4). The Ministry of Finance always decides on a case by case basis to which country it offers a bilateral agreement (Interview A1).

10.2.3. Financing of the Soft Loan Program

Soft loans are financed by two sources. The OeKB re-finances soft loans issued by the exporter's principal bank through pool financing on the financial market, based on revenues of AFFG-guaranteed credit operations. Additionally the Ministry of Finance provides interest rates subsidies and finances reductions of guarantee charges. Currently, no additional grants are provided to subsidize soft loans. Subsidies by the Ministry of Finance are financed by the general budget of the state. These flows are subsequently reported as ODA.

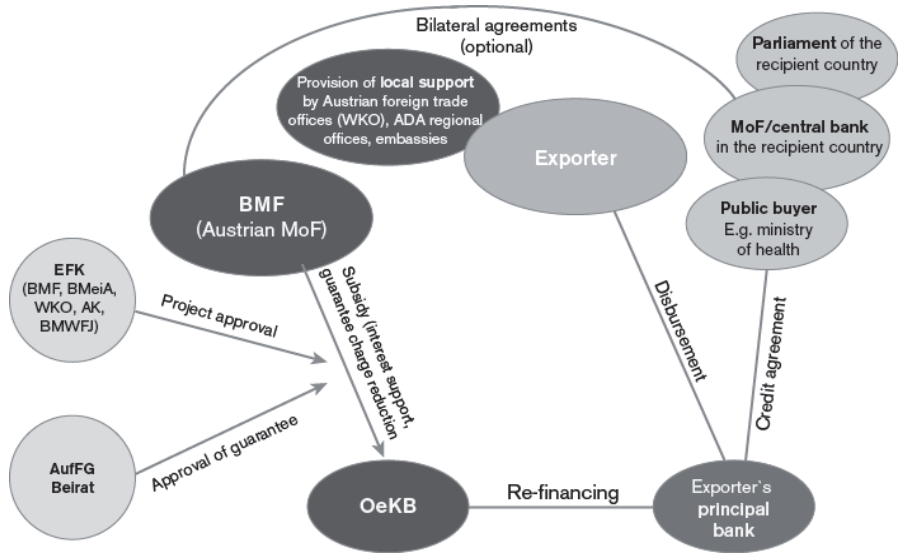
10.2.4. Institutional Environment

Austrian institutions in charge of the soft loan program are the Ministry of Finance (BMF), Oesterreichische Kontrollbank AG (OeKB), Austrian Chamber of Commerce (WKO), Ministry of Foreign Affairs (BMeiA), Austrian Chamber of Labor (AK), and

²⁰⁴ OeKB: <http://www.oekb.at/en/export-services/Financing/soft-loans/requirements/Pages/eligible-countries.aspx>

Ministry of Economic Affairs (BMWFJ). They are members of the two committees competent for approval for soft loan financing: the export financing committee (EFK) and export guarantee committee (AusfFG Beirat). Furthermore, exporting businesses and recipient governments' entities, e.g. respective ministries or local governments, are key stakeholders of the soft loan program. Soft loans have generally not received much attention from Austrian Non-Governmental Organizations (NGOs) or the Austrian Parliament.

Figure 10.2: Model of the Institutional Environment of the Austrian Soft Loan Program



Source: Own Elaboration, based on Interviews

The soft loan program is in the political responsibility of the Ministry of Finance. The implementing agency of the soft loan program is the OeKB. OeKB's tasks include communication with applicants, assessment of applications and monitoring. Further OeKB administers obligatory export guarantees for soft loan-financed projects (OeKB 2011: 8). The OeKB is owned by Austrian commercial banks and provides services in the field of export promotion since 1950. The bank issues and administers guarantees on behalf of the Republic of Austria represented by the Ministry of Finance and refinances export credits²⁰⁵ (OeKB 2012: 10). It raises funds from the money and capital markets to finance export transactions such as soft loans (OeKB 2010: 2). Additionally subsidies for interest rate support or guarantee charge reductions are provided by

²⁰⁵ OeKB: <http://www.oekb.at/en/about-oekb/pages/default.aspx>

the Ministry of Finance. In order to ensure that the political mandate of the Ministry of Finance is being fulfilled, the Ministry of Finance cooperates closely with the OeKB by exchanging information about soft loan projects and financing (Interview A5). The exporter's principal bank is responsible for the administrative management of credit agreements.

Officially the Minister of Finance has to approve soft loan financing for projects (OeKB 2011: 7). Practically two committees are involved in the selection of projects and approval of soft loan financing. The EFK exclusively deals with soft loans, the AusfFG Beirat reviews applications for the obligatory guarantee for soft loans as well as transactions financed on commercial terms.

Founded through a decision by the ministerial council, the EFK is the official body for selecting projects for soft loan financing (Interview A 4). EFK members are the Ministry of Finance (chair), Ministry of Foreign Affairs, Austrian Chamber of Commerce, the Austrian Chamber of Labor, and the Ministry of Economic Affairs. OeKB and the Austrian National Bank are non-voting members of the committee. The committee deciding on project eligibility for soft loan-financing is composed of representatives of selective organized political interests. EFK members are not selected on grounds of professional expertise. They are internally nominated by the respective bodies. EFK members are obliged to respect official secrecy.

Additionally any soft loan application requires approval from the AusfFG Beirat, a committee which is comprised of all members of the EFK as well as representatives of various other ministries and social partners (Federal Chancellery, Ministry of Agricultural and Environmental Affairs, Chamber of Agriculture, Federation of Trade Unions, National Bank). According to § 5(2) AusfG the AusfG Beirat was established to review applications for export guarantees for commercial and non-commercial transactions in the light of the overall economic situation as well as ecology and employment respectively. Just as the EFK members, members of the AusfFG Beirat are internally nominated by the respective bodies.

The Ministry of Foreign Affairs which is responsible for Austrian development cooperation is involved in the soft loan program through its membership in the EFK and AusfFG Beirat. Further the BMeiA created the chapter on sustainability and developmental relevance which is part of the soft loan questionnaire for exporters. The Austrian Development Agency, Austria's executive agency for development cooperation, is not mandated to be involved in the program. From the perspective of the Ministry of Foreign Affairs soft loans are not an instrument of the Austrian development cooperation but operate at the interface with Austrian development cooperation (BMeiA 2010: 26). This becomes evident when looking at the current official three-year-program of the Austrian development cooperation (BMeiA n. s.) issued by the Ministry of Foreign Affairs. The program does not mention soft loans. In an older program, one finds that the Ministry of Foreign Affairs does not explicitly refer to soft loans as an instrument of

development cooperation but describes the Ministry of Finance as ODA provider and partner of the Austrian development cooperation (BMeiA 2010: 36 et seq.).

As already stated, the ADA as executive branch of the Austrian development cooperation is not formally involved in the soft loan program. This also counts for ADA's regional offices (Koordinationsbüros), ADA's operational branch in recipient countries. ADA's regional offices are not mandated to be involved in the soft loan process. ADA's regional offices have a development cooperation mandate, but also consider export promotion (Interview A4). However, they act upon request from various parties, e.g. Austrian Ministry of Finance, Ministry of Foreign Affairs, respective ministries and authorities of the recipient country, other donors, or companies. They are providers of local information, e.g. on national politics of the recipient country. Embassies are also involved by providing local services for exporting companies. Apparently, embassies prioritize their export promotion mandate over their development cooperation mandate (Interview A4).

The Austrian Chamber of Commerce plays a double role in the soft loan program. On the one side, the chamber is a member of the EFK and AusfFG Beirat, and on the other side, it is involved through its foreign trade organization activities (Außenwirtschaftsorganisation). Their regional offices, Austrian foreign trade offices (Außenhandelsstellen) provide information services, usually for exporters (Interview A3).

Austrian Non-Governmental Organizations (NGOs) are not systematically involved in the soft loan program, project selection, or individual projects. NGOs such as KOO (Koordinierungsstelle der Österreichischen Bischofskonferenz für internationale Entwicklung und Mission) or ECA-Watch generally focus their attention on commercial export credits, e.g. infrastructure projects, such as large dam projects. They are generally considered more controversial than soft loan-financed projects.

The same holds true for the Austrian parliament, which has focused its recent interest on environmental or socially sensible projects. The Austrian parliament periodically receives reports from the AusfFG Beirat about Austria's overall export guarantee commitments. Reports are not specific and do not explicitly address soft loans (Interview A7). The publicly available report of the AusfFG Beirat of 2012 does not mention the soft loan program (BMF 2013). Within the Parliament the general committee (Hauptausschuss) is responsible for the soft loan program and the financial committee (Finanzausschuss) for export promotion (Interview A7).

Generally customers of soft loan-financed projects in recipient countries are ministries, state or local authorities, or other public agencies (OeKB 2011: 8). In addition to the public customer, the Ministry of Finance or the central bank decide on approving a specific project in the last place because it has to issue an obligatory government guarantee for loan default. In some recipient countries the parliament additionally has to approve a soft loan-financed project because repayment requires budgetary resources. The actual loan agreements are negotiated directly between commercial

banks as lenders and the recipient country, represented by the Ministry of Finance. OeKB provides refinancing for those credits (see BMeiA 2011: Article 4).

10.2.5. Complementary Programs

The soft loan program is complemented by a technical assistance program. In 2007 the OeKB established a project preparation program (Projektvorbereitungsprogramm Soft Loan) for identification and preparation of projects in soft loan eligible countries and sectors (BMWA 2008: 105). The program is also available for Sub-Saharan African countries, for which soft loans are currently not provided. The Ministry of Finance finances up to 80 % of the contract value and requires a minimum 20 % down payment of the total expected price of the service by the recipient. Studies financed by the program are published on the OeKB homepage²⁰⁶. So far only 11 studies have been published by November 2013. In practice there is a slow uptake of the program because of the 20 % down-payment requirement (Interview A4).

The Austrian Development Bank (OeEB), which is an affiliated company of the OeKB provides long-term loans at near-market conditions for developing countries and emerging markets. OeEB finances commercially viable projects. Its services can be considered complementary to the soft loan program (Interview A4). Further, financing instruments of the OeEB are primarily tailored to private-sector investments.

Third, the ADA supports development projects in the private and public sector in priority countries and key regions. The agency exclusively issues grants (Interview A4). Its programs and grants are currently not linked to the soft loan program.

Currently, none of the Austrian agencies, i.e. OeKB, OeEB, and ADA, does provide untied loans on concessional terms.

10.2.6. Guidelines for the Austrian Soft Loan Program

10.2.6.1. Soft Loan Eligibility Criteria

Criteria for soft loan financing guide the selection of recipient countries and projects. Both sets of criteria are shaped by the Arrangement on Officially Supported Export Credits, as well as additional Austrian criteria defined by the Ministry of Finance.

10.2.6.1.1. Soft Loan Eligibility of the Recipient Country

Soft loan eligibility of recipient countries is determined by the OECD Consensus, the Austrian export guarantee policy for middle- and long-term financing, as well as the Austrian soft loan policy of the Ministry of Finance²⁰⁷. According to OECD rules countries eligible for tied aid must not exceed the current limit of USD 4.085 per capita

²⁰⁶ OeKB: <http://www.oekb.at/en/osn/pages/downloadcenter.aspx>

²⁰⁷ OeKB: <http://www.oekb.at/en/export-services/financing/soft-loans/requirements/pages/eligibility-country.aspx>

GNI²⁰⁸. Therefore the selection of eligible countries changes dynamically over time. As GNI increases, countries graduate from tied aid eligibility. Furthermore, the Austrian guarantee policy influences the set of eligible countries. Countries with low stability, highly-indebted countries, or countries that already have too many loans carry a high risk and therefore do not receive a guarantee (Interview A4). Besides, guarantees for those countries would be prohibitively costly (Interview A4). The Ministry of Finance further specifies the set of eligible countries. The Ministry publishes a list of target countries characterized by economic growth and potential market opportunities for Austrian businesses (Interview A4). Soft loan target countries are selected by the Ministry of Finance after closely consulting Austrian business associations (Interview A4). On a case by case basis also other countries receive soft loans (Interview A4). In principle soft loans can be provided for any country receiving an export guarantee from the Republic of Austria, if approved by the AusfFG Beirat.

Table 9: Soft Loan Target Countries

Region	Recipient Country (country risk classification)
Western Balkans	Kosovo (cat 7)
Black Sea Region	Armenia (cat 6) Georgia (cat 6) Moldova (cat 7)
Asia	India (cat 3) Mongolia (cat 5) Vietnam (cat 5)
Central and South America	El Salvador (cat 4) Guatemala (cat 5) Honduras (cat 6)
Sub-Saharan Region*	Cameroon (IMF, cat 6) Kenya (IMF, cat 6)
Middle East / North Africa	Egypt (cat 6) Morocco (cat 3)
Other Countries in Africa	Cape Verde (cat 6)

Source: OeKB homepage²⁰⁹ (27.1.2014)

Note: The OECD country risk classification (cat 3 to cat 7) and the IMF calculation method determine the soft loan terms and conditions of soft loans for recipient countries.

Table 9 lists the target countries for soft loan financing selected by the Ministry of Finance. The OeKB mentions that in the case of negative economic and/or political developments, “[...] *country and transaction limits may be applied for selected coun-*

²⁰⁸ OeKB: <http://www.oekb.at/en/export-services/financing/soft-loans/requirements/pages/eligibility-country.aspx>

²⁰⁹ Ibid.

*tries eligible for soft loans*²¹⁰. Additionally a special window was established for “fast-track” projects with short implementation periods as a response to the Tsunami catastrophe for the countries Indonesia, Philippines, and Sri Lanka²¹¹ (Interview A4).

The soft loan program is currently not available for Least Developed Countries (LDCs), in particular Angola, Ethiopia, Lesotho, Mozambique, Zambia, Senegal, Tanzania and Uganda. Basically, the reason for this is that under prevailing capital market conditions with very low interest rates soft loan financing currently requires an increased budgetary effort in order to meet the minimum concessionality level for LDCs (50 %). Nevertheless, the project preparation program is available for those countries. This can be interpreted as a commitment towards continuing the soft loan program in the future (Interview A4). The Ministry of Finance currently provides pre-mixed credits which are budget-friendly loans achieved by a combination of low interest rates, long repayment and grace periods. It is expected that the Ministry of Finance will be able to provide soft loans to LDCs once interest rate levels increase again.

10.2.6.1.2. Soft Loan Eligibility of Products and Projects

Similarly to country eligibility, project eligibility for soft loan financing is determined by OECD criteria on financial and commercial non-viability, as well as additional Austrian criteria. According to the Austrian soft loan policy, project eligibility is determined by the criteria (i) market entry, (ii) the project’s relevance in terms of economic policy for Austria (including technological spillover effects), and (iii) the contribution of the project to sustainable development in the recipient country²¹². For the purpose of assessing eligibility, applicants must fill out a questionnaire addressing these criteria.

Ad (i): Soft loan-financed projects are intended to function as “a ‘door-opener’ [original emphasis] into a new market with the expectation that in the foreseeable future soft loan projects will be followed by transactions financed on commercial terms”²¹³. Soft loans are intended to be granted for a unique occasion. There is no official limit on the number of projects per sector or country but a regional or sectoral concentration of projects is not intended (Interview A5, A4). The objective of market entry is further weighted against what recipient countries need and demand (Interview A5).

Ad (ii): The Austrian soft loan policy provides that soft loans are granted for projects involving products or services which impact on other sectors of the Austrian economy, e.g. through technological spillovers²¹⁴. This criteria is complemented by the application of a foreign content rule which should ensure that the Austrian economy benefits. The foreign content rule operationalizes the criterion “tying financing to the procure-

²¹⁰ OeKB: <http://www.oekb.at/en/export-services/financing/soft-loans/requirements/pages/eligible-countries.aspx>

²¹¹ Ibid.

²¹² Ibid.

²¹³ Ibid.

²¹⁴ Ibid.

ment” to Austrian goods and services. The foreign content rule provides for a limit for local costs and third country procurement to 50 % of the contract value²¹⁵.

Ad (iii): Furthermore, the sustainability is stressed as a key objective of the soft loan program. Projects “*should foster economic growth and consequently contribute to the sustainable development in the recipient country*”²¹⁶. The soft loan program in its present form focuses on the sustainability of projects (e.g. degree of utilization) and on this basis assumes their contribution to sustainable development.

As already stated, the derived criteria are presented in the soft loan questionnaire. Additionally all Austrian export credits, including soft loans, have to pass the “export control” of the Ministry of Economic Affairs, which checks whether products are dual use goods and whether the exported good or recipient country face sanctions. Under normal conditions, soft loan projects are not affected by these issues (Interview A1).

10.2.6.1.3. Eligible Sectors

The Austrian soft loan program focuses on sectors in which projects are expected to be financially and commercially non-viable as defined by the Participants to the OECD Arrangement (Ex ante Guidance for Tied Aid). Consequently, projects in the sectors water, primary and secondary education, health, railway and urban transport, disaster and civil protection do not face problems of being accepted by the Participants to the Arrangement at the OECD level and are therefore financed by the Austrian program (Interview A4).

Soft Loans usually apply to goods or the combination of goods and services, but generally exclude the sole provision of services. In principle also services are eligible for soft loan financing, but in practice few services meet the criteria for soft loan financing. Credit periods should not extend longer than the life-cycle of the product or services and soft loans are characterized by long repayment periods. Loans for services usually have shorter credit periods (Interview A5).

Additionally representatives of the soft loan program argue that the justification for ODA reporting of subsidies to a loan is based on the project sectors. Soft loans are only provided for projects in sectors which are considered developmentally relevant (Interview A5). Therefore it is not a question whether soft loan-financed projects are developmentally relevant, but to what extent they are, e.g. with regard to generating employment or contribute to environmental protection (Interview A5). Development specialists, on the other hand, argue that no developmental rationale for sector selection exists (Interview A4).

²¹⁵ OeKB: <http://www.oekb.at/en/export-services/financing/soft-loans/pages/default.aspx>

²¹⁶ OeKB: <http://www.oekb.at/en/export-services/financing/soft-loans/requirements/pages/eligibility-product.aspx>

10.2.6.2. Terms and Conditions for Soft Loan Eligible Countries

Soft loans are provided in the form of pre-mixed credits characterized by low interest rates, a long grace period, and long repayment terms. Additionally, the Ministry of Finance partially takes over guarantee charges. In the past the Ministry of Finance offered mixed credits, which are comprised of a soft loan and an additional grant element. Currently only pre-mixed credits are offered. This form of financing is considered budget-friendly because subsidies included are spread throughout the duration of the loan, and little public money is required. All soft loans are issued in EUR²¹⁷.

The terms and conditions for soft loan eligible countries, as presented on the OeKB homepage, vary by the OECD and IMF country risk categories. The concessionality level of soft loans varies, according to the OECD country risk category. It is just above the 35 % margin or in the case of LDCs 50 % margin. The concessionality level does reflect sector or project characteristics. Also grace periods, interest rates and credit periods do not vary. The published terms and conditions are exactly those, which apply for individual projects, if certain requirements apply (Interview A5). In the past some variation in the credit terms was applied. Currently the Ministry of Finance/OeKB offer loans with a zero interest rate and a 21-year credit period including a grace period of 5 years. The reduction of the guarantee charges offered by the Ministry of Finance varies between 0 % for OECD country risk category 3, 10 % for category 4, 30 % for category 5, 40 % for category 6, and 50 % for category 7 country (currently no category 7 countries is on the list of eligible target countries). Soft loan conditions are calculated on a yearly basis and depend essentially on the discount rate, as a determinant for calculating the concessionality level (Interview A5).

There are indicative volumes for single transactions depending on the country risk category. Additionally for some recipient countries maximum overall volumes are defined (Interview A5). Further bilateral agreements include an indicative financial framework for country volumes.

²¹⁷ OeKB: <http://www.oekb.at/en/export-services/financing/soft-loans/pages/default.aspx>

Table 10: Terms and Conditions for Soft Loan-Eligible Countries

Terms of the contract	21-year soft loan, 32 half-yearly installments, the first being due after a 5-year grace period
Interest rate	0 % p.a.
Concessionality level	≥ 35 %
Development-policy motivated reduction of the guarantee charge	10 % of the up-front guarantee charge (cat 4) 30 % of the up-front guarantee charge (cat 5) 40 % of the up-front guarantee charge (cat 6) 50 % of the up-front guarantee charge (cat 7)
Guarantee charge	0.700 % p.a. (cat 3)
Reduced guarantee charge	0.800 % p.a. (cat 4) 0.900 % p.a. (cat 5) 1.000 % p.a. (cat 6, cat 7, IMF cat 6)

Source: OeKB homepage²¹⁸ (22.10.2013)

10.3. Program Performance

The analysis of statistical data provided in the following presents the quantitative evolution of Austrian soft loans as well as their sectoral and geographical distribution. The chapter draws on aggregate data extracted from the OECD statistical database complemented by more precise information from the DAC's Creditor Report System (CRS). Any subsidy to a loan in soft loan financing, comprising interest subsidy and guarantee charge reductions can be reported as ODA. Soft loans are therefore reported to the DAC as two flows. The subsidy is reported as grant in associated financing (AF grants) and ODA eligible. The loan component is characterized as Other Official Flows (OOFs) and reported in the category official export credits to developing countries. Data on commitments of this category is not publicly available. The CRS database was filtered identifying projects with reference to "soft loans" or "framework II". Data was analyzed for the time period 2001 to 2011. Note, that DAC data does not correspond with the number of projects approved by the EFK. Underlying reasons are different reporting periods, but also that not all approved projects are finally signed and realized (Interview A4).

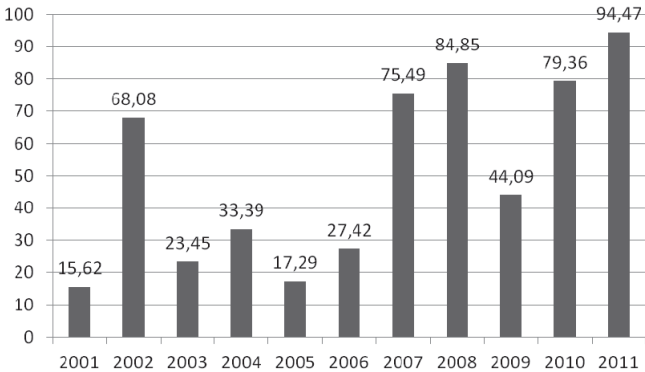
10.3.1. Development of Austrian Soft Loan Financing

Figure 10.3 depicts the volume of subsidies in soft loan financing (AF grants). The figure clearly shows that the yearly volume is fluctuating. Nevertheless an upward trend can be observed as from 2005 onwards. For the upcoming years high volumes are expected because an exceptionally high number of projects (67 project applications) with an overall project volume of EUR 455 million was approved by the EFK in

²¹⁸ OeKB: <http://www.oekb.at/en/export-services/Financing/soft-loans/requirements/Pages/overview-conditions.aspx>

2012 as a consequence of the closing opportunity to fund projects in graduating countries, above all China.

Figure 10.3: Volume (Commitments, million USD) of Austrian Soft Loans reported to the DAC as AF Grants (2001-2011)



Source: OECD.stats (2013), [DAC1] (6.11.2013)

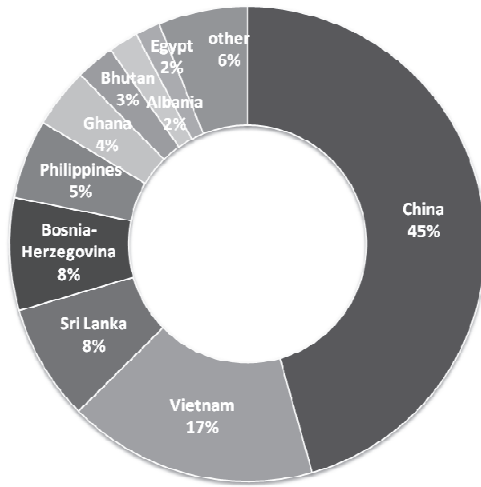
Note: Data for AF grants is available as from 2001

10.3.2. Recipient Countries

Figure 10.4 clearly illustrates that the soft loan program has focused on only a few recipient countries, above all China. An examination of the annual distribution of AF grants commitments among recipient countries reveals a rather heterogeneous picture of annual commitments. An upward trend is observable for China peaking in 2010. Clear trends for other recipient countries cannot be extracted given great fluctuations throughout the examined period 2001 to 2011.

During the program period the economic situation of some recipient countries has significantly improved and countries have graduated from the OECD status “eligible for tied aid”. Among those countries are also partner countries of the Austrian development cooperation in southern Europe. As a result of graduation, the Ministry of Finance has fundamentally changed the list of target countries for soft loans in 2010 and soft loan financing was opened up for countries in Asia, Latin America, Sub-Saharan Africa and the Black Sea Region, as well as the Kosovo for the first time (BMeiA 2010: 26). Some newly added countries are at the same time priority countries of Austrian development cooperation. The latter countries are Kosovo, Georgia, Armenia, Moldova, Ethiopia, Uganda und Mozambique (BMeiA 2010: 9). Nevertheless, the soft loan program is currently suspended for some of these countries.

Figure 10.4: Cumulative Volume of AF Grants by Recipient Country (2001-2011)



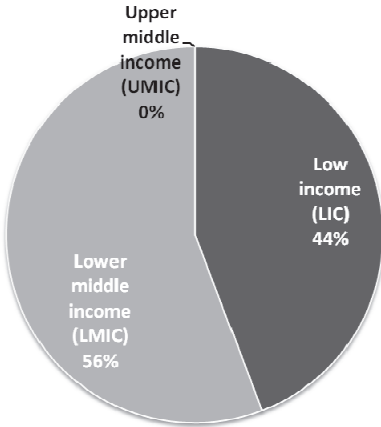
Source: OECD.stats (2013), ODA commitments to countries and regions [DAC3a] (6.11.2013)

Note: Percentage is calculated based on the cumulative volume (USD), 2001-2011. Countries grouped in the category "other" are Pakistan, Montenegro, Laos, Mali, Tunisia, Cape Verde, Indonesia, Honduras, and Morocco.

Looking at the distribution of recipients with a different lens, the following figures present the volume of AF grants by recipient country according to the World Bank classification. Accordingly, countries are clustered in the following groups: Upper Middle Income Countries (UMICs), Lower Middle Income countries (LMICs) and Low Income Countries (LICs). Figure 10.5, 10.6 and Figure 10.7 show the distribution of recipients according to the World Bank Classification for the calendar years 2001, 2006 and 2011 with the aim to track changes in the priority country setting.

When comparing Figure 10.5, 10.6 and Figure 10.7 above a shift from lower income countries to richer recipient countries can be observed. In 2001, 44 % of the volume of AF grants was directed to Low Income Countries, in 2011 Low Income Countries accounted for only 1 % of AF grants. Partly the shift is explained by the most important recipient, China, which became an Upper Middle Income country in 2010. Changes in the composition of country categories towards richer developing countries lead to the conclusion that the Austrian soft loan program has primarily targeted emerging countries, above all China.

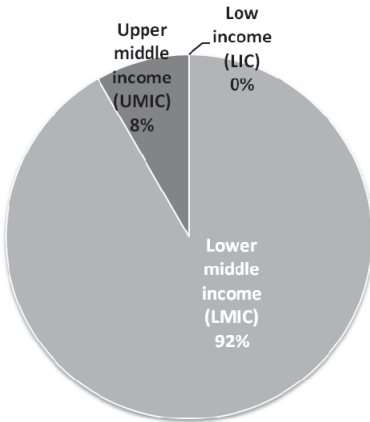
Figure 10.5: Annual Distribution among Country Groups According to World Bank Classification 2001



Source: OECD.stats 2013, AF grants (commitments) to countries and regions [DAC3a] (6.11.2013), World Bank 2013a

Note: World Bank country classification is based on the data for the respective calendar year. Percentages are calculated based on country volumes of AF grants.

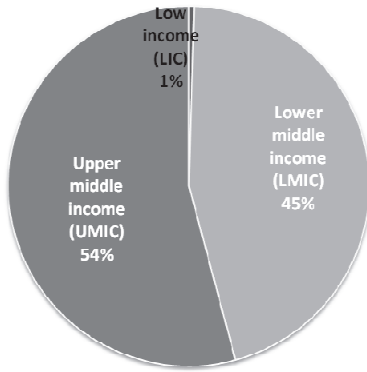
Figure 10.6: Annual Distribution among Country Groups According to World Bank Classification 2006



Source: OECD.stats 2013, AF grants (commitments) to countries and regions [DAC3a] (6.11.2013), World Bank 2013a

Note: World Bank country classification is based on the data for the respective calendar year. Percentages are calculated based on country volumes of AF grants.

Figure 10.7: Annual Distribution among Country Groups According to World Bank Classification 2011



Source: OECD.stats (2013), AF grants (commitments) to countries and regions [DAC3a] (6.11.2013), World Bank (2013a)

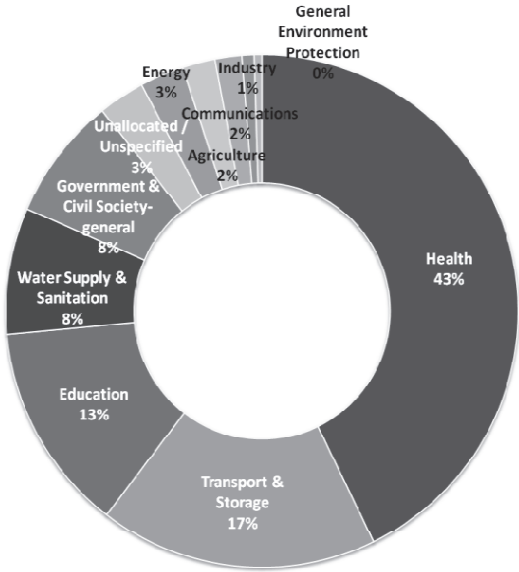
Note: Country classification is based on the data for the respective calendar year. Percentages are calculated based on country volumes.

10.3.3. Sectors

Based on projects reported to the DAC as tied grants (commitments) with reference to “soft loans” or “framework II” respectively, listed in the CRS, Figure 10.8 illustrates the sectoral distribution of soft loan-related AF grants in the period 2001-2011.

Figure 10.8 shows a concentration of projects in the health sector, followed by transport and storage, education, water supply and sanitation, and government and civil society. Based on the assumption that the number of Austrian companies in individual sectors is small, the observed concentration leads to the conclusion that a small number of companies providing infrastructure for the health sector benefits most from the Austrian soft loan program.

Figure 10.8: Sectoral Distribution of Soft Loans (2001-2011)



Source: OECD.stats (2013), CRS

Note: Percentages are calculated based on the cumulative volume of AF grants (USD), 2001-2011.

10.4. Program Implementation

10.4.1. Procurement in Soft Loan-Financed Projects

The Austrian soft loan policy provides that procurement practices for soft loan-financed projects have to be in line with the public procurement act of the recipient country (Interview A4). Consequently, soft loans are provided for projects procured through international competitive bidding (ICB), limited bidding (to Austrian companies), but also direct award of contract. The issue of procurement is further addressed in some bilateral agreements and project contracts. In the case of ICB, the Austrian exporter has to inform the OeKB of his intention to take part in bidding²¹⁹. The supply contract is signed after “disclosure of the decision taken by the relevant Austrian committees [EFK and AusfFG Beirat]”²²⁰. Some recipient countries provide for direct award of contract. Common cases of direct contracting are follow-up contracts (Interview A5). In such cases proof of conformity with national procurement regulation has to be presented (Interview A5). Direct award of contract is quite common though

²¹⁹ OeKB: <http://www.oekb.at/en/export-services/financing/soft-loans/pages/applicationprocedure.aspx>

²²⁰ Ibid.

(Interview A4). In case of contract award by means of direct negotiation, the OeKB intends to get involved “[...] at the beginning of the delivery contract negotiations”²²¹. The supply contract is signed after approval of the relevant Austrian committees and after a valid OECD-notification is available²²².

The issue of procurement is linked to the question of how exporters get involved in the process prior to contract award. Financing is already considered in the design of the project. Exporters typically develop projects with partners in the recipient country (Interview A4). They can already be involved in the phase of project identification and preparation of the call for tenders, by e.g. carrying out needs assessments or providing expertise (Interview A5).

10.4.2. Application Procedure for Soft Loan Financing

The Austrian soft loan program provides that the exporter is responsible for application for soft loan financing and for the provision of respective documentation. Which documents have to be handed in depends entirely on the project (Interview A8). Exporters have to fill out a questionnaire which addresses the Austrian criteria for soft loan eligibility of the projects, including on developmental aspects. According to the OeKB (2010b: 4) the application does not regularly require an Aid Quality Assessment (as stipulated by the Ex Ante Guidance, Annex I) for evidence of development aid qualification. Chapter III of the questionnaire represents the instrument for assessing the development aid qualification of projects (OeKB 2010b, 2013: 4). A monitoring concept is required for projects larger than SDR 2 million to demonstrate the success of the project with regard to sustainable development. Further the questionnaire asks for, but the soft loan application does not explicitly require, a cost-benefit analysis or an equivalent assessment. Applications for de minimis projects must include a proposal for the documentation of the project’s successful implementation. This is to be provided through e.g. a final project report. During the application procedure exporters present the project at the OeKB. Thus OeKB creates an opportunity to comment and give feed-back to the exporter.

10.4.3. Questionnaire

Soft loan-financed projects should have an impact on economic growth and sustainable development in the recipient country (OeKB 2010b: 19). Developmental policy aspects of projects are assessed by means of a questionnaire (chapter III) which the exporter applying for soft loan financing and an export guarantee has to complete (Interview A4). The respective chapter was designed by the Ministry of Foreign Affairs (Interview A4). The OeKB provides two versions of the questionnaire, a long version for regular soft loan projects, and a short version for de minimis projects (projects with

²²¹ OeKB: <http://www.oekb.at/en/export-services/financing/soft-loans/pages/applicationprocedure.aspx>

²²² Ibid.

a contract value below SDR 2 million). Answers given should lead to the conclusion whether and to which extent projects will have a positive impact on sustainable development in the recipient country, or whether expected impacts are on balance negative (OeKB 2010b: 6). The questionnaire contains questions concerning the character of the project itself as well as questions about the exporting company. The information is provided by the exporter (Interview A4).

The questionnaire on developmental relevance and sustainability addresses questions with regard to the developmental impacts of the project in the economic, social and environmental dimensions. Questions relate in particular to:

- demand for the project
- project's inclusion in a development strategy
- co-financing or prior rejection of the project by other institutions or donors
- project risks with regards to sustainable development
- project location as possible region of conflict
- expected micro- and macro-economic impact in recipient country
- inclusion of local expertise in project design
- local capacity and know-how of the recipient and appropriateness of technology selected
- inclusion of capacity development
- local availability of services and spare parts
- necessary investments
- financing of operating costs
- form of procurement (public tender, limited tender, direct award)
- project's impact on specific development areas, such as health care, securing the supply of drinking water, regional development etc.
- project's impact on the environment, as well as social impact on target group

The shortened version of the questionnaire for de minimis projects briefly addresses developmental aspects, such as the projects' inclusion in development strategies, as well as social, health-related, ecological, and other impact in the recipient country, and volume of training of personnel.

The questionnaire captures whether the project is part of a development strategy. Projects are preferably supported if they have a high priority in the recipient country (Interview A5). High priority is expressed in development strategy papers, or by approval of the Ministry of Finance or the ministry in charge of the project. Also exporters are interested if a project is in conformity with the national development strategy pa-

pers signaling whether projects have priority and receive support from the respective authorities (Interview A3).

Various stakeholders have raised concerns about the limited impact of the questionnaire. They question whether a questionnaire is able to adequately capture issues of sustainability (Interview A3). According to some the quality of the given answers varies and some applicants fill out the questionnaire quite superficially (Interview A4). It can be assumed that the questionnaire is filled out at a late stage of the project application (Interview A4), thus limiting its influence on the project design.

In the field of export financing the OeKB assesses projects based on their environmental and social impact based on the OECD Common Approaches. Soft loans are usually not assessed in this way, because they are generally not implemented in risky sectors, classified by OeKB as category A projects. According to the OeKB “[...] projects involving tied aid credits will be assessed separately and only to the extent necessary, as environmental and social issues are taken into account in line with the Helsinki – procedure by assessing the aid quality according to the OECD Development Assistance Committee (DAC)’ s Guidelines. These issues are dealt within the Sustainability Part of the soft loan Questionnaire” (OeKB 2013: 5). It has to be mentioned, that the Helsinki criteria on financial and commercial non-viability do not address the environmental impact of projects. The questionnaire, which is filled out by the exporter, does however address environmental and social impact of projects.

10.4.4. Project Appraisal

Within OeKB, the project and environmental analyses department is in charge of assessing projects and evaluating the questionnaire. The department checks whether answers are comprehensive and whether exporters provide sufficient information. The questionnaire is send back to the exporter for revision or amendments. When assessing questionnaires the OeKB project and environmental analyses department does not apply standardized instruments of evaluation, such as rating instruments (Interview A8). Questions or answers respectively are not weighted (Interview A4).

10.4.5. Engagement of other Actors During the Application Process

The Austrian Ministry of Finance and the OeKB cooperate closely. They are in contact with the Ministry of Finance in the recipient country and ministries in charge of projects. Whether local actors, e.g. local NGOs, are consulted is entirely at the discretion of the recipient. The soft loan program does not provide for a systematic engagement with NGOs or other civil society organizations. This is based on the consideration that soft loan-financed projects are not problematic with regard to their social or environmental impact because they are public-sector projects and financially non-viable. Controversial projects are generally financed on a commercial basis, e.g. large dam projects (Interview A4). The OeKB does inform and consult with WKO Foreign Trade

Offices in the respective countries during the application process (Interview A3). Generally local information helps the exporter to assess project risks.

Expertise from the Ministry of Foreign Affairs or ADA is not sought on a systematic basis during the application process. ADA's regional offices are not mandated to be involved in the assessment process of projects. However, some regional offices act upon request from various actors, e.g. Ministry of Finance, Ministry of Foreign Affairs, respective recipient countries' ministries and authorities, other donors, companies, etc. (Interview A6, A2). Nevertheless, once the Ministry of Foreign Affairs receives the project documentation prior to the EFK meeting, ADA's respective regional office is consulted on specific projects. If the project is located in a priority sector of ADA's country strategy, the Ministry of Foreign Affairs subsequently receives a critical assessment (Interview A4). Some projects are discussed in the local media and regional offices can provide information e.g. on national or regional politics. Further ADA's regional offices are involved by acting upon request of recipient country's authorities to relay messages to the Ministry of Finance, clarifying questions, or supporting the Austrian Ministry of Finance, if required (Interview A6, A2, A4). They may advise the Ministry of Finance and Ministry of Foreign Affairs regarding national procurement law and quality of national procurement processes, or alert the Ministry of Finance if problems arise e.g. regarding donor coordination, quality of deliverables, procurement processes, etc. (Interview A6). Since there is no structural involvement of ADA's regional offices, the latter's involvement depends on their relationship with the respective WKO foreign trade office, embassy, or recipient country's government (Interview A2). Further, Austrian and recipient country's companies interested in soft loan financing approach ADA's regional offices (Interview A6). Austrian companies contact ADA's regional offices, as well as WKO foreign trade offices regarding information about key actors, sector developments, trends etc. (Interview A6, A3). Upon request of other donors, ADA's regional offices try to coordinate and facilitate project coordination with other donor-funded projects during the design, planning and implementation phase. However, the spirit of cooperation of Austrian companies varies as their main interest is to pursue their business ventures while ADA's interest is to contribute to development effectiveness in the interest of recipient country's citizens and in alignment with the national strategies and plans (Interview A6).

10.4.6. Project Approval Process

Within OeKB, the department for project and environmental analyses is in charge of assessing project applications. Once all application forms and documents are complete, the approval process takes about 8 to 12 weeks (OeKB 2011: 8). The rapidity of the procedure is considered a competitive advantage in international competition between exporters (OeKB 2011: 8; Interview A4). After revision of the project application OeKB sends reports to the EFK members about one week prior to the commit-

tee's meeting (Interview A4, A1). The EFK is an official body mandated to select projects for soft loan financing. After the approval by the EFK, the minister of finance formally approves an application²²³. The EFK traditionally decides by consensus (Interview A4). If a project is considered as problematic, issues are raised prior to the meeting and the Ministry of Finance can then decide to take projects off the agenda to address the issue separately. In previous years all projects which were listed on the agenda were approved by the EFK (Interview A4). The underlying reason, why projects are not blocked in the EFK is that they are already so advanced when they are discussed by EFK members, so that no significant hurdles remain before final approval. EFK members appreciate the time and effort that was put into project development and application. Nevertheless, concerns are raised by members at this stage with the intention to build for future projects (Interview A4). This is considered a useful way to deal with problematic issues and the OeKB is judged as cooperative when it comes to new proposals (Interview A4). Decisions against projects are only thinkable if recent political changes have occurred in the recipient country. The Ministry of Foreign Affairs but also the Ministry of Economic Affairs would then address the issue and the project would be put on hold, e.g. if new UN sanctions were agreed on (Interview A1). But again those issues would be raised prior to EFK meetings.

10.5. Monitoring and Evaluation

10.5.1. Monitoring

The objective "contribution to sustainable development" of soft loan-financed projects is specified as the sustainability of the projects proper. As part of the application procedure, exporters are obliged to propose a monitoring concept and consequently monitor projects, in order to assess the project's sustainability. The specific definition of a project's sustainability is always dependent on the sector and project characteristics (Interview A8). Monitoring relies on data which is collected during the implementation of the projects, such as delivery of components, trainings held, as well as by the operation of the facility, e.g. degree of utilization (Interview A4, A8). It comprises a series of reports, including final project acceptance by the customer, confirmation that the project was built properly and is ready for operation (Interview A4). Monitoring reports are generated by the exporter. Similarly to the questionnaire's assessment, further information from the exporter may be requested by the OeKB (Interview A8). De minimis projects (SDR < 2 million) require reduced monitoring. In this case exporters have to hand in a final report after project implementation or product delivery, respectively. Monitoring is limited to the guarantee period. The exporter is responsible for monitoring and the contractually agreed monitoring functions as long as the exporter is on the site. After completion of the guarantee period the exporter has no

²²³ BMF: <https://www.bmf.gv.at/wirtschaftspolitik/aussenwirtschaft-export/softloans.html>

formal possibility to measure the success of the project (Interview A8). Monitoring reports are not publicly available on OeKB's homepage.

10.5.2. Evaluation

The expected developmental impact of projects is assessed *ex ante* by means of the questionnaire. The Austrian soft loan program does not provide for systematic *ex post* evaluation of the developmental impact of projects. Occasionally projects are visited together with the exporter, e.g. within the scope of business missions. The selection of projects to be visited is then based on pragmatic considerations (Interview A5). Certain stakeholders state that exporters have an interest in the sustainability of projects because they desire follow-up contracts and a good reputation (Interview A5, A3).

The economic, social, and ecologic impact of 5 individual soft loan-financed projects was evaluated in the course of a study carried out by ETA Umweltmanagement and ARBOS (2010a). The study was initiated by the Austrian Parliament (Entschließungsantrag) in 2007. It does not explicitly focus on the developmental impact of soft loan-financed projects. Nevertheless, with regard to developmental relevance of soft loans, the study finds that exporting firms have the possibility to exert more influence on project design in case of soft loan-financed projects compared to commercially financed ones (ETA Umweltmanagement/ARBOS 2010a: 41, 46). Not distinguishing between soft loans or commercially financed projects, the study concludes that little information regarding social aspects, as well as aspects on (macro-) economic sustainability was available. Thus, the reliability of *ex ante* assessments of project impacts on the respective areas was limited (ETA Umweltmanagement/ARBOS 2010a: 16). The authors identify that project appraisal for ecologically or socially sensible projects is in conflict with Austrian export promotion objectives and other requirements such as cost, fast application processing, confidentiality, flexibility, etc. (ETA Umweltmanagement/ARBOS 2010a: 46). This argument also holds true for assessment of development cooperation and policy aspects, respectively. With respect to *ex post* project evaluations ETA Umweltmanagement and ARBOS (2010a: 17) highlight that evaluations serve as an important feed-back mechanism and quality control of instruments used for project appraisal. Furthermore, the study recommends to increase the participation of local NGOs in project appraisal and planning (ETA Umweltmanagement/ARBOS 2010: 48).

ETA Umweltmanagement and ARBOS (2010a: 5) argue that the hierarchy between policy objectives and possible conflicting policy objectives has to be taken into account when analyzing the programs. The underlying legal act of Austrian export promotion and consequently the basis for soft loan financing, the Ausffg, primarily aims at facilitating market entry and promoting Austrian exports. At the same time the Austrian government has committed to policy coherence for development as laid down in

the Federal Development Cooperation Act (§ 1 EZA-G). Weight given to the objectives is, however, a political decision of the responsible institutions (ETA Umweltmanagement/ARBOS 2010a: 5). With the aim to strengthen policy coherence, the study recommends that the development policy objective should be integrated in the AusfFG (ETA Umweltmanagement/ARBOS 2010a: 45).

Apart from the most recent evaluation, the soft loan program has been subject to evaluations in 2003 (Wolfmayer-Schnitzer et al.) and 1992 (Bayer/Stankovsky/Url). The study Wolfmayer-Schnitzer et al. (2003) provides a critical view on soft loans as an instrument of development cooperation, as well as Austrian development cooperation as such. Wolfmayer-Schnitzer et al. remark in particular that although soft loans are a (partly) ODA-eligible instrument, financial returns are expected. The authors further highlight that the Ministry of Foreign Affairs' mandate for development cooperation is not underpinned by leadership in the allocation of funds (Wolfmayer-Schnitzer et al. 2003: 31 et seqq.)

10.6. Accountability and Transparency

The AusfFG Beirat, the committee reviewing applications for export guarantees, has to report to the Austrian parliament according to AusfFG (BMF 2013). As the report 2012 demonstrates, soft loans are not directly addressed. The parliament has the option to ask questions. It makes use of its right but focuses its interest on commercial export credits. Searching the Austrian parliament's archive²²⁴ shows that the soft loan program has not been discussed by the parliament and only little information on the program was requested by the parliament.

Public information on the soft loan program is available on the OeKB website publishing relevant information for exporters. The information provided presents the current soft loan policy. Additionally soft loans are mentioned by Ministry of Finance and OeKB publications on export promotion and financing schemes. The OeKB does not publish information on individual soft loan-financed projects. It does so for projects which are environmentally sensitive (OeKB category A and B) and projects with a volume of more than EUR 10 million. NGOs claim that there is little information on projects publicly available, limiting possibilities to comment on individual projects (Interview A7). The committee mandated to approve project eligibility, the EFK, neither publishes any information on project decisions, nor statements justifying their decisions or minutes of committee meetings. Searching Austrian newspapers shows that a public debate in the donor country about the program per se or individual projects is absent.

The Austrian soft loan program does not provide for stakeholder consultations with civil society actors. NGOs are not systematically included in any stage of the program.

²²⁴ Austrian parliament: <http://www.parlament.gv.at>

According to NGO representatives, direct involvement in the program may not be advisable for NGOs because of two reasons. NGOs do not have an interest in being a member of the official project approval committees, such as the EFK, because, first, the distribution of power within the committee favors business' interest and NGOs would be outvoted anyways. And second, membership obliges members to official secrecy and NGOs could not communicate any information received to the public (Interview A7). In summary, the OeKB publishes relevant information on the current terms and conditions for soft loan financing primarily focusing on their customers. No systematic information is publicly available on individual projects, limiting possibilities to comment on individual projects or decisions by the EFK.

10.7. Conclusion and Outlook

The analysis of the developmental orientation of the Austrian soft loan program made apparent that the program is predominantly oriented towards export promotion. The program's objectives, the institutional distribution of competences and the program's procedures and implementation clearly show that the soft loan instrument is designed to promote exports in order to strengthen the national economy. The developmental orientation of projects and the ODA eligibility of subsidies are considered as beneficial additional characteristics of the instrument.

The promotion of sustainable development in recipient countries can therefore be interpreted as a secondary objective of the soft loan program, since the latter is embedded in the export promotion organization rather than the Austrian development cooperation. The program is not an instrument used to actively shape development cooperation. This is visible through the fact that the Ministry of Foreign Affairs which has the development cooperation mandate has no formal competence in shaping the soft loan policy, e.g. the selection of target countries. The entire program, its policy design and strategic programming, is in the sole competence of the Ministry of Finance. The Ministry of Foreign Affairs is integrated into the soft loan procedure at a very late stage through its membership in the EFK, the committee approving projects for soft loan financing. This limits the Ministry of Foreign Affairs' influence to individual projects. Thereby, the opportunity for systematically exploiting the development cooperation expertise both on a project and program level is largely foregone.

The legal basis of the soft loan program further stresses the export promotion objective. The Export Promotion Act and the Export Finance Promotion Act present the backbone of the program. In contrast, the Federal Development Cooperation Act, creating the legal foundation for policy coherence for development is not explicitly considered as the legal basis of the program. In practice policy coherence is not promoted by aligning the soft loan program with the Austrian development cooperation. This is underlined by the fact that Austria's export credit agency, OeKB, is en-

trusted with the implementation of the program. It is owned by commercial banks and does not dispose of profound development cooperation expertise.

The Helsinki architecture, the Arrangement's terms on minimum concessionality, country and project eligibility, constitute an essential framework for the Austrian soft loan program. The program currently offers pre-mixed credits which are budget-friendly loans achieved by a combination of low interest rates, long repayment and grace periods. Soft loan terms and conditions depend essentially on the discount rate applied, as a key variable for calculating the concessionality level and subsequently determining the budgetary effort required to offer soft loan-financing. The terms and conditions of soft loans (concessionality level, interest rates, grace periods and credit periods) do not vary by sector or project characteristics. Currently the program offers loans with a zero interest rate and a 21 year credit period including a five year grace period. Soft loan-financed projects comprise products such as medical devices, fire-fighting vehicles, bridges etc. It is questionable whether all products financed have a life-cycle of 21 years. Further long grace periods may create opportunities for moral hazard (Interview A4). Ministers and parliamentarians commissioning and approving a project may enjoy the benefits while their successors bear the cost.

As compared to other financing programs for development, the Austrian program does not interfere with procurement practices of recipient countries. The Austrian soft loan policy provides that procurement for soft loan-financed goods and services has to be in line with the regulation of the recipient country. This creates space for ownership but whether the recipient gets value for money depends on its bargaining power and access to expertise to review the offer.

The aim to foster the Austrian economy is further underpinned by the tying criterion as well as the selection of target countries and actual distribution of soft loans. The acceptance of soft loan-financing is tied to the procurement of Austrian goods and services, specified by a foreign content rule which limits local costs and third country procurement to 50 % of the contract value. Additionally the program focuses on selected target countries with promising markets for Austrian businesses. The selection of target countries is not aligned with the country priorities of Austrian development cooperation, although recently some soft loan recipient countries coincide to be priority countries of the Austrian development cooperation. Scrutinizing the actual flows of subsidies to recipient countries reveals that the soft loan program has focused on a few countries in the last decade, most notably China. Changes in the income (GNI per capita) of recipient countries over time underline that the Austrian soft loan program has targeted dynamic emerging countries. Soft loans for LDCs require a higher budgetary effort in order to meet the minimum concessionality level of 50 %. The analysis of statistical data demonstrates that over the last few years soft-loan-financing for LDCs constitutes more an exception than the rule of the Austrian soft loan program. Focusing this instrument towards emerging countries and not aligning it with the

development cooperation strategy signals the high priority, the program gives to export promotion.

Coordination with development cooperation actors is also not systematically sought with regard to the selection of sectors. The latter is not aligned with the Austrian development cooperation and sector coordination with other donors is not part of the soft loan procedure. Consequently possibilities to foster the developmental orientation of individual projects are foregone. The analysis of statistical data illustrates that most soft loan-financed projects were allocated in the sectors health (43 %), followed by transport and storage (17 %), education (13 %), water supply and sanitation (8 %), and government and civil society (8 %). Based on the assumption that the number of Austrian companies in individual sectors is small, the observed concentration leads to the conclusion that a small number of companies providing infrastructure for the health sector has benefited most from the soft loan instrument.

In the course of the application for soft loan-financing, development criteria are addressed by means of a questionnaire designed by the Ministry of Foreign Affairs. It functions as a checklist for the exporter and the OeKB department for project and environmental analyses, which is responsible for project appraisal. The questionnaire appears to be a pragmatic form to address developmental aspects in the soft loan program, although its influence on project design has been questioned by various stakeholders. Answers consist of information provided by the exporter only. The inclusion of additional information is at the discretion of the OeKB department for project and environmental analyses. Further, empirical research is needed in order to evaluate whether the questionnaire is an effective tool to assess the developmental impact of projects.

The committee approving project eligibility for soft loan-financing, the EFK, is characterized by a selective representation of organized interests. Apart from ministries, social partners as well-organized political interest groups are represented in the EFK. Representatives of NGO's or academia do not hold a seat in the committee. EFK members are internally nominated by their respective bodies rather than appointed on grounds of their expertise. This committee of institutional representatives decides on the eligibility of individual projects including its developmental orientation although most of its members have no respective professional expertise. On the other side, the EFK is not mandated to discuss the soft loan policy as such. Strategic political decisions are devolved solely to the competence of the Ministry of Finance. Furthermore, the distribution of interests in the EFK appears to favor commercial interests. The committee is comprised of five voting members of whom three seem to follow a commercial mandate (Ministry of Finance, Ministry of Economic Affairs, and the Austrian Chamber of Commerce). The Austrian Chamber of Labor's mandate is to guard workers' rights. Only the Ministry of Foreign Affairs has a development mandate. This distribution of interests among EFK members helps to explain why developmental as-

pects are a secondary issue in the committee. The selective representation of interests and absence of professional development expertise in the EFK (with the exception of the Ministry of Foreign Affairs), as well as the centralized competence in the Ministry of Finance supports the conclusion that the development orientation of the program is limited and that policy coherence for development as stipulated by the Federal Development Cooperation Act is weakly implemented in practice.

Critically looking at the aspect of accountability of the EFK and its members reveals that the Austrian soft loan program lacks transparency. Information on decision making is not published, nor does the Austrian parliament receive reports on the soft loan program. This leads to the conclusion that the EFK and its members enjoy a high degree of autonomy. Although social partners are included, they are obliged to respect official secrecy which limits their freedom to use information publicly. Official secrecy of EFK members partly explains why non-governmental interest groups have not tried to be represented in the committee, since additional information gained through membership could not be communicated to the public.

The Austrian soft loan program has been in place for many decades and the decision-making and implementing bodies consider the instrument as successful. Changes of the program are currently not planned. Untying the program would represent a paradigm shift, away from the export promotion objective and organization. Important determinants for future program modifications are budgetary resources allocated to the program, as well as the future definition of ODA (Interview A5). From a development policy perspective changes are however desirable.



11. Denmark

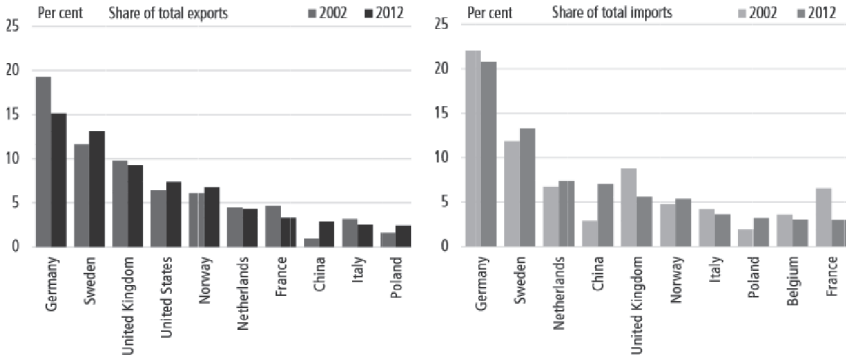
11.1. Country Facts and Figures

11.1.1. Economy and Foreign Trade

With a GDP of currently USD 213.6 billion (2012) Denmark is a highly developed industrialized country characterized by a small, open and export oriented economy (CIA 2013). From the late 1970ies until the mid-1980ies exports as a percentage of GDP rose steadily and every year since 1987 Denmark had a trade surplus. During the international financial crisis 2008/2009 both exports and imports dropped significantly, thereby preserving the traditional trade balance surplus (Agerskov/Bisgaard 2012). As illustrated in Figure 11.1 below, Denmark's foreign trade is concentrated on a few trading partners, both with regard to imports and exports. While 10 countries accounted for 72 % of total Danish exports in 2011 and for 67 % in 2012, the largest 10 supplying countries made up for roughly 70 % of total imports into Denmark in two consecutive years (Agerskov/Bisgaard 2012, 2013). Despite the fact that in recent years exports to Germany have been declining in relative terms, Germany remains the largest trading partner of Denmark, accounting in 2012 for 21 % of Denmark's exports and 15 % of its imports (Agerskov/Bisgaard 2013). In the last ten years China has steadily increased its importance as a trading partner of Denmark. In 2011, China ranked fourth among the suppliers of goods to Denmark making up for 7 % of overall Danish imports. In contrast, only roughly 2 % of Danish exports went to China, putting it on the 10th place among Denmark's export markets in 2011 and on the 8th place only one year later in 2012 (Agerskov/Bisgaard 2012, 2013).

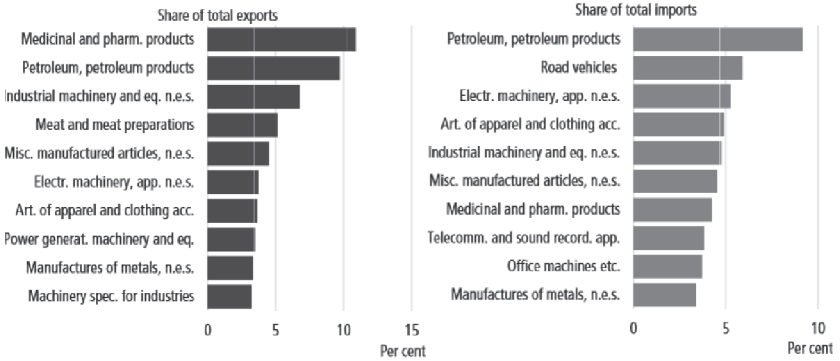
Regarding the composition of Danish exports, Figure 11.2 below indicates that agricultural, oil-based and industrial products dominate. In both 2011 and 2012 Danish exports consisted predominantly of agricultural products, oil and a wide range of industrial products (Agerskov/Bisgaard 2012, 2013). The group of industrial exports is dominated by pharmaceutical products and machineries, but also clothes, furniture and food products figure high among Danish exports. In contrast, consumption goods and goods for use in the manufacturing industry and other industries make up for the main part of Denmark's import of goods (Agerskov/Bisgaard 2012). Thus, Denmark is today a net exporter of food and energy, but depends on imports of raw materials for the manufacturing sector (CIA 2013).

Figure 11.1: Denmark's Main Trading Partners



Source: Agerskov/Bisgaard 2013

Figure 11.2: Denmark's External Trade in Goods by Commodity Categories 2012



Source: Agerskov/Bisgaard 2013

11.1.2. Denmark's Donor Profile

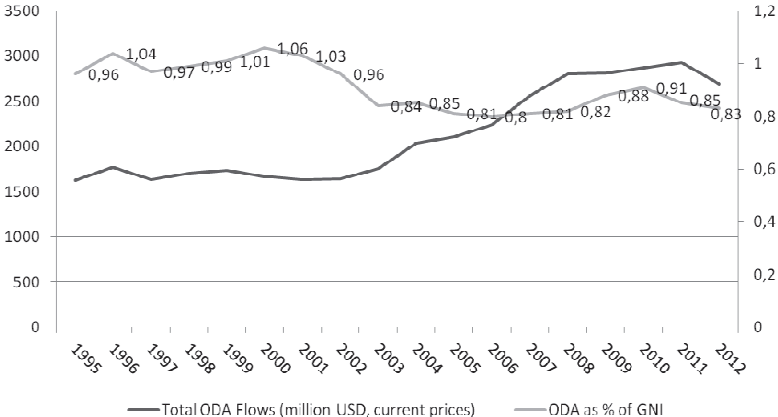
11.1.2.1. ODA Performance

According to preliminary statistical data published by the OECD/DAC, Denmark's net Official Development Assistance (ODA) in 2012 amounted to USD 2.72 billion. Compared to 2011, this constitutes a drop in real terms of 1.8 % and follows the 3 % real decrease in 2010 (OECD/DAC 2013a: 190). This slight drop has to be interpreted in the context of a freeze in Danish public spending for the period 2011-2013 (Interview B1, B4; OECD/DAC 2012c: 204). Denmark intended to sustain ODA at the nominal level of 2010 (in DKK) until 2013, but fell short of this goal in 2012.

Yet from an international perspective, Denmark is generally considered a leading donor which from 1978 onwards has consistently devoted more than 0.7 % of its GNI

to ODA. With an ODA/GNI ratio of 0.83 % in 2012 (Figure 11.3), Denmark is, thus, among the few OECD donor countries having lived up to the international 0.7 % target agreed upon as early as 1970 (OECD/DAC 2002). In 2011, besides Denmark only Sweden, Norway, Luxembourg and the Netherlands met this, not at last symbolically, important international target (Danish MfA/Danida 2012).

Figure 11.3: Total ODA Flows and ODA as of GNI



Source: Total flows by donor (ODA+OOF+Private) [DAC1], (Feb. 2014)

With roughly 56 % of its gross bilateral ODA being country programmable aid (CPA) – often considered the heart of ODA – Denmark’s performance was insignificantly below the DAC members’ average of 57 % for the same year (OECD/DAC 2012c: 204).

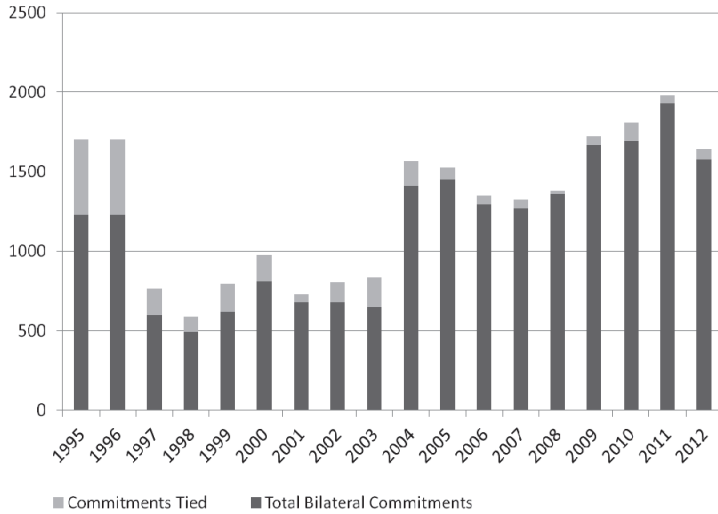
Untying

Over the last decade Denmark has been actively promoting the untying of development assistance and figures today among those DAC members with only a small proportion of aid still tied to procurement of Danish goods and services. The proportion of untied aid reached its preliminary climax in 2008 with 99 % of aid untied (excluding administrative costs and technical cooperation) (OECD/DAC 2012c: 205). Today with a share of roughly 4 % of overall aid commitments, some relics of tied aid, however, have been preserved, most notably the mixed credit program which lies at the center of interest of this case study.

In line with the traditionally high ODA rates, the latest DAC peer review of Denmark (OECD/DAC 2011c) found that development co-operation is well anchored in the Danish public and enjoys strong popular support. Furthermore the reviewers noticed “[...] public and political backing for implementing cutting-edge development co-

operation policies and taking up international leadership on key global concerns” such as climate change and gender equality (OECD/DAC 2011c: 23).

Figure 11.4: Share of Tied Commitments



Source: DAC Table 7b (Commitments, Current Prices, Million USD)²²⁵

Note: Figures for 2012 are based on preliminary data as of November 2013, susceptible to changes

Furthermore in 2013, Denmark, for the second time in a row, ranked first in the *Commitment to Development Index*, a composite indicator published yearly by the Center for Global Development (Barder/Krylová 2013). In the 2012 ranking, the think-tank highlighted the large quantity of high-quality development assistance provided by Denmark, the country’s significant contribution of personal and finance to humanitarian interventions as well as peacekeeping missions and acknowledged the importance ascribed to development research. It argued, however, that Denmark’s performance was negatively influenced by “[...] its barriers against agricultural imports from developing countries, its lack of policies that promote productive investment in poor countries, and its high fossil fuel production per capita”²²⁶.

11.1.2.2. Institutional Setting of Denmark’s Development Cooperation

Denmark’s development policy is integrated in the state’s overall foreign policy and is as such part of the daily work of the Danish Foreign Service in both the Ministry of Foreign Affairs in Copenhagen as well as in the Danish missions (embassies) in Den-

²²⁵ Please see the DAC aid statistics database: <http://stats.oecd.org/Index.aspx?datasetcode=TABLE2B#>

²²⁶ Center for Global Development (cgdev): <http://international.cgdev.org/initiative/commitment-development-index/index>

mark's partner countries. A separate Minister, the Minister for Development Cooperation²²⁷, is in charge of development assistance and she/he is served by the Ministry of Foreign Affairs and the Foreign Service (Danish MfA/Danida 2012; European Commission 2012: 2). The area of activity under the Ministry of Foreign Affairs that deals with development cooperation is known as Danida, which, however, does not constitute an independent agency. The term Danida can be traced back to 1963. Today, Danida has its own logo on the homepage of the Ministry of Foreign Affairs, highlighting it as an independent area of activity of the Ministry²²⁸.

In legal terms, Denmark's development assistance is laid down in and is administered on the basis of the *Danish Act on International Development Cooperation, Consolidated Act no. 555 of 18.06.2012*. This act, which entered into force in 2013, constitutes the first revision of the Danish development cooperation act agreed upon in 1971 and is considered an attempt to meet the exigencies of the dynamic and changing international context within which Danish development cooperation is embedded today²²⁹.

The amendment of the law for Denmark's development cooperation was one of the first measures by the former Minister for Development Cooperation – Christian Friis Bach (Social Liberal Party)²³⁰ – after a change in government in 2011. The resulting act spells out an increased emphasis on human rights and sustainable growth which shall lay the foundation for Denmark's development cooperation. In addition, to a certain degree in the spirit of Policy Coherence for Development, the act states in paragraph 2 that *"Danish development cooperation shall contribute to promoting Denmark's interests in a more peaceful, stable and equal world. Consequently, development policy is a central and integral element of Danish foreign policy, which recognizes that developing countries are not only affected by development policies but also by other policy areas"* (Danish MfA 2012: para. 2). These changes in the legislative basis also entailed organizational reforms within the Ministry of Foreign Affairs, for instance the abolition of the Board for International Development Cooperation and the creation of a new Council for International Development Cooperation designed to act as advisory body to the Minister (Danish MfA 2012: para. 10). The council which embodies Denmark's corporatist public system discusses "[...] signifi-

²²⁷ In early February 2014 a cabinet reshuffle brought about changes on the Ministerial-level. Notably, a new cabinet-level post of a *Minister for Trade and Development Cooperation* was established and substituted the post of the Minister for Development Cooperation. Since this case study has been completed at that point, this notable change as well as potential repercussions thereof on the orientation of Danish development cooperation in general and Danida Business Finance in particular can only be considered to a limited extent. For further information on the composition of the cabinet, please see <http://um.dk/en/about-us/>

²²⁸ Danida: <http://um.dk/en/danida-en/about-danida/>

²²⁹ Danida, Act on Denmark's International Development Cooperation: <http://amg.um.dk/en/policies-and-strategies/new-law-development-cooperation/>

²³⁰ Christian Friis Bach resigned from his post in November 2013. Following a cabinet reshuffle in February 2014 Mogens Jensen was appointed Minister for Trade and Development, a cabinet-level post which substituted the post of the Minister for Development Cooperation.

*cant strategic policy initiatives within the sphere of development policy and development cooperation, including policy papers for Denmark's relations with priority countries, new thematic strategic frameworks, the multilateral analysis, organisational strategies for multilateral organisations and progress in country programmes*²³¹.

Furthermore, in 2012 the Minister at the time launched a new development strategy, *"The Right to a Better Life"*. The strategy which replaced the 2010 Strategy *"Freedom from Poverty. Freedom to Change"* (Danish MfA/Danida 2010) was unanimously approved by Parliament (Danish MfA/Danida 2012; European Commission 2012: 2) and strategically guides the current Danish development cooperation. The strategy defines the following four priorities (which are also reflected in the Finance Act *"Priorities of the Danish Government for Development Cooperation 2013-2017"*) for Danish development assistance: (1) Human rights and democracy, (2) green growth, (3) social progress, (4) stability and protection²³² (European Commission 2012: 2).

As illustrated in Figure 11.5, Danida currently concentrates its efforts in 24 priority countries. In these, Denmark *"[...] is present with a long-term engagement and with political and financial weight"*²³³. In four of them – Benin (2013), Bhutan (2014), Vietnam (2015) and Zambia (2013) – development assistance is currently being phased out (Danish MfA/Danida 2012). With regard to the instruments of interest in this paper – Danida Business Finance –, it needs to be mentioned that fewer countries receive mixed credit financing because it is perceived as impossible to use such an instrument in countries like Somalia, Sudan or Afghanistan (Interview B1).

For each of these partner countries, Danida develops a country strategy covering a time-span of up to 5 years. These strategy papers contain a planning and operational framework as well as *"[...] an outline of the planned distribution of resources between the sectors and the focus areas for each year of the strategy period"*. While the country strategies are prepared by Danish embassy staff, they need to be endorsed by both the Danish minister in charge of development cooperation as well as the responsible authorities in the partner countries. They also build the basis for the *"[...] statutory rolling five-year plan of Denmark's total development co-operation budget"* (OECD/DAC 2009: 124).

²³¹ Danida, Council for Development Policy: <http://um.dk/en/danida-en/about-danida/danida-transparency/danida-documents/council-for-development-policy>

²³² Danida – Strategic Priorities, <http://um.dk/en/danida-en/activities/strategic/>

²³³ Danida – Priority Countries: <http://um.dk/en/danida-en/activities/countries-regions/priority-countries/>

Figure 11.5: Danida's Priority Countries



Source: Danida homepage, Activities

11.2. Profile of the Program

11.2.1. Background and Objectives

The Danish mixed credit program was introduced in 1993 (Finance Committee Act 406 of 7 September 1993) under the responsibility of Danida “[...] as the instrument for specific projects in eligible countries including some of the Danish programme countries” and in this endeavor succeeded the *State Loan Programme* which had been in place since 1963 and had been abandoned upon a parliamentary decision in 1988 (Danish MfA/Danida 2004: 37; Folketinget 2013). Up to that point state loans, which had subsidy elements between 76 and 86 %, could be combined with commercial credits, thus providing mixed financing. However, unlike in its successor program, state loans in combination with a commercial credit were given to creditworthy, poor countries and were administered by the Export Kredit Fonden (EKF).

The phasing out of the *State Loan Programme* left a vacuum at the interface of export promotion and development policy. Hence the Danish Mixed Credit Programme that succeeded was designed to fill this gap and intended to act “[...] as an aid instrument for financing specific **projects** of Danish interest in countries **outside of the programme countries and outside the selected sectors in the programme countries**” (Danish MfA/Danida 2002: 35, emphasis added). By doing so the program was originally expected to contribute to “[...] phasing out former Danish assistance in non-programme countries and to support non-prioritised sectors in programme countries” (Danish MfA/Danida 2002: 35).

Untied Window

Presumably as a reaction to the untying debate which gained momentum in the early 2000s with the adoption of a DAC *Recommendation on Untying of Official Development Assistance to the LDCs*, an untied window for mixed credits to Danida's program countries and South Africa was introduced in 2002 with the adoption of Act 137 of 2 May 2002 (Folketinget 2013). This option only materializes if national competitive bidding under the tied regime is not successful, i.e. if no acceptable number of Danish companies participates in the bid and competition therefore is insufficient (Danish MfA/Danida 2004: 18).

2005 – Danish content

Furthermore, with the adoption of Act 88 of 23 February 2005 the Danish content requirement was abolished. This in turn allowed Danish companies, which delivered for a project financed by a Danish mixed credit, to outsource as much as they chose (Danish MfA/Danida 2006: 51; Folketinget 2013). This measure is described as an attempt to adapt to increasingly globalized economies (Folketinget 2013).

In 2012 the Danish mixed credit scheme was transformed and became known as Danida Business Finance. As part of the organizational reforms which *inter alia* led to this name change, the program was clustered with the Business Partnership program under Danida's Business Cooperation activities dealt with by the Green Growth Department of the Ministry of Foreign Affairs. Previously, from 2000 onwards, the mixed credit scheme was attached to Danida's Business and Contract Department. Prior to that it had been an independent entity that was answerable directly to the Under-Secretary for Bilateral Assistance (Danish MfA/Danida 2002: 25).

Since the inception of the mixed credit scheme in 1993, the program had undergone several organizational and procedural changes, the latest of which was undertaken in 2013. Linked to these reforms was a steadily growing emphasis on the development orientation of and the pursuance of poverty reduction goals with this hybrid instrument. While in its beginnings the goals of export promotion seemed to dominate the projects funded with a Danish mixed credit, the integration of the scheme into Danida's structures and overall strategies reinforced the development orientation and allowed development aspects to gain ground throughout the entire project cycle (Danish MfA/Danida 2002: 8; Interview B1). Thus, the original objectives of financing projects explicitly outside the scope of development policy have been pushed back and the program has changed its character from one somewhat outside the realm of development policy into one specific form of the latter. Today the Danish mixed credit scheme – Danida Business Finance (DBF) – claims to be guided by the same objectives as Denmark's overall development cooperation. As a part of Danida, Danida Business Finance pursues the strategic goals of Denmark's development cooperation and is focused on Danida priority countries (Interview B1). Accordingly, the main

officially stated objective of the Danish mixed credit policy unequivocally is to contribute to the development of the recipient country (Interview B1).

11.2.1.1. Program Objectives

The goal of Danida Business Finance is “[...] to improve market and living conditions, create sustainable, green growth, as well to provide more and better employment in developing countries” (Danish MfA/Danida 2011a). For that purpose, the program aims at ensuring financing for large-scale public infrastructure projects that would and could not be financed on market terms. By facilitating access to financing and by engaging commercial partners, the program is expected to act as promoter of investments in infrastructure, in turn contributing to the creation of a better framework for economic growth and employment (Folketinget 2013; Danida Homepage; Danish MfA/Danida 2012). Danish export promotion interests – e.g. in the form of stated goals such as market entrance or competitiveness of Danish industries – are not explicitly mentioned.

11.2.2. Policy Framework and Legal Foundation

The main pillars of the strategic orientation of Danida Business Finance are laid down in Danida’s overall strategy for development policy (currently “The Right to a Better Life”) and are further specified in the strategic framework for *Growth and Employment* and in the strategic framework document on *Natural Resources, Energy and Climate Change*. Danish mixed credits are thus formally integrated in and to be aligned with Danida’s overall development strategy and especially with the above mentioned strategic frameworks for priority areas.

11.2.2.1. Danida Business Finance in the Overall Development Strategy 2012: The Right to a Better Life

Partnering with the private sector is described as an important component of Denmark’s development cooperation and in the “*Right to a Better Life*” emphasis is put on the creation of an “[...] enabling environment and opportunities for Danish and international companies to engage in devising solutions capable of creating jobs, fostering growth and reducing poverty in developing countries, including in fragile states” (The Danish Government 2012: 35). For that purpose the Danida business instruments such as Danida Business Finance and Danida Business Partnerships shall facilitate investments and partnerships between Danish and local companies thereby contributing to combating poverty and to building an inclusive and green economy. In order to successfully pursue this endeavor the strategy emphasizes that business needs to be conducted responsibly with regard to “[...] climate and environment, use of natural resources, human rights, workers’ rights, occupational safety and health and the fight against corruption” (The Danish Government 2012: 35).

Recognizing an increasing interest among Danish investors in engaging in responsible investments in emerging markets, Danida aims at systematically mobilizing “[...] *private capital and innovative financing in order to strengthen development, including through the use of guarantee schemes and other types of risk transference*” (The Danish Government 2012: 34). In this respect, the strategy describes the purpose of Danida Business Finance, i.e. of Danish mixed credits, as facilitating “[...] *investment in crucial infrastructure, such as energy supply, and aims to contribute to creating a more enabling environment for sustainable growth and employment*” (The Danish Government 2012: 35).

11.2.2.2. Strategic Framework for Priority Area: Growth and Employment 2011-2015

The strategic framework on growth and employment constitutes the main strategy in which Danida Business Finance is embedded and explicitly addresses business cooperation and private sector development instruments in Chapter 3 “The Business Community as Partner in Development” (Danish MfA/Danida 2011b: 32-37). Therein the importance of conceptualizing the business community as partner in development is highlighted. The overall mission of Danida Business Finance in this endeavor is seen in the creation of growth and employment and Danida is expected to act “[...] *as a catalyst for the transfer of knowledge and technology from Danish to local partners*” (Danish MfA/Danida 2011b: 7). Furthermore, the framework document highlights the importance of coordinating Danida Business Finance with other instruments and program sector efforts and states that “*Danida will focus its assessment of proposals on activities that rectify market failures and make environmentally-friendly and innovative approaches possible. The assessment of applications and the corresponding support will be managed in a way that causes the least possible market distortion*” (Danish MfA/Danida 2011b: 34).

11.2.2.3. Strategic Framework for Priority Areas: Natural Resources, Energy, and Climate Change (2013)

The recently presented *Strategic Framework for Priority Areas: Natural Resources, Energy, and Climate Change* (NEC Strategy) constitutes the second sub-strategy which guides activities under Danida Business Finance. The role of the private sector is elaborated on in Chapter 3 “Partners and Implementation”. Therein the importance of the private sector as an actor in development processes is reiterated. Moreover, this chapter addresses the leverage effect of combining ODA with private financing and stresses the need for innovative financing models (Danida 2013a: 28 et seq.).

The NEC Strategy explicitly addresses the intersection between development assistance and green business and reiterates the opportunity to expand the use of green technology by facilitating investments and transfer of know-how. In addition to the

fore-mentioned strategies, the NEC strategy explicitly refers to the interests of Danish companies and states that “[...] *DANIDA Business Instruments have proven useful in supporting the agenda of meeting increasing demand from developing countries for trade and investments and, at the same time, supporting Danish companies’ interest in gaining access to new markets*” (Danida 2013: 29; emphasis added). Simultaneously, it is highlighted that Danida Business Instruments – just as any other aid instrument – are expected to follow the principles of ownership, alignment, harmonization, results and mutual accountability (Danida 2013a: 30). In short, the principles of the Paris Declaration shall be applied.

Moreover and in accordance with the emphasis put on the “catalytic role of aid” (Danida 2013: 28), the increased combination of development assistance and services offered on commercial terms by the Danish Trade Council²³⁴ is mentioned. This is expected to “[...] *facilitate win-wins, benefitting businesses and the green transition in developing countries, by bringing into play Danish core competencies within energy, natural resources, and sustainable food production*” (Danida 2013a: 29).

11.2.2.4. Act No. 64 of 7 February 2013

The background, purpose and procedures of Denmark’s mixed credit program, Danida Business Finance, are laid down in Act No. 64 of 7 February 2013. With the adoption of this document in February 2013 the legal and policy basis of Danida Business Finance was modified in order to reflect *inter alia* the changes in Danida’s organizational structure brought about by the 2012 Act on International Development Cooperation (Act No. 555, 18 June 2012). The explicitly stated purpose of the document is to ensure harmonization of Danida Business Finance with Danish overall development cooperation and to streamline procedures accordingly (Folketinget 2013). The document is publicly available only in Danish.

11.2.2.5. The Finance Act: § 06.32.05.18

The annual budget for development cooperation is part of the annual Finance Act (*Finanslovsforslag*) under the Ministry of Foreign Affairs which is presented to the parliament (*Folketing*) each year, by the end of August at the latest, and is approved before the new fiscal year starts on January 1. The budget allocated to development assistance is submitted on an “accrual” basis and therefore encompasses total annual commitments and not annual disbursements (OECD/DAC 2009: 124). A part of Danida’s annual budget (Account 6.3.) is earmarked for activities under Danida Business Finance and hence the mixed credit scheme (§ 06.32.05.18). As an integrated part of Danida’s overall grant budget, the annual frame of Danida Business Finance is determined in the regular budget approval process.

²³⁴ The Danish Trade Council is the export and investment promotion organization of the Danish Ministry of Foreign Affairs. For further information please see <http://um.dk/en/tradecouncil/>

Table 11: Budgetary Outlook Danida Business Finance

Development Cooperation on the Finance Act Account 6.3.						
Finance Act Account	Grant	2013 (DKK million) 2014-prices	2014 (DKK million) 2014-prices	2015 (DKK million) 2014-prices	2016 (DKK million) 2014-prices	2017 (DKK million) 2014-prices
06.32.05	Danidas Business Programmes	492	542	542	542	542
06.32.05.12	Danida Business Partnerships	237	237	237	237	237
06.32.05.13	CSR training Fund re.IFU investments	3	3	3	3	3
06.32.05.16	UN Global Compact	2	2	2	2	2
06.32.05.18	Danida Business Finance	250	300	300	300	300

Source: The Danish Government 2013: 11

Since 2012 the budget for Danish development cooperation is divided into two budget frameworks, the poverty-oriented and the global framework (The Danish Government 2012: 7). While the former constitutes the majority of development assistance, the latter is made of development assistance “[...] that is not necessarily specifically poverty-oriented, such as stabilisation initiatives, environment and climate change assistance, and support for democratic and economic reforms in, for example, the Middle East and North Africa” (Danish MfA/Danida 2012). This distinction is expected to increase transparency and openness in the use of the development cooperation budget (Danish MfA/Danida 2012; The Danish Government 2012: 7). Unlike the other Danida Business Programs, activities under Danida Business Finance are part of the global, not the poverty-oriented framework (The Danish Government 2012: 15). The extract taken from the draft budgetary outlook 2014-2017 *Priorities for Danish Development Cooperation* (Table 11) indicates that for the coming years approx. DKK 300 million (approx. EUR 40 million)²³⁵ are earmarked for Danida Business Finance per year (The Danish Government 2013: 11). Danida’s Internal and External Grant Committees assume the implementing roles, through which funding from the annual frame of Danida Business Finance is allocated to individual projects are allocated (Danida 2013b: Annex 3).

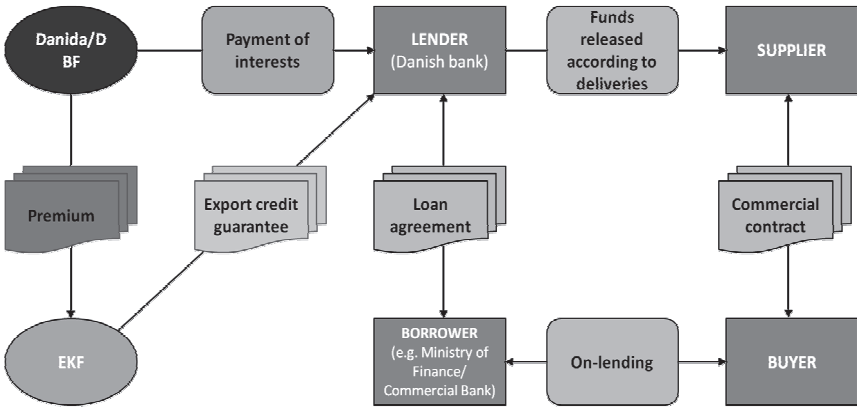
²³⁵ Exchange rates from 1/11/2013 taken from the Danish Nationalbank
http://www.nationalbanken.dk/dnuk/rates.nsf/side/exchange_rates/lopendocument

11.2.3. Institutional Environment

The current administrative structure of the Danish mixed credit scheme has been in place since 2012/2013, when the re-organization and integration of the former Secretariat for Mixed Credits – henceforth Danida Business Finance – into the Green Growth Department as well as the alignment of procedures with overall Danida guidelines and practices became effective.

While Denmark builds on the existing export credit structure when giving mixed credit support to projects, the Ministry of Foreign Affairs is the lead organization of the scheme and is both politically in charge of designing the program as well as responsible for its implementation. Essentially, a Danish mixed credit has similarities to a regular export credit – the major difference being that Danida pays the totality or parts of the interest on the loan, the export credit premium and covers other financial costs allowing the exporter to offer the recipient favourable financing conditions. In addition, Danida usually provides a cash grant in order to reduce the total loan amount (which might be necessary to meet the Helsinki thresholds) (Interview B1).

Figure 11.6: Main Actors and their Relations in a Danish Mixed Credit



Source: Own Elaboration, following Danish MfA/Danida 2011a

Following the illustration of Figure 11.6, the paragraphs below shall map the main actors in the Danish mixed credit system.

Danish Ministry of Foreign Affairs/Danida

As the key organization the Danish Ministry of Foreign Affairs/Danida is politically responsible for and the main administrator of the Danish mixed credit program. Under the umbrella of “*Business Cooperation*” and as part of the Green Growth Department, Danida Business Finance unit is also responsible for processing applications for mixed credit financing, presents project proposals for approval to the Danida Grant Committees and is the central contact point for all actors involved in a project financed with a mixed credit (Interview B1, B8, B9). For these tasks Danida Business Finance has a staff of four people – two senior advisors, one advisor, one head of section – and two student assistants²³⁶.

Although the Danish mixed credit scheme appears to be centrally administered by the Danida Business Finance unit in Copenhagen (Interview B1, B7, B10) – and thus follows only to a limited extent the decentralization trend in Danish development cooperation (Interview B3) –, the Danish embassies are occasionally involved in the identification of projects and inform relevant Ministries in the partner countries and other stakeholders of the possibility to receive a Danish mixed credit (Interview B1; Danish MfA/Danida 2011a).

Eksport Kredit Fonden (EKF)

Eksport Kredit Fonden (EKF), which acts upon the provisions laid down in the *Act on Eksport Kredit Fonden*, is Denmark’s official export credit agency. It is a 100 % state-owned entity, but the board of EKF is entitled to take most decisions in EKF’s day-to-day business (Danish Ministry of Trade and Industry 2001). The objective of the Danish ECA as laid down in the Statutes of Eksport Kredit Fonden is “[...] to secure internationally competitive terms for Danish exports with regard to insurance cover for extraordinary risk of losses in relation to exports, including ships, and to be responsible of state support in connection with the financing of such exports” (Danish Ministry of Trade and Industry 2001).

In summer 2013 the Ministry of Business and Growth was replaced by the Ministry of Foreign Affairs as guardian authority of EKF. EKF is now under the responsibility of the Minister for Trade and European Affairs²³⁷. This reorganization is *inter alia* expected to bring EKF closer to important partners within the Ministry of Foreign Affairs, most notably the Trade Council and Danida²³⁸.

As the official Danish export credit agency, EKF is involved in the implementation of all Danida Business Finance projects (Interview B1). While up to 2011 EKF as member of the no longer operational Committee for Mixed Credits used to be involved in the

²³⁶ Danida Business Finance: <http://um.dk/en/danida-en/activities/business/finance/contact/>

²³⁷ As part of this cabinet reshuffle, this *cabinet-level post* was abolished on 3 February 2014.

²³⁸ The article can be accessed at <http://www.ekf.dk/en/News-and-Knowledge/news/Pages/New-ministry-for-EKF-%E2%80%93-same-service-for-Danish-companies.aspx>

approval of mixed credit projects (Danish MfA/Danida 2011c: 160), the main task of EKF in Danish mixed credit financing today consists of the provision of guarantees which are issued upon receipt of the application from the lending bank (Interview B8, B9).

The involvement of EKF in Danish mixed credit financing is implicitly referred to in Paragraph (5) of the statutes of EKF. Therein it states that “[...] shall undertake the administration of other government export-financing schemes which are referred to Eksport Kredit Fonden. Such schemes shall have independent appropriations in the Finance Act, and the administration shall be cost-neutral to Export Kredit Fonden” (Danish Ministry of Trade and Industry 2001).

In order to ensure that the political mandate of the Ministry of Foreign Affairs is being fulfilled, the role of EKF with regard to the financial transaction as well as the relation between Danida Business Finance and EKF is specified in a cooperation agreement of 13 September 2001 (Email Correspondence B8). This document, which is held confidential, sets the technical details of the cooperation between the respective institutions and describes, for instance, the different accounts and how they are to be managed (Interview B1, B8, B9). Furthermore, this agreement defines that EKF receives a fixed administration fee from Danida which means that profit opportunities for EKF are circumscribed. Apart from these administrative tasks EKF mainly functions as advisor to Danida on issues such as country risk and provides information on the final debtor. EKF, however, does not have any formal decision-making powers (Interview B8, B9).

Based on the information provided by Danida Business Finance, EKF is furthermore in charge of notifying the intention to support a project to the OECD “[...] at least 30 working days before the tender closing date or before Danida issues commitment, whichever is the earlier” (Danish MfA/Danida 2007b; Interview B8, B9). If not otherwise agreed, the initiative for notification must come from the exporter (Danish MfA/Danida 2007b).

Lender/Commercial Bank

Any acceptable commercial bank with a banking license and representation in Denmark can act as the lender in a mixed credit arrangement. The bank enters into a loan agreement with the borrower and applies for a guarantee from EKF which will cover 95 % of losses, the remaining 5 % are the own risk of the bank. The premium for the guarantee is, as mentioned earlier, covered by Danida (Interview B1, B8, B9; Danish MfA/Danida 2011a).

Just as is the case with supplying companies in mixed credit financed projects, the number of banks having provided the commercial loan has been quite limited (Interview B8, B9). In this vein, a controlled expansion of acceptable banks is currently being discussed allowing for instance Swedish banks to act as lenders of the com-

mercial credit (Interview B8, B9). Upon completion of this report this information has not yet been confirmed by those in charge within Danida.

Supplier

In the default case of a tied mixed credit any Danish company can participate in the national competitive bidding for a mixed credit project according to the tender launched by the responsible authorities in the recipient country. In the case of an untied mixed credit, international competitive bidding is applied and participation is open to all companies (but tied to OECD country contractors or suppliers) (Danish MfA/Danida 2007a, Annex D). In both versions the company which wins the bid concludes a commercial contract with the buyer, receives funds according to deliveries and provides the goods and services according to contract (see Figure 11.6).

Furthermore, the supplying companies appear to play a decisive role in the identification of potential mixed credit projects (Interview B1, B11). Experience shows that only a handful of companies which are aware of the program and familiar with its procedures participate in calls for tenders for mixed credit projects (Interview B1, B8, B9, B11). In most cases these “usual suspects” – as one interviewee put it (Interview B1) – are large companies that have the know-how necessary to implement large infrastructure projects in development country contexts (Interview B1).

Borrower/Buyer

The Ministry of Finance or a reliable bank in the recipient country is required to act as borrower/guarantor in a mixed credit arrangement²³⁹. It is also the borrower who officially applies for Danida Business Finance support by submitting a preliminary project document as well as a feasibility study which is to be conducted in compliance with Danida's standard forms/requirements. Once the Danida subsidy has been granted, the borrower launches the tender procedure in which the most competitive supplier is identified. Subsequently, the borrower/buyer enters into a loan agreement with the Danish commercial lending bank and signs a commercial contract with the Danish supplier (Interview B1, see Figure 11.6).

11.2.4. Guidelines for Danish Mixed Credits

11.2.4.1. Requirements and Eligibility Criteria

The Danish mixed credit system is essentially one that is based on the tied aid disciplines laid down in the Helsinki Package of the Arrangement on Officially Supported Export Credits. Furthermore and partly in order to accommodate the program in the overall development policy, additional national criteria guide Danish mixed credit financing, most notably in terms of country and project eligibility. This section lays down

²³⁹ Danida Business Finance: <http://um.dk/en/danida-en/activities/business/finance/introduction/>

the main international and national requirements for Danish mixed credit support and examines the nature of the granted support – i.e. the composition of Danida's financial support as well as the loan conditions.

11.2.4.1.1. Country Eligibility

In accordance with Article 36 of the Arrangement, Danida Business Finance is available in countries whose GNI per capita lies below the upper limit for lower middle income countries (TAD/PG(2013)11: 20). According to the latest World Bank classification available, the threshold for tied aid eligibility is set at a GNI per capita of USD 4.086 (2012) (OECD 2013: 9).

Up to 2012 Danish tied mixed credits were available in all developing countries whose GNI per capita was below the above mentioned threshold. Furthermore, untied mixed credits could be used in all Danida program countries plus South Africa. In the attempt to better align Danida's mixed credits with other development programs and efforts of Danida, the pool of eligible recipient countries was, however, narrowed down to Danida priority countries in 2012 (Interview B1). Developments in the coming years will show whether this focus on Danida priority countries means that *exclusively* the latter can benefit from mixed credit financing or whether it rather suggests that *priority* shall be given to projects in those countries, as was argued by one interviewee (Interview B11).

While Danida in principle confirmed that mixed credits were henceforth only extended to Danida priority countries (Interview B1), external observers argued that so far the above mentioned country criteria have not been applied rigorously. They observed that while priority was given to priority countries, exemptions are conceivable if convincing arguments are presented (Interview B6, B11). In a similar vein, the formulations on the homepage of Danida Business Finance – which speaks of partner, not priority countries and somewhat misleadingly presents a list of 15 countries only – states that “[...] *priority is given to projects in Danida's partner countries*”²⁴⁰. This rather hesitant formulation suggests the latter interpretation. The short period since the announcement of this new geographical focus, however, does not yet allow to draw unequivocal conclusions with regard to country eligibility.

11.2.4.1.2. Project Eligibility

In line with the Arrangement, potential projects must be commercially non-viable in order to qualify for Danish mixed credit financing. As a result, Danida Business Finance is mainly financing large infrastructure projects which tend to fulfill this criterion. The main sectors receiving mixed credit financing are transportation, energy, water supply and sanitation²⁴¹.

²⁴⁰ Danida Business Finance: <http://um.dk/en/danida-en/activities/business/finance/introduction>

²⁴¹ Ibid.

Apart from the commercial non-viability criterion, mixed credit financing has not yet been explicitly restricted to specific sectors, but there is clearly an attempt to narrow eligibility down to projects in line with Danida's green growth agenda (Interview B1; Danish MfA/Danida 2011a). This priority setting is reflected in the fact that the Danida Business Finance unit is part of the green growth department and is guided by the strategic framework for natural resources, energy and climate change (Danida 2013a).

Furthermore, the underpinning idea appears to be rooted in the assumption that activities in the fields of green technology, renewable energy and sustainable food production are areas in which the Danish private sector can offer considerable expertise, know-how and the latest technology, the classic example being wind-farms (Interview B1, B8, B9). The extent to which this priority setting results from consultations with important stakeholders in the Danish private sector is difficult to assess at this stage. Concern seems to exist certainly on behalf of some actors in the private sector that first of all it is insufficiently clear which sectors fall within the green growth agenda and secondly that this process of narrowing down eligibility leads to the exclusion of many useful and sustainable projects, for instance in the health or education sectors (Interview B11).

With regard to project eligibility, it is further emphasized that, ideally, Danida Business Finance should complement the sector programs which guide Danida's development interventions in priority countries (Interview B1; Danida 2007). By complementing sector programs and strategies it shall be avoided that mixed credits finance individual projects which are detached from other development endeavors, but support those activities which are integrated in Danida's overall strategy and approach (an argument which has also been referred to as an explanation for the abolition of the Committee for Mixed Credits) (Interview B1).

11.2.4.1.3. Concessionality Requirements

In accordance with article 38 of the Arrangement on (TAD/PG(2013)11), Danish tied mixed credits to eligible countries are required to have a concessionality level of no less than 35, or 50 % if the recipient country is a Least Developed Country (LDC) (OECD 2013: 9). Additional sector specific variances in the concessionality threshold are not provided for in the Danish mixed credit scheme (Interview B1).

11.2.4.1.4. Procurement Guidelines

In compliance with the DAC Good Procurement Practices of 1986 (OECD/DAC 1992), the general principles applied to development cooperation and the rules set out in the Arrangement, competitive bidding is required for the procurement of goods and services financed under Danida Business Finance. In cases in which a sufficient number of Danish suppliers participates in the tender process, bidding is restricted to

these – i.e. national rather than international competitive bidding is applied (Danish MfA/Danida 2007a, 2011a; Interview B1).

The guidelines for procurement and tendering in connection with a Danish tied or untied mixed credit are laid down in the documents *General Rules and Guidelines for Procurement under Danish Tied Mixed Credits to Developing Countries, August 2007* and *Rules and Guidelines for Procurement, Untied Mixed Credits to Programme Countries, August 2007*. The structure and format of tender documents are expected to follow international standards such as those laid down by the International Federation of Consulting Engineers (FIDIC)²⁴² (Danish MfA/Danida 2007a: 7, Annex A-1).

In addition to the requirements set out by Danida and EKF, procurement is required to be in accordance with the national procurement and tendering laws of the Employer's²⁴³ home country and country of project implementation (should these not be the same) (Danish MfA/Danida 2007a: 6). In correspondence therewith, it is under the responsibility of the borrower, i.e. in most cases the Ministry of Finance in the recipient country, to organize the tender procedure. Danida, however, must give no-objection to it (Ministry of Foreign Affairs/Danida 2007a: Annex).

11.2.4.1.5. Miscellaneous

In order to be eligible for a Danish mixed credit the following provisions must furthermore be met:

- The minimum contract amount to be financed is EUR 1 million. A maximum threshold is not set²⁴⁴.
- An acceptable commercial bank or financial institution with representation in Denmark must have agreed to act as lender for the project in question²⁴⁵.
- The Ministry of Finance or a solid bank in the recipient country is required to act as borrower/guarantor²⁴⁶.
- The project must adhere to international principles for corporate social responsibility and governance as laid down in the UN Global Compact and the ILO Decent Work Agenda²⁴⁷.
- In 2005 Danish content requirements were abandoned (Danida Annual Report 2005: 51). Prior to these modifications 50 % of Danish content was required in

²⁴² Further information can be found on the FIDIC homepage: <http://fidic.org/node/149>

²⁴³ The term "Employer" is used by Danida to designate the buyer, i.e. "[t]he contracting authority in whose name the pre-qualification process, the tender process and the conclusion and execution of the contract are carried out and who will be taking over the Work on completion (Danish MfA/Danida 2007a. Annex D-1).

²⁴⁴ Danida Business Finance, Rules and Requirements: <http://um.dk/en/danida-en/activities/business/finance/introduction/>

²⁴⁵ Ibid.

²⁴⁶ Ibid.

²⁴⁷ Ibid.

order to qualify for mixed credit financing (Interview B1). For China, a 25 % Danish content requirement was upheld (Danida 2007a: 1; 12 et seqq.). Today, China is – due to both Arrangement rules and Danida's own provisions – no longer eligible for tied mixed credit financing (OECD 2013: 9; Interview B1).

11.2.4.1.6. Specific Requirements for Small Projects (SDR < 2 million)

A set of specific requirements exists for small industrial projects the volume of which lies below the SDR 2 million threshold defined by the Arrangement (TAD/PG(2013) 11: 22). In order to reduce the administrative burden for small projects, directly awarded contracts can be accepted for projects below the de minimis threshold. In such a case, the project stakeholders present a contract to Danida which then verifies and compares prices. Furthermore, the requirements with regard to the borrowing bank are less stringent, for instance lower credit ratings can be accepted (Interview B1). Unlike in the case of projects above the SDR 2 million threshold, the buyer has to contribute to the total investment and local financial costs. Local costs for bank guarantees are to be paid by the buyer (DBF homepage; Danida 2007a: 5-6).

Furthermore, the commercial non-viability is not applied to de minimis projects. Small projects are therefore allowed to generate positive cash-flows (Interview B1). This exemption is expected to facilitate projects by Danish small and medium enterprises (SMEs). Concomitantly, the “end-users” in these projects may belong to the private sector, which is considered to be indispensable from a development perspective (Ministry of Foreign Affairs of Finland/Water Pro Partners and Associated Firms 2003: 55).

Whether this interpretation of the de minimis rules is truly in the spirit of *the Arrangement on Officially Supported Export Credits* remains open for debate. A recent analysis of the discussion package within the Participants Group on de minimis tied which forms part of an associated financing came to the conclusion that small projects should adhere to the same rules in terms of country and project eligibility and were merely exempted from the attached administrative burden (Chapter 5).

11.2.4.2. Terms and Conditions

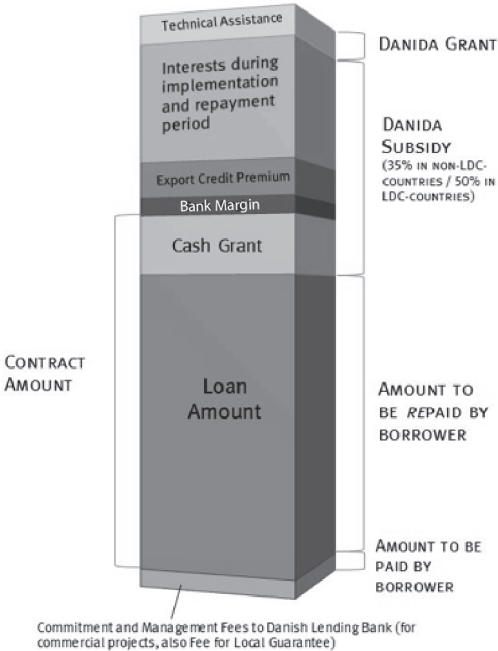
11.2.4.2.1. Composition of Danida Subsidy in a Mixed Credit

As illustrated in Figure 11.7, Danida's contribution comprises a projected amount for technical assistance and a subsidy that is first calculated on the basis of the estimated contract amount at the time of the initial project screening and then based on the appraisal report presented for project approval (Danida/Secretariat for Mixed Credits 2010; Danida 2013d, 2013e).

The subsidy consists of three main components, namely interest rate support, export credit premium and a bank margin. Should the total sum of these components not suffice to achieve the concessionality requirements of the Arrangement, Danida fur-

thermore allocates a cash grant in order to reduce the principal loan amount. With the current very low interest rates, this cash grant is usually needed, even for countries in which a 35 % concessionality level is required (Danida 2013d; Interview B1). The concessionality requirements are in accordance with Arrangement rules set at 35 % and 50 % respectively. Sector specific variances are not provided for. As a result of the combination of the currently low interest rates (and thus the necessity of an additional cash grant) and Danida’s geographical focus shift to lower income countries (requiring the higher concessionality level of 50 %), the leverage of the instrument today seems to be decreasing (Interview B1). Furthermore, it needs to be noted that *“[i]f, on the other hand, the sum of interest, export credit premium and bank margin exceeds the minimum subsidy required by the OECD, part of the interest may be charged to the Borrower as a Borrower’s interest”* (Danida/Secretariat for Mixed Credits 2010: 9). It, thus, appears likely that the concessionality level of a Danish mixed credit is pegged just above the minimum requirements of the Arrangement.

Figure 11.7: Composition of Danida Subsidy



Source: Danida 2013d, 2013e

11.2.4.2.2. Loan Conditions

Danida Business Finance offers interest-free or low-interest loans, typically with a maturity of 10 years and issued exclusively in either USD or EUR (Danish MfA/Danida 2011a).

The loan in the mixed credit package is to be administered in accordance with Danida Business Finance Conditions for Loan Agreements (Danida/Secretariat for Mixed Credits 2010). After commissioning of the project, i.e. when the project has been handed over, and after the starting point of the loan, the lending bank forwards a financial statement for the loan, which is to be audited by Deloitte. In a next step, Danida issues a final financial statement to the involved parties which shall ensure that the conditions for the loan have been fulfilled and that the concessionality level required by the Arrangement is being met (Danida 2013d, 2013e: Annex).

The borrower is obliged to repay the loan principal (less any cash grants) in equal, semi-annual installments, normally starting six months after the acceptance and certification of the commissioned goods and/or services, i.e. when the project has been installed, tested and handed over to the buyer (Danida 2013d). Furthermore, as shown in Figure 11.7, the commitment and management fees to the Danish lending bank are to be covered by the borrower (Danish MfA/Danida 2011a).

Budget Margin

Danida Business Finance projects were found to take on average three years from the starting date of the appraisal to the final conclusion of the contract. This leaves a considerable time period in which market prices can change significantly. This in turn might entail the need for additional funding (Danida 2013d). Furthermore, the loan in a mixed credit is, as mentioned above, exclusively issued in USD or EUR while the total appropriation is denominated in DKK which makes the Danish mixed credit arrangement vulnerable to “[...] any adverse exchange rate movements, which could lead to the estimated expenditures in foreign currency exceeding the approved amounts” (Danida 2013e: 15). In order to deal with these interest rate and currency risks as well as changing market prices, the current Danida Business Finance practice foresees the inclusion of a budget margin of 25 % in the submitted grant proposals (Danida 2013d).

Especially the interest rate and currency risks inherent to the system require further examination. Resulting from the fact that in the current system the interest subsidy scheme is subject to market conditions, the accrued interest rates are not known at the time of calculation which might result in the need for increases in appropriation. During the utilization period interest expenses are based upon the short-term market interest rates – EURIBOR interest rates. In contrast, the interest expenses during the repayment period consist of a 10-year swap rate based on an agreement on fixed interest rates, which is determined shortly before the repayment period commences.

The latter comprises the main part of the interest expenses in the scheme. As the cash grant is determined already at the stage of preliminary approval, an increase in market interest rates might lead to additional costs “[...] not included in the commitment which may exceed the approved amount of interest subsidy. This item will thus have to be covered by the total appropriation” (Danida 2013d, 2013e, Annex).

In the long term Danida aims at minimizing the number of grant increases due to changes in interest and exchange rates. In order to reduce the overall currency risk, Danida encourages loan financing denominated in EUR. Furthermore, Danida currently considers “[t]he possibility of concluding forward contracts with the lending bank” which would allow the determination of the interest rate of the repayment period early in the funding process and would thus substantially reduce the interest rate risk inherent to the system in place today (Danida 2013e).

11.2.5. Complementary Programs

In addition to Danida Business Finance, Denmark provides several business support and private sector development instruments which are conceptualized as being complementary to each other and which are expected to create and use synergies as effectively as possible. In order to better locate mixed credits in the wider landscape of development finance instruments, three of the latter shall be presented here briefly. The appraisal reports, which are presented for approval of a mixed credit project, *inter alia* have to describe the complementarity of the project with other Danida business instruments.

The GoGlobal Platform, which is conceptualized as a common point of entry to Danida, the *Trade Council*, the *Export Credit Fund (EKF)*, and the *Industrialisation Fund for Developing Countries (IFU)*, reflects this attempt to increasingly link different instruments (Danish MfA/Danida 2011b: 37).

11.2.5.1. Danida Business Partnerships

Danida Business Partnership is the second component of Danida Business Cooperation and can thus be seen as a complementary program to Danida Business Finance. Danida Business Partnerships, formerly known as Private Sector Development Programme, is the facility managed by Danida which financially supports the preparation and implementation of commercially oriented business partnerships between Danish companies and businesses in Danida partner countries. This shall help to mitigate some of the risks characteristic for the pursuit of new business opportunities in developing countries²⁴⁸. With a total amount of DKK 237 million, the annual budget allocated to Business Partnerships (The Danish Government 2013: 11), the program is slightly smaller in volume than Danida Business Finance (DKK 300 million).

²⁴⁸ <http://um.dk/en/danida-en/activities/business/partnerships/>

11.2.5.2. Investment Fund for Developing Countries (IFU)

The Investment Fund for Developing Countries, short IFU, assumes the role of an advisor and co-investor for Danish companies wishing to gain foothold or expand their activities in developing countries (Danish MfA/Danida 2011b: 37). The facility invests “[...] by committing equity capital or by providing loans or guarantees to project companies, the purpose being to promote development in host countries”. Unlike Danida Business Finance, the fund operates on commercial terms²⁴⁹.

11.2.5.3. The Fast-Track Scheme: an EKF – DBF Cooperation

In mid-2013 the Eksport Kredit Fonden (EKF) and Danida Business Finance (DBF) jointly launched a new *fast-track scheme* for sustainable Danish exports to developing countries²⁵⁰.

The main aim of the scheme is to support Danish businesses when bidding for large public contracts in the range of USD 50-70 million in developing countries by increasing predictability of financing options for exporters²⁵¹ (Interview B8, B9). The initiative can be partly seen as a reaction to difficulties encountered by EKF in implementing the “*Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of the Official Export Credits to Low Income Countries*” adopted by the OECD Working Party on Export Credits and Credit Guarantees (ECG). Agreed upon in 2008 in support of World Bank and IMF efforts of providing financing opportunities to poor countries without endangering their “[...] financial future and long-term development prospects”²⁵², the principles contain concessionality requirements in accordance with IMF and/or IDA thresholds (TAD/ECG(2008)15). As EKF works on commercial terms and does not allocate any grant money, Danida/DBF comes into play by providing the needed financial support for a mixed credit and thus allowing EKF to meet the sustainable lending principles (Interview B8, B9). The fast track procedure designed for such cases in which concessionality requirements are set by these principles essentially builds on existing structures and guidelines in the field of mixed credit financing, but EKF and DBF step in at a later stage of the project cycle, namely when the tender has already taken place (Interview B8, B9). The fast track scheme is, however, of limited scope. It is available in pre-defined sectors that are either directly linked to or may be demonstrated through detailed assessment to be linked to DBF’s green growth agenda. Furthermore, so far a list of eight countries (Bangladesh, Burkina Faso, Ghana, Kenya, Mozambique, Nepal, Tanzania and Ugan-

²⁴⁹ Infrastructure Investment Fund: <http://www.ifu.dk/en/About+IFU>

²⁵⁰ EKK: <http://www.ekf.dk/en/News-and-Knowledge/news/Pages/Fast-track-scheme-for-sustainable-Danish-exports-to-developing-countries.aspx>

²⁵¹ Ibid.

²⁵² OECD, Export Credits: <http://www.oecd.org/tad/xcred/sustainable-lending.htm>

da) has been pre-approved for the scheme²⁵³. On a case-by-case basis, however, additional countries may be included (Interview B8, B9).

The initiative is thus presented as an attempt to integrate as best as possible the respective agendas of EKF and Danida (Interview B8, B9, B10). The Development Co-operation Minister at that time – Christian Friis Bach – considered the fast-track a **win-win-win system** which “[...] will help to alleviate poverty and boost development in some of our important partner countries where large projects need to be financed; it will make Danish businesses' solutions more attractive by improving their chances of quickly and efficiently combining soft loans with export credits in developing countries; and it will ensure the transfer of climate-friendly and green solutions that Denmark can supply and developing countries need²⁵⁴.

At the time of completion of this report, no projects have been financed under this new track (Interview B8, B9). Thus, the extent to which this acceleration of procedures will be detrimental to a careful appraisal of development impacts and if it will entail a shift of priorities in the sphere of concessional financing, remains to be seen.

11.3. Program Performance

11.3.1. Statistical Issues

The statistical analysis provided in the following aims at examining the quantitative evolution of Danish mixed credits as well as their sectoral and geographical distribution. In view of the small percentage of untied mixed credits of the overall volume, the focus will be put on tied mixed credits from Denmark. The chapter mainly draws on information extracted from the DAC's Creditor Report System, but will also take into account information provided by national budget frames, Danida's Annual Reports, and builds on data provided by interview partners (Interview B1, B8, B9). The grant provided by Danida in a mixed credit (comprising interest subsidy, premium, technical assistance and possibly an outright grant), is reported to the DAC as a tied grant with the donor Project ID: 104.O.30. The CRS database was filtered for this code and the results were compared to Danida's program and project database (PPO) as well as to project approval lists. While projects and sectors essentially correspond, the year of approval is not necessarily the year in which the commitment is reported to the DAC. As reporting of the commitment to the DAC does not always correspond with the year of the project's approval, comparison of national approval numbers and DAC figures has proven to be difficult. In order to allow for comparison with the other case study countries, it has been decided to focus on DAC statistics for the quantitative analysis of Danish mixed credits.

²⁵³ EKF: <http://www.ekf.dk/en/News-and-Knowledge/news/Pages/Fast-track-scheme-for-sustainable-Danish-exports-to-developing-countries.aspx>

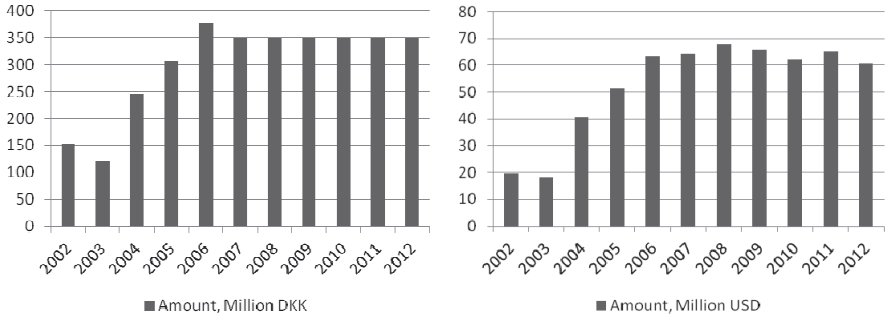
²⁵⁴ Ibid.

Furthermore, it needs to be mentioned that increases and decreases of earlier commitments, respectively, which are re-reported at a later stage to the DAC – with the same donor project ID but a different code of submission (OECD/DAC 2013b) – have not yet been clustered with the original commitment. While this loophole does not weaken viability of information gained on volumes of commitments in certain sectors or countries, it does not allow for statements on the number of projects in a given year.

11.3.2. Development of Mixed Credit Financing

The annual budget, which is earmarked for Danida's Business Finance Program, has on average pledged about DKK 300 million over the last ten years (2002-2012). Taking exchange rates used by the DAC in 2002-2012, the following annual amounts of Danida Business Finance grants in million USD have been allocated to Danish mixed credits. The total budget available in the period 2002-2012 thus amounts to roughly USD 580 million.

Figure 11.8: Budget for DBF Grants



Source: DBF Database (10/10/2013)

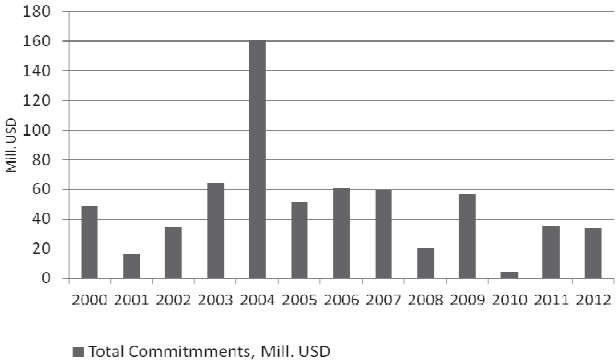
The the budgetary outlook 2013-2017 indicates that for 2013 DKK 250 million are earmarked for the program. For the subsequent years the amount is predicted to rise again to DKK 300 million (The Danish Government 2013: 11).

Comparing the commitments reported to the DAC to the above shown national statistics reveals several inconsistencies. While the total of commitments reported in the period 2002-2012²⁵⁵ amounts to USD 580 million – thus equaling the overall budget for this period –, annual volumes and the annual number of projects diverge from the national information on project approvals due to the fact that commitments might be reported at later stage (i.e. when the contract has finally been signed). Drawing on the

²⁵⁵ DAC data for 2012 are still preliminary.

data from the Creditor Reporting System, the reported annual commitments for the years 2000-2012 are distributed as follows.

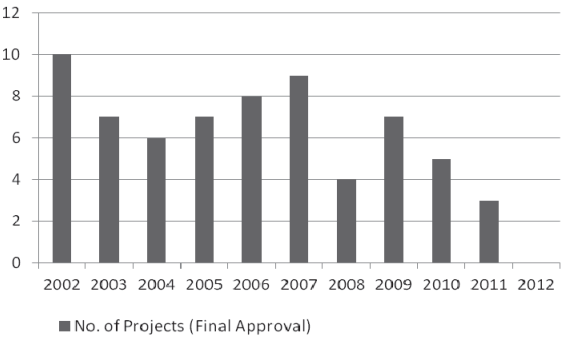
Figure 11.9: Total Mixed Credit Commitments Tied



Source: DAC/CRS, Commitments, million USD (Current Prices) (1/11/2013)

While in terms of commitments reported volumes peaked in 2004 with a tied amount of 160 million USD, in terms of the number of project approvals the years 2002 and 2007 figured as record years (DBF Database, provided on 10/10/2013). The number of annual project approvals is illustrated in the graph below.

Figure 11.10: Number of Project Approvals per Year



Source: DBF Database (10/10/2013)

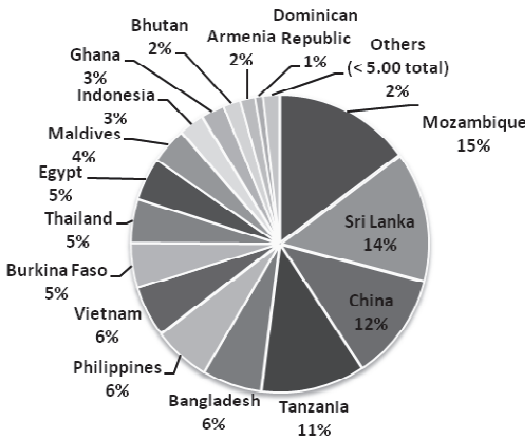
As of October 2013, EKF, which is responsible for notification to the Participants Group, has received three notifications from Danida Business Finance for the year 2013 to be reported to the OECD (Email Correspondence B8). A notification *per se*, however, does not mean that projects will be approved and eventually materialize. The

decrease in the number of annual project approvals from 2009 onwards reached its all-time low with zero projects approved in 2012. Whether this development is indicative of future trends remains to be seen. The slight budget cuts predicted by the budgetary outlook for 2013-2017, in any case, give rise to the assumption that either the number of projects or the volume of projects will have to drop in the years to come – the first scenario of which seems more likely.

11.3.3. Recipient Countries

Due to the fact that the DAC's Creditor Reporting System provides disaggregated annual data at the project level, the following chapters largely draw on Danida's commitments related to mixed credits reported to the DAC – despite prevailing discrepancies with national data on project approval. In the period 2000-2012 commitments for tied mixed credits for a total of 23 countries have been reported by Danida to the DAC's Creditor Reporting System. Among these, *Mozambique, Sri Lanka, China* and *Tanzania* can be identified as the four main beneficiaries of tied Danish mixed credits in the period 2000-2012. In comparison, on the basis of the number of project approvals in the period 2002-2012, China (1), Vietnam (2) and Thailand (3) can be identified as the three main countries attracting Danish mixed credits (DBF Database, 10/10/2013).

Figure 11.11: Main Recipients (2000-2012)



Source: DAC/CRS Database, Commitments 2000-2012 (1/11/2013)

Note: Percentage is calculated based on the cumulative volume (USD), 2000-2012. Countries grouped in the category others are Jordan, Ecuador, Zambia, Nicaragua, Guatemala, Tonga, Mongolia, South Africa

A closer examination of the annual distribution of mixed credit commitments among recipient countries reveals a rather heterogeneous composition of annual commitments and indicates only to a very limited extent trends and shifts in priority setting. This diverse picture is at least partly due to the fact that up to the recent programmatic changes, Danish tied mixed credits have been available for projects in all developing countries (without explicit policy statements with regard to geographical priority setting).

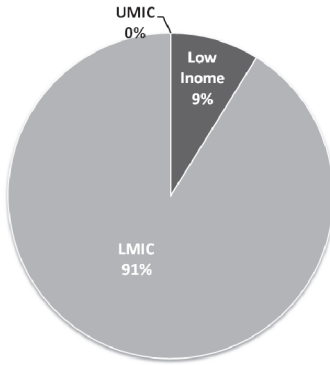
In order to get a more comprehensive picture of the program's focus, in the figures below, recipient countries have been clustered according to World Bank classification into groups of Upper Middle Income Countries (UMICs), Lower Middle Income Countries (LMICs) and Low Income Countries (LICs). The snapshots of the calendar years 2000, 2006 and 2012 suggest that while in the beginning the program was concentrated on projects in LMICs, this trend was reversed and Low Income Countries steadily consolidated their role as recipients of tied Danish mixed credits.

A comparison of Figure 11.12, Figure 11.13 and Figure 11.14 indicates that while in 2000 only 9 % of reported commitments concerned projects in Low Income Countries, the latter had increased their share to 30 % by 2006 and attracted about 42 % of all mixed credit projects (commitments) in 2012. This implies that the group of low income countries steadily consolidated its role as recipient of tied Danish mixed credits while commitments to lower-middle income countries decreased quasi proportionally. As mentioned earlier tied mixed credits cannot be used in countries with a GNI above the LMIC threshold, thus explaining the absence of flows to this group of countries in the years 2000 and 2006. The share of UMIC's in 2012 can be explained by the graduation of China from LMIC to UMIC status. Following Arrangement rules a country's status is only upgraded after its World Bank category has remained unchanged for two consecutive years (TAD/PG(2013)11: 8). While in 2010 and 2011 China was in the transitory phase, as of 2012 it is according to the Arrangement rules no longer eligible for tied aid credits and should not be reflected in future statistics²⁵⁶.

Interpretation of the below graphs requires caution. Data on volumes are sensitive to the influence of single (large) projects and it needs to be considered that projects in Least Developed Countries (LDCs) require a higher concessionality level, thus also the reported grants in the group of Low Income Countries *tend* to be higher in volume which consequently does not allow drawing direct conclusions on priority setting.

²⁵⁶ For the analytical country classifications of the World Bank please see <http://siteresources.worldbank.org/DATASTATISTICS/Resources/OGHIST.xls>

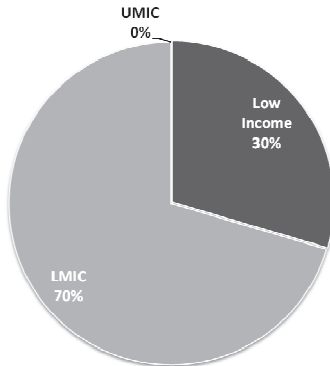
Figure 11.12: Annual Distribution among Country Groups According to World Bank Classification 2000



Source: DAC/CRS, Commitments (USD, current prices); (1/11/2013)

Note: Percentage is calculated based on the total annual volume of commitments in 2000; World Bank country classifications is based on the data for calendar year (World Bank 2013a)

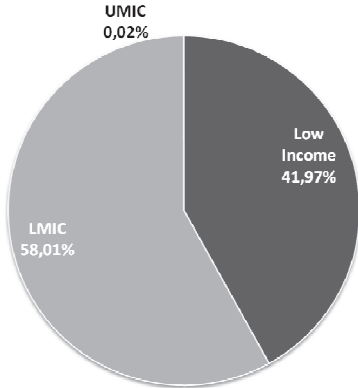
Figure 11.13: Annual Distribution among Country Groups According to World Bank Classification 2006



Source: DAC/CRS, Commitments (USD, current prices) (1/11/2013)

Note: Percentage is calculated based on the total annual volume of commitments in 2006; country classifications is based on the data for calendar year (World Bank 2013a)

Figure 11.4: Annual Distribution among Country Groups According to World Bank Classification 2012



Source: DAC/CRS, Commitments (USD, current prices) (1/11/2013)

Note: Data for 2012 are preliminary; percentage is calculated based on the total annual volume of commitments in 2012; country classifications is based on the data for calendar year (World Bank 2013a)

With the new geographical focus on Danida priority countries a consolidation of the focus on Low Income Countries is to be expected. Both China (which has also been graduating following the Arrangement's provisions) and Sri Lanka are not among Danida's priority countries and are no longer eligible for mixed credit support. Thus, the composition of recipient countries will be subject to changes over the next decade or so, entailing a growing share of Low Income Countries among the recipient countries.

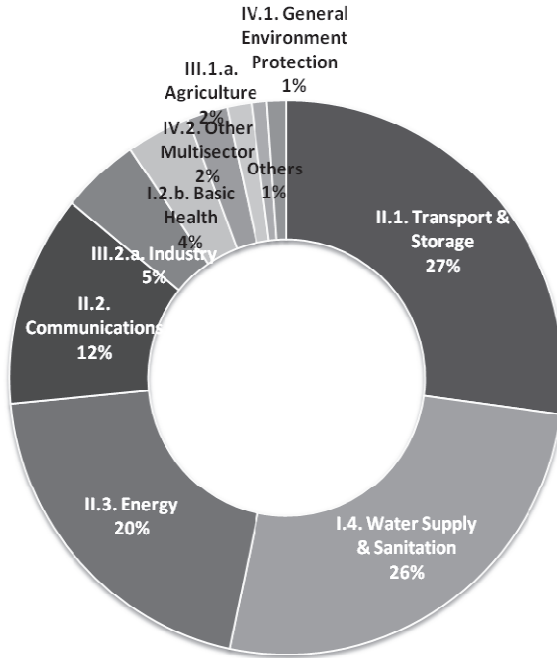
11.3.4. Sectors

Based on the commitments (amount tied, million USD, current prices) reported to the DAC in the Creditor Reporting System (CRS), the following section inquires the main sectors having attracted Danish mixed credit financing in the period 2000-2012.

The below graph displays all sectors for which mixed credit commitments have been reported in the period 2000-2012. Sectors having received less than USD 5 million in commitments over the whole period have been grouped in "Others". In total, mixed credit commitments in 16 different sectors (according to DAC sector classifications) have been reported.

The three largest sectors in this period were *transport and storage, water supply and sanitation* and *energy*, followed by projects in *communications* as well as in *industry*. It remains to be seen if the recently introduced prioritization of climate friendly and clean technology will have substantial effects on the sectoral distribution of mixed credit commitments by Danida.

Figure 11.15: Main Sectors (2000-2012)



Source: DAC/CRS, Commitments, Million USD (Current Prices) (1/11/2013)

Note: Percentage is calculated based on the cumulative volume (USD), 2000-2012. Sectors grouped in other are I.2.a. Health, General, III.1.c. Fishing, I.5.a. Government & Civil Society-general, I.6. Other Social Infrastructure & Services, III.2.b. Mineral Resources & Mining, I.1.a. Education, Level Unspecified.

11.3.5. Danish Untied Mixed Credits

As has been mentioned earlier untied mixed credits are only applied under the condition that national competitive bidding did not produce sufficient interest among Danish companies. According to statistical data provided by Danida Business Finance four untied projects have been approved since the inception of the untied window in 2002.

Amongst these only the wind power project in Egypt as well as the project in South Africa (industry/agro-industries) could be identified in the commitments reported in the DAC Creditor Reporting System. While also precisely one telecommunications project in Bhutan can be found among the commitments in the CRS database, the corresponding amount is reported to be “tied”.

Table 12: Untied Mixed Credit Projects Approved (2002-2012)

Country	Category	Amount, million DKK
Bhutan	Telecommunications	81
Egypt	Wind Power	319
South Africa	Agro-industries	9.5
Vietnam	Radio/television/print media	10.6

Source: DBF Database (10/10/2013)

11.4. Program Implementation

The current administrative structure of the Danish mixed credit system was introduced in 2012 with the integration of the former Secretariat for Mixed Credits – henceforth Danida Business Finance – into the Green Growth Department (Email Correspondence B1). The main changes related to the transformation of the mixed credit scheme into Danida Business Finance include the alignment of recipient counties with Danida priority countries, the focus of the program on projects within the Department's green growth agenda as well as the replacement of the specialized Committee for Mixed Credits by the general Danida Grant Committees – hence the administrative integration of mixed credit procedures in overall Danida structures (Interview B1).

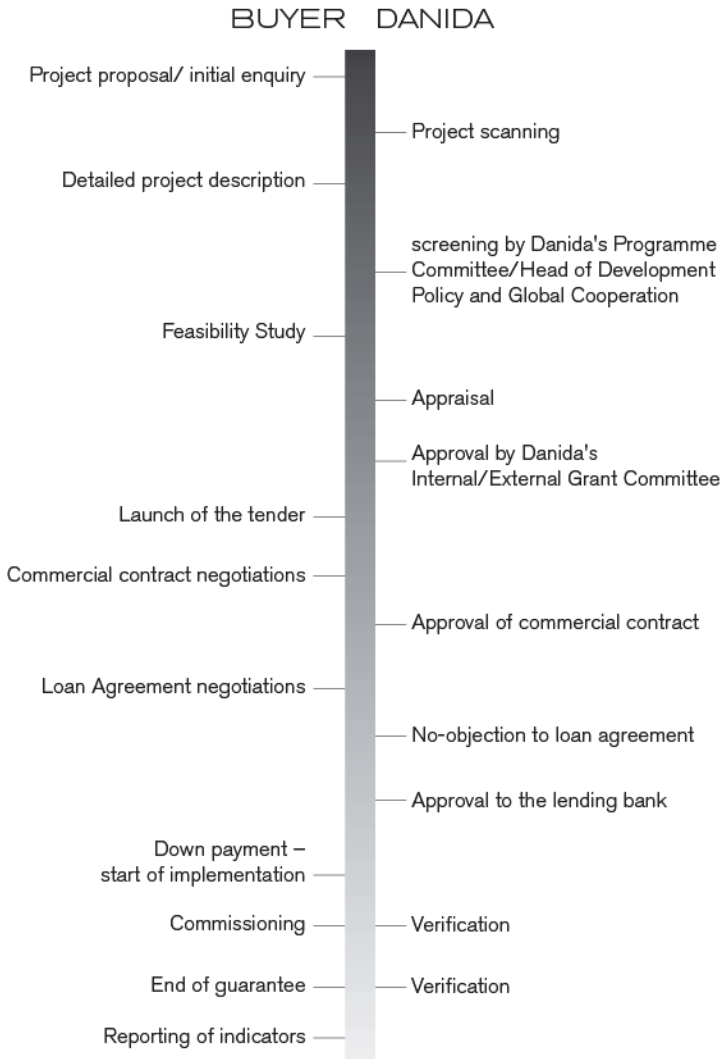
11.4.1. Application and Project Approval Process

In the Danish system, the potential borrower/buyer of Danish goods and services applies for mixed credit financing. Prospective projects are then assessed and eventually approved by Danida. The mechanisms at work in this process starting with the initial proposal to the commissioning of a project shall be outlined in this chapter.

The general procedure for mixed credit financing encompasses the following main steps which are illustrated in Figure 11.16.

On average, the time-span from application to approval and implementation in a Danida Business Finance project is estimated to be three years (Danida 2013e: Annex 5). It should, however, be considered that the overall project preparation time is likely to be substantially longer because, amongst other things, feasibility studies are expected to be conducted prior to application. While appraisals should take no more than three months starting from the receipt of background material, experience has shown that especially in the case of very large projects the appraisal and application procedures are often more time-consuming. This is not at last due to the fact that the “[...] appraisal may result in specific conditions that have to be fulfilled before support can be finally committed” (Danish MfA/Danida 2007b).

Figure 11.16: Timeline from Application to Project Approval and Implementation



Source: Own Elaboration, modeled after Danish MfA/Danida 2011a

Major steps in the application, approval and tender process shall be examined in greater detail in the paragraphs below.

11.4.1.1. Application and Screening Procedure

The decision-making procedure for mixed credit financing essentially follows the general project/program approval process of the Ministry of Foreign Affairs/Danida and consists of two main steps, the preliminary indication of the project and the final approval (Danish MfA/Danida 2007b).

In a first step, in order to apply for Danida Business Finance, a full project description needs to be submitted by the potential borrower/buyer to Danida for screening, which is expected to contain the following components:

- “information about project background
- **poverty reduction objectives**
- total project investment incl. detailed budget
- type of equipment to be delivered
- contract amount to be financed
- financial set-up including borrower and guarantor (confirmed by a letter of intent)
- organisational set-up
- timetable and milestones in the project²⁵⁷

In addition, the applicant is expected to present a feasibility study containing those components set out in the standard forms accessible on DBF's homepage²⁵⁸. Danida has a facility which can partly be used to finance feasibility studies. Although feasibility studies and other background documentation are often found to be of insufficient quality (Interview B1; Danish MfA/Danida 2002: 53), this facility is rarely used. By recognizing the responsibility and leadership of the borrower/buyer in drafting the initial project proposal and in conducting the feasibility study, Danida aims at strengthening the commitment of the applicant for the project (Interview B1). Furthermore, in terms of recipient ownership it is expected that the project idea originates from the recipient country and is developed by the borrower/buyer without major involvement from the side of Danida. In order to standardize the information provided in feasibility studies, guidelines and standard forms for feasibility studies for projects in the following main sectors can be accessed on the homepage of Danida Business Finance:

- Standard Form for Wind Energy Feasibility Studies
- Standard Form for District Heating and Power Supply Feasibility Studies
- Standard Form for Industrial Feasibility Studies

²⁵⁷ Danida Business Finance, How to Apply for Support: <http://um.dk/en/danida-en/activities/business/finance/applyforsupport/>; emphasis added

²⁵⁸ Danida Business Finance, Guidelines: <http://um.dk/en/danida-en/activities/business/finance/guidelines/>

- Standard Form for Health Care Services and Vocational Training Feasibility Studies
- Standard Form for Water and Sanitation Feasibility Studies²⁵⁹

Essentially the components of the feasibility study correspond to those which are to be covered by the appraisal report. With regard to OECD-wide guidelines, Danida's Standard Forms for Feasibility Studies are broadly consistent with the minimum criteria set by the Participants Group. While the information required in Danida's Standard Forms goes beyond the *Checklist for Information in Feasibility Studies* of the *Ex Ante Guidance for Tied Aid* (TD/PG(2005)20/Annex) with regard to certain aspects – for instance not only financial but also economic analysis is to be provided – the national standard forms are less explicit on others, most notably on aid quality aspects which are not inquired in a specific chapter.

After all necessary background documentation has been submitted by the applicant, Danida examines the application and decides whether it complies with all the formal requirements, e.g. country and project eligibility, sophistication of the feasibility study etc. If this is the case, the Danida Business Finance unit presents the project – depending on its volume – to either Danida's Programme Committee (project grants > DKK 35 million) or the Head of Development Policy and Global Cooperation respectively which/who then carries out a preliminary screening of the project.

In the case of projects above DKK 35 million which require preliminary approval by the Programme Committee, concept notes are published on Danida's transparency webpage for public consultation 16 working days prior to the meeting (Danish MfA/Danida 2013c: 7). The results of these public consultations which are mandatory for large projects (Email Correspondence B1) – just as for any other Danida activity submitted – are to be discussed in the corresponding Programme Committee meeting²⁶⁰.

This first screening process produces a preliminary assessment of eligibility and eventually provides a positive indication to go ahead with project preparations²⁶¹. With the basic consent of the Programme Committee or the Head of Development Policy and Global Cooperation, respectively, Danida Business Finance assigns an external consultant to appraise the project and consults the expertise of Danida's Technical Service Advisory (TSA). This appraisal includes on-site visits, i.e. a field-trip to the project site. If the appraisal is generally positive, Danida Business Finance submits the project to Danida's Grant Committee, which on the basis of the presented appraisal report and the project document eventually approves or declines the project. Once the subsidy for a project has been granted by the Grant Committee, Danida Business Fi-

²⁵⁹ Danida Business Finance, Guidelines: <http://um.dk/en/danida-en/activities/business/finance/guidelines/>

²⁶⁰ Danida Business Finance, Transparency: <http://um.dk/en/danida-en/about-danida/danida-transparency/public-consultations/>

²⁶¹ Danida Business Finance, How to Apply for Support: <http://um.dk/en/danida-en/activities/business/finance/applyforsupport/>

nance gives green light to the responsible ministry in the recipient country to launch the tender process (Interview B1).

11.4.1.1.1. The Appraisal Report: Testing against Development Criteria

As Danida Business Finance is guided by Denmark's overall development strategy, contributing to eradicating poverty in recipient countries is described as the overriding goal of the Danish mixed credit scheme (Danish MfA/Danida 2007b).

The project appraisal which is based on on-site visits can be considered the core quality check of the project proposal, including an assessment of the expected development impact. At the point of the appraisal, all documentation required and stakeholder commitments should be in place. Danida assigns an external consultant – usually a team of three experts (Interview B10) – to appraise the project and to assess whether it is consistent with Danida's development criteria. Today, in principle, all appraisals must contain field visits (Danish MfA/Danida 2002: 29 & 2011a). Although rare, desk appraisals are conceivable in the case of small projects (Interview B1).

Just as for feasibility studies, the standard forms for the appraisal of projects in the most frequent sectors (Wind Energy, District Heating and Power Supply, Industrial projects, Health Care Services and Vocational Training, Water and Sanitation) can be found on the homepage of Danida Business Finance and contain the sections listed below. In the following, special emphasis will be given to those chapters of the appraisal report expected to demonstrate the development impact of a potential project and its compliance with what Danida considers "good" development practice, respectively.

- 1) Introduction
- 2) Summary
- 3) Project Context
- 4) Assessment of Project Justification
- 5) Technical Assessment
- 6) Assessment of Project Organisation
- 7) Environmental Impact Assessment
- 8) Assessment of Working Environment and Rights at Work**

As compliance with the *ILO Declaration on Fundamental Principles and Rights at Work* is a requirement for Danida support, the appraisal is expected to assess the buyer's compliance with national laws and regulations regarding fundamental rights at work. The assessment of workers and human rights shall *inter alia* cover the following core labor rights:

- o "Freedom of association and the effective recognition of the right to collective bargaining

- The elimination of all forms of forced or compulsory labour
- The effective abolition of child labour
- The elimination of discrimination in respect of employment and occupation”

9) Assessment of Planned Procurement Procedure

10) Assessment of Budget and Financing

11) Financial Analysis

12) Economic Analysis

In this chapter all economic costs and benefits should be listed, explained and if possible quantified. Depending on the type of projects this description should include the following aspects:

- “Direct employment and income generation of beneficiaries.
- Human resource development; economic growth.
- Subsidies from local/national budgets (to cover operational deficits) or contribution to the local/national budgets (tax payment from the project services).
- Economic quantification of environmental externalities, e.g. benefits from reduced emission of CO², SO² and NO_x”.

This means that ideally, conducting a cost-benefit analysis is suggested as part of the appraisal, thus taking into account one of the main proposals brought forward by the DAC Working Party on Financial Aspects of Development Assistance (Chapter 5).

13) Assessment of Assumptions and Risks

14) Justification for Danida Support

In this chapter the relevance of the project for Danida support in the form of Danish mixed credit shall be assessed and the project’s compliance with Danida’s overall objectives and strategies is to be demonstrated. The latter demonstration which can be considered the core part of the expected aid quality and development impact shall include at least the following elements:

- “Poverty reduction/social and economic development: target group(s); living conditions; employment; economic growth; income distribution; geography (development area).
- Gender: equality; women’s rights; women in employment.
- Environment: sustainable development; environmental protection; working environment.
- Democracy: human rights; good governance; anti corruption; HIV/AIDS control”.

With regard to the relevance of the project for Danish mixed credit the following aspects need to be covered in the appraisal report:

- “The project is in compliance with the recipient country’s poverty reduction strategy.
- Satisfaction of Danida’s overall and cross-cutting objectives.
- Compliance with Danida Policy for the sector.
- The project complements one or more Danida (or other donors’) sector programmes.
- The project has synergy to Danida’s other business support instruments (B2B, IFU, OPP, etc.).
- Employment generation, specific focus on jobs for women.
- Contributing to viable economic growth.
- Contributing to improved working environment and rights at work; employment conditions.
- Contributing to improved living conditions.
- Relevant expertise for project implementation available in Denmark.
- Project after sales service available in the recipient country.
- The project is non-commercially viable.
- The project is organisational, technical and financially sustainable”.

15) Project Monitoring Indicators

The appraisal report is expected to set measurable indicators for project monitoring.

- “[B]aseline values for the project output/outcome indicators [...]
- Target values for each output/outcome indicator to be met after commissioning for the timeframe of 5 years. [...]
- Describe the indicator monitoring reporting requirements (normally it shall take place yearly for a period of 5 years after commissioning)“

16) Summary of Conclusions, Recommendations and Conditions

17) Next Steps, Actions to be Taken

These appraisals constitute the main basis for the qualitative assessments and subsequent decision-making on project financing by the Danida’s Grant Committee(s). According to the information available, the Committee does not make use of additional tools for a systematic assessment of the respective components of the project and the weight attached to them in the appraisal.

Taken together, development and aid quality related aspects are to be addressed explicitly in several chapters of the appraisal report (Working Rights, Economic Analy-

sis, Justification for Danida Support, Monitoring Indicators) and are implicit to the chapters on environmental assessment and risk assumption. Thus, development criteria are visibly incorporated in the appraisals which – as mentioned earlier – build the basis for decision-making on mixed credit funding. The appraisal templates tend to be repetitive with regard to certain aspects – employment generation and working rights are, for instance, mentioned in multiple sections of the reports and therefore inflate the weight attributed to development impact assessment.

The standard forms for appraisal reports formally reflect the main elements which are laid down in the *DAC Principles for Project Appraisal* (1988) and referred to by the Participants in the *Checklist of Development Quality* attached to the Arrangement (TAD/PG(2013)11). Taking these minimum criteria for project appraisal as benchmark it can be concluded that the Danish standard forms for project appraisal contain the main components suggested by the DAC for sound appraisal practices (OECD/DAC 1992: 33-47).

However, the degree of sophistication of the actual reports following the above outlined structure cannot be estimated on the basis of the documents available. Criticism voiced in 2002 with regard to the “shallowness” of monitoring indicators seems to be at least partially still valid. With regard to the impact of specific projects an evaluation team in 2002 argued that neither the projects assessed nor the guidelines for feasibility studies and appraisal reports issued in 2001 provided information on the type of impacts to be expected or the indicators needed to measure the achievement of these impacts (Danish MfA/Danida 2002: 58). Although output and outcome indicators have been further developed since then, they often remain vague.

11.4.1.2. Approval Process

From 1996 up to 2011 a specialized committee, the Danish Committee for Mixed Credits (CMC), was in charge of screening and approving projects applying for mixed credit financing (Danida 2013d; Email Correspondence B1). The CMC consisted of eight members who were appointed by the Minister for Development Cooperation (Danish MfA/Danida 2002) and who represented a variety of stakeholders: Danish Industrial Organization, Economic Council of the Labour Movements, Danish Bankers Association, Ministry of Finance, Ministry of Economic and Business Affairs/EKF, Danish Confederation of Trade Unions (Danish MfA/Danida 2011c: 160).

In order to better integrate mixed credit projects into general Danida activities, this specialized Committee was abolished in 2011 and was replaced by the regular Danida approval process. For a short period of time the Board for International Development Cooperation was in charge of approving mixed credit projects (Interview B11; Folketinget 2013). With the new Act on International Development Cooperation (Act No. 555 of 18 June 2012) the Board, however, was abolished. Today, Danida Business Finance projects are subject to regular Danida procedures and have to be ap-

proved by either of the two Grant Committees (Appropriation Committee) depending on the volume of the project grant (Interview B1; Folketinget 2013).

11.4.1.2.1. Composition of the Internal and External Grant Committee

A project given positive indication by either the Programme Committee or the Head of Development Policy and Global Cooperation (UGS) will be submitted to the External Grant Committee for approval (Danida 2013b, 2013d: 8 & Annex 3).

The External Grant Committee is chaired by the State Secretary for Development Policy or the Under-Secretary for Global Development and Cooperation (in case of absence of the former). In addition, two staff members at the level of Under-Secretary are represented in the committee. While in the Internal Grant Committee only Danida staff is represented, the External Grant Committee also includes four external and independent members - mainly from academia - who are appointed by the Minister for Development Cooperation for a period of three years (Danish MfA/Danida 2013c: 8).

Minutes available from Grant Committee meetings suggest that mixed credit projects are usually presented by the Head/Deputy Head of Danida Business Finance to the members of the responsible Committee for approval (Danida 2013b, 2013c).

11.4.1.2.2. Working Procedures

In preparation of a Grant Committee meeting, relevant documents are circulated to the Committees' members 10 working days prior to the meeting. Furthermore, the grant proposals are uploaded to and published on Danida's transparency webpage (Danish MfA/Danida 2013c: 10). According to the information available, the Committee bases its decision-making on a qualitative assessment of the results presented in the appraisal report and takes into account eventual comments received in the consultation. It appears that the Committee does not use any additional formal quantitative assessment tools with the help of which projects are analyzed. Hence the discussions within the Grant Committee which are based on the presented appraisal report and the project document, lead the Chairman to conclude whether a presented grant proposal is either:

- a) "Recommended for approval by the Minister for Development Cooperation
- b) Rejected in order to be submitted later, or
- c) Rejected" (Guidelines for Presentations to the: Programme Committee, Danida Grant Committees, Council for Development Policy 2013: 10 et seqq.).

In general, decision-making on selection and approval of projects seems to be a consensus-seeking procedure (Interview B1, B10). If a project raises concerns with regard to certain aspects, then it is suggested to adapt the project document accordingly and to submit it again at a later stage. In this manner, for instance, it was recommended in the Grant Committee that for a rural electrification project in Ghana the

poverty reduction impact as well as the green growth scope of the project should be documented before it were re-presented to the External Grant Committee at a later stage (Danida 2013c: Agenda Item no. 2). Resulting from the fact that the Committee is a dialogue-based forum aiming at consensual decision-making, a formal vote does usually not take place (Interview B8, B9, B11).

11.4.2. Tender Process

Once a project has been approved by either the Internal or the External Grant Committee, Danida Business Finance signals to the relevant Ministry in the borrowing country to launch the tender process, which will be organized as national competitive bidding and will hence only be open for Danish companies. Although the tender process is under the responsibility of the authorities in the recipient country, Danida provides assistance in the tender procedure by assigning an external consultant for technical assistance in the preparation of tender documents and the tender evaluation (Interview B1; Danish MfA/Danida 2007a: 4).

Moreover, it has to be documented that competitive procurement has taken place and demonstrated that the offer which has won the bid is competitive regarding technology, price and quality. This information is verified by Danida. In special cases, competitive bidding can be replaced by price verification and direct contract award (Interview B1; Danish MfA/Danida 2007a). These cases, however, require approval by Danida (Interview B1).

Danida's procurement guidelines for mixed credits set out that pre-qualification is to be used in selecting and inviting prospective tenderers among those eligible and qualified. This process of pre-qualification is expected to result in a sufficient number of eligible and qualified tender applications in order to ensure that at least two tenders can be obtained. If this is not fulfilled, re-tendering will take place unless otherwise approved by Danida (Danish MfA/Danida 2007a: 2). This description suggests that international competitive bidding and Danish untied mixed credits only come into play if equally this second round does not succeed in attracting sufficient competition.

During project preparation as well as in the tender procedure Danida tries to be involved at an "arm's length" distance in order to respect the ownership and responsibility of the recipient country. Yet, it is important for Danida to ensure that the tender procedure is administered fairly and transparently (Interview B1). In this respect, Danida has to give no-objections to the tender documents, to the evaluation of the tender and, of course, has to approve the resulting final contract (Interview B1; Danish MfA/Danida 2007a: 4). The no-objection requirement includes pre-qualification, tender documents and evaluation of the tender (Danida 2013e: 6).

Pre-qualification is to be announced publicly “[...] in Denmark and in the Employer’s²⁶² country in sufficient time for potential applicants to obtain the pre-qualification documents and submit their application (usually minimum four weeks)”. The buyer is expected to send a draft of the announcement to Danida “[...] with a request to advertise the announcement on Danida’s homepage and in Danish newspaper(s) as appropriate”. The same announcement is also to be published by the buyer according to the rules in his country (Danish MfA/Danida 2007a: 6). In line with these guidelines, tender announcements can be publicly accessed on the homepage of Danida Business Finance²⁶³ as well on the homepages of Danish embassies in partner countries (Interview B1).

11.5. Monitoring and Evaluation

11.5.1. Monitoring and Evaluation at Project Level

As has been described above, the expected developmental relevance and impact of a Danida Business Finance project is assessed *ex-ante* as part of the regular appraisal process. Just as any other Danida activity, Danida Business Finance projects are, moreover, monitored throughout implementation. In order to ensure satisfactory project progress Danida covers the costs for an external consultant who monitors the project from the tender process onwards to commissioning and who should also ensure that the tender is administered fairly and transparently. Furthermore, at commissioning, his/her tasks include to verify whether the installation which is being handed over is of good quality and done in accordance with the contract (Interview B1, B2, B7). After expiration of the guarantee period the monitoring consultant visits the project site once again in order to examine if there have been any unresolved issues at commissioning and if so, if they have been solved at this point (Interview B1).

Additionally to project monitoring by an external consultant, the buyer is required to report to Danida on key output indicators on an annual basis for five consecutive years starting one year after final taking over of the project (Danish Ministry of Foreign Affairs/Secretariat for Mixed Credits n.s.). The outcome indicators for this *ex-post* evaluation are individually set in the project document and are as such presented for approval to Danida’s Grant Committees (Interview B1). Screening available project documents presented to the Grant Committees for approval does not allow drawing a conclusive assessment of the importance attached to development impact indicators.

²⁶² The term “Employer” is used by Danida to designate the buyer, i.e. “[t]he contracting authority in whose name the pre-qualification process, the tender process and the conclusion and execution of the contract are carried out and who will be taking over the Work on completion (Danida 2007a: Annex D-1).

²⁶³ For current tender announcement, please see <http://um.dk/en/danida-en/activities/business/finance/tender-announcements/>

In the project document for a wastewater and sanitation project in Vietnam, for instance, the following project specific impact indicators are included (Danida 2013d):

- “Reduction in deceases related to wastewater
- Share of poor with access to sanitation
- Improvement in the quality of the water in the rivers and the canals.”

In another project document for rural electrification in Ghana no comparable indicators have been included in the project document (Danida 2013e). The Grant Committee recommended the responsible desk officer to conduct further analysis and to document the poverty reduction impact as well as the green growth scope of the project and to re-present it to the External Grant Committee at a later stage (Danida 2013c, Agenda Item no. 2). The fact that this project was “rejected in order to be submitted later” *inter alia* on grounds of lacking impact indicators strengthens the assumption that the latter are considered an integral part of both project planning and implementation.

Additionally to this project specific set of indicators, adherence to the ILO conventions on worker’s rights is required and monitoring thereof is usually part of the Terms of Reference of the Danida monitoring and verification consultant (Danida 2013e: 7).

In addition to these standard monitoring and evaluation procedures, Danida produces reviews if a considerable volume of projects exists in a certain sector and or if there is a high concentration of projects in a specific country. In such reviews Danida/Danida Business Finance pools all projects which have been implemented in a certain sector and/or country – for instance all wind-farm projects or projects in water and sanitation – and evaluates their effectiveness from the perspective of development policy (Interview B1).

11.5.2. Evaluation at Program Level

11.5.2.1. Evaluations of the Danish Mixed Credit Program 1998 and 2002

The Danish mixed credit program was evaluated twice, in 1998 and in 2002. Only the later evaluation report, which was conducted as part of the regular annual evaluation program of Danida’s Evaluation Department, is electronically available.

While the evaluation conducted in 2002 stressed that the mixed credit program fulfilled the objectives of Danish development cooperation to a varying extent depending on the sector as well as the national and local contexts in which specific projects were embedded, all individual projects reviewed for the evaluation were found to address sector needs and recipient country priorities (Danish MfA/Danida 2002).

In general the evaluation team identified a trend towards a greater emphasis put on aid quality over time, which was reflected in the increased sustainability of more re-

cent projects. While they saw the strengths of the program in its contribution to technology and capacity development through trade and investments in situations where donor intervention was being phased out, the main weakness of the program was found to lie in the considerable amount of donor intervention required in order to ensure that projects were appropriately conceived, implemented and operated (Danish MfA/Danida 2002: 7, 8). In the evaluation report concern was expressed also with regard to the frequently poor quality of background documentation which in turn had repercussions on the quality of the decisive appraisal reports. The evaluators argued that “[t]here [was] not sufficient local pressure to consistently demand improvement in the quality of the studies, which is detrimental to the success of the preparation of DMC projects” (Danish MfA/Danida 2002: 53).

Regarding the impact of specific projects, the evaluation team concluded that elaboration on the expected development impact as well as the specification of corresponding indicators were not sufficiently anchored in the program’s guidelines for feasibility studies and appraisal reports. The evaluators, however, noted that in 2002 a process of developing output and outcome indicators was initiated (Danish MfA/Danida 2002: 58). The need for increased monitoring of project preparation and implementation was found to be of particular importance for achieving effectiveness, impact and sustainability of those projects that “[...] do not properly integrate capacity transfer” (Danish MfA/Danida 2002:55). The evaluation moreover critically noted that the lack of specific objectives of the program “[...] leaves room for interpretation on how to strike the balance between export promotion and aid quality – including the extent to which poverty reduction and the cross-cutting issues could be incorporated in the project design” (Danish MfA/Danida 2002: 9).

Overall the evaluators drew nonetheless a positive picture and concluded that “[t]he Programme has during its existence experienced an increasing focus on aid quality during preparation and implementation”. The evaluators thus argued *inter alia* that the mixed credit program at the time of the evaluation “[...] has struck an appropriate balance between export promotion and aid quality” (Danish MfA/Danida 2002: 8).

11.5.2.2. Meta-Evaluation 2004: Private and Business Sector Development Interventions

In addition to the above-mentioned evaluations of the mixed credit program, a Meta-Evaluation of “Private and Business Sector Development Interventions” was conducted in 2004. This meta-evaluation report contains a chapter on the mixed credit scheme, drawing largely on the afore-mentioned evaluation from 2002.

With regard to the beneficiaries of the program, the meta-evaluation clearly stated that Danish banks and companies are to benefit the most from the granted support (Danish MfA/Danida 2004: 38, 40). The meta-evaluation reiterated the criticism brought forward in the 2002 Evaluation concerning the lack of clearly stated objectives, out-

puts and indicators for the mixed credit program (Danish MfA/Danida 2004: 37). Furthermore, it was highlighted in the report that “[t]he new MCP guidelines from 2001 do not adequately pursue a comprehensive development perspective. The types of impacts to be expected and the indicators needed to ascertain achievement of impacts are not clearly specified in the guidelines and, thus, not in the appraisal reports” (Danish MfA/Danida 2004: 38).

11.6. Accountability and Transparency

The 2012 annual report of the Ministry of Foreign Affairs states that “[f]oreign policy is essentially about people, and therefore **the MFA must focus on servicing all those with an interest in Denmark**. In 2013, the cooperation with the business community and civil society is to be further developed” (Danish Ministry of Foreign Affairs 2013: 11; original emphasis). To a certain extent this quote reflects also the attempt of the recently resigned Minister for Development Co-operation to reinvigorate the Danish “corporatist culture” (Interview B3, B4) and to enhance the transparency of Danida’s administration and its activities in the field of development cooperation. In *his* strategy (The Right to a Better Life) transparency and accountability are presented as core values of a human rights based approach to development cooperation (The Danish Government 2012: 8, 37).

11.6.1. Involvement of the Parliament

In a review of aid management practices in DAC member countries, the OECD/DAC found that the Parliament plays an important role “[...] in monitoring the management and implementation of foreign assistance programmes” (OECD/DAC 2009: 19). In this respect the DAC, emphasized that the Parliament can hold the government accountable for its development commitments both in special hearings and through regular parliamentary questions (OECD/DAC 2009: 19).

Due to the fact that Denmark’s foreign policy and with it development co-operation is under the responsibility of the Government “[...] foreign policy is usually not based on legislation in the Danish Parliament”²⁶⁴. The **parliament** (*Folketinget*), however, discusses the *Strategy for Development Co-operation* and approves the annual Finance Bill and hence Account 6.3. of the Finance Act which is earmarked for development cooperation, and includes the budget for activities under Danida Business Finance. In this respect, the Finance Committee needs to be mentioned. This committee deals “[...] with issues in the following areas: **Finance Bills**, *Supplementary Appropriation Bills*, **appropriation applications (legal documents and supporting documents)**, *Government Loan Bills*, *the final report from the Public Accounts*

²⁶⁴ Please see http://www.thedanishparliament.dk/Committees_and_delegations/Committees/URU.aspx

*Committee regarding the budget, and economic policies in general*²⁶⁵. With regard to the budget it is moreover worth highlighting that in the Danish system resources are usually allocated in two steps. First, Danida's resources are allocated as part of the government's overall financial budget allocation in connection with the Finance Act. In a second step, Danida's resources are internally allocated "[...] through the overall goals – and targets system (MRS) of the Ministry of Foreign Affairs" (Danish MfA/Danida 2011d: 7).

Furthermore, a specialized parliamentary standing committee, the *Foreign Affairs Committee* deals *inter alia* with development cooperation – notably, however, without decision-making power in itself (Interview B2). Although the Foreign Affairs Committee has a broad agenda and tackles all sorts of issues related to national security and foreign policy issues, development aid has traditionally played a prominent role in the committee's work²⁶⁶. The 2012 Act on International Development Cooperation, for instance, was discussed by the Foreign Affairs Committee before being presented to Parliament for approval (Interview B2).

Furthermore, the Parliament might take part in discussions on geographical priority setting of Danish development assistance and in principle has the right to pose questions (Interview B2, B3). In general, it does not get involved with program details or project specific questions (Interview B1, B2, B3, B4). In addition, the DAC report on aid management mentioned earlier highlights that in Denmark parliamentarians are engaged in development policy, for instance, by arranging field visits by parliamentary committees. This concerns especially visits by the Foreign Affairs Committee and the Finance Committee to partner countries (OECD/DAC 2009: 19).

Concerning accountability provisions for the Danish mixed credit scheme, Danida produces a yearly report – Danida's Annual Report – which provides detailed information on all activities in the field of Danish development policy in a given year. From 2007 onwards the "Report from the Danish Committee for Mixed Credits" was incorporated in Danida's annual report. This chapter exclusively dedicated to mixed credits also contained a list of projects approved in a given year as well as the annual budget frame earmarked for mixed credit activities (Danish MfA/Danida 2008: 108). The latest report available in English is the Annual Report from 2011, thus the transformation of the mixed credit program to Danida Business Finance has not yet been captured by any annual report. Furthermore, the structure and format of the annual reports have been changed with this 2011 report, which is "published" as an inter-linked webpage and no longer contains chapters on individual programs. As this

²⁶⁵ The Danish Parliament/Finance Committee:

http://www.thedanishparliament.dk/Committees_and_delegations/Committees/FIU.aspx; emphasis added

²⁶⁶ *Ibid.*

report was completed, the 2012 electronic version of the annual report was only available in Danish (Danida årsberetning 2012²⁶⁷).

11.6.2. Transparency and Availability of Information

Danida Business Finance has published detailed instructions for application for mixed credit financing and provides a description of procedures and the main steps on its homepage. Despite the recent changes in the administration of Danish mixed credits, most available documents – with the exception of the “Danida Business Finance Brochure” – have not (yet) been updated and thus do not (yet) reflect major changes such as the abolishment of the specialized Committee for Mixed Credits²⁶⁸.

In the attempt to increase transparency in Danish developing cooperation, *agendas and minutes* from meetings of both Grant Committees as well as of the Council for Development Policy are publicly available on Danida’s transparency webpage. The agenda documents uploaded prior to the meeting contain project documents in the case of Danida Business Finance and program strategies respectively. The minutes comprise the list of participants and short notes to all items discussed and provide information on the approval status of the latter (Danida 2013c).

As part of the aid transparency initiative, moreover, a program and project database was installed, which is, however, only available in Danish. The database allows to track all bilateral and multilateral activities – including Danida Business Finance projects – which have been approved, are ongoing or were completed in a given year. Therein, all Danida activities are divided by country and sector according to the definitions and sector codes of the OECD/DAC²⁶⁹. In addition, the database provides the description of the project and its administration, information on volume and risk elements, and should provide monitoring and impact indicators. Notably, in the case of Danida Business Finance projects, these indicators are mostly missing. In a more compact format, the “Project Pipeline” for Danida Business Finance contains information on the volume and main objectives of a Danida Business Finance project²⁷⁰.

11.6.3. Stakeholder Consultation

Stakeholder consultation appears to be a firmly established practice in the Danish public administration in general and also in the field of development cooperation (Interview B2, B3, B4). Although, according to one observer, less nuanced than it used to be in the past decades, the Danish public system is frequently referred to as a “mixed public administration” in the sense that an open consultation culture is preva-

²⁶⁷ For the report please see <http://um.dk/da/danida/det-goer-vi/aarsberetning2012/overblik/>

²⁶⁸ Danida Business Finance, Guidelines: <http://um.dk/en/danida-en/activities/business/finance/guidelines/>

²⁶⁹ For the project-and program database please see <http://um.dk/da/danida/det-goer-vi/program-og-projektorientering-ppo/>

²⁷⁰ For the project pipeline please see <http://um.dk/da/danida/det-goer-vi/aarsberetning2012/overblik/>

lent and interest groups are invited to take part in policy-making by being represented in advisory bodies and on boards (Interview B3). In an article in the Danish Foreign Policy Yearbook, Lars Engberg-Pedersen states that a great variety of stakeholders – unions, employers' associations, NGOs and other interest groups – have a legitimate right to pursue their interests in relation to development cooperation and argues that few development ministers have dared to neglect these. According to the author this allows the government to fight-off criticisms from interest groups and helps to attract public support for its policies. He concludes his argument by saying that “[t]he corporatist tradition has accordingly created both a relative consensus among major stakeholders concerning Danish development policies and a tradition for politicians to signal particular Danish values in relation to development cooperation“ (Engberg-Pedersen 2009: 128).

In general, the incorporation of external stakeholders takes place both in an institutionalized form, i.e. by providing interest groups seats in advisory bodies (e.g. Council for Development Policy), and on a case-by-case basis through mandatory and “spontaneous” consultation meetings on specific programs/projects.

At a programming and policy-setting level, the newly introduced Council for Development Policy with its 15 members from trade unions, private sector professional associations, from research and civil society organization figures as illustration of this institutionalized form of “corporatist practice”²⁷¹ in designing policies and strategies²⁷² (Danish MfA/Danida 2013c: 11). Future changes in the Danish mixed credit policies, for instance, would be discussed by the Council. In principle, this would provide a wide range of stakeholders with the possibility to express their ideas on the program (Interview B2, B3). Furthermore, proposals for sub-strategies made by the Council to the Minister would influence the orientation of Danida Business Finance which currently is to be aligned with the strategic framework on growth and employment as well as the sub-strategy on natural resources, energy and climate.

At the level of project selection and approval under Danida Business Finance, stakeholder consultation has seemingly decreased since the new administrative structure has been put in place. With the abolition of the Committee for Mixed Credits and later of the Board on International Development Cooperation – two bodies involving a great variety of stakeholders – the Danish mixed credit scheme, in particular in its implementation, became somewhat inward-bound and less open to the outside influence of stakeholders (Interview B11). The new decision-making bodies – the Internal and External Grant Committees – consist either exclusively of Danida staff or include four external advisors from academia. While this incorporation of Danida Business Finance

²⁷¹ This term is used by Engberg-Pedersen in his article in the Foreign Policy Yearbook 2009.

²⁷² For information on the Council for Development Policy please see <http://um.dk/en/danida-en/about-danida/danida-transparency/danida-documents/council-for-development-policy/>

into the regular Danida procedures is presented as a step towards the de-fragmentation of the aid system, the reduced involvement of external stakeholders that came along with this integration seems to be somehow contradictory to the erstwhile Minister's attempt of strengthening the corporatist culture through transparency and new public consultation mechanisms.

At the project level, one particular institutionalized consultation mechanism, however, remains in place for project grants above DKK 35 million. The mandatory public consultation process for large projects allows external stakeholders to express their views and concerns by commenting on the concept notes which Danida uploads to its transparency website 16 working days prior to the Grant Committee meeting. The comments received during this approximately ten day consultation period are subsequently discussed by the Danida Programme Committee which is responsible for the preliminary screening of (large) projects. The summary and conclusions of the meeting, which are also to be found on Danida's transparency webpage, shall reflect anticipated modifications in further project planning and design that were made on the basis of comments received in consultations²⁷³.

Certainly, the institutionalized character of consultations is to be welcomed and can be interpreted as an expression of the system's "culture of compromise". However, the extent to which the views expressed by different interest groups with regard to specific mixed credit projects or the program *per se* are truly taken into account remains open for further investigation. As of now, it seems that, for instance, the Danish Industry regularly approaches Danida or is being approached by Danida with regard to the mixed credit program (Interview B11), while no major NGOs seem to be particularly involved with this specific form of development cooperation/finance.

11.7. Conclusion and Outlook

Denmark is often considered as one of the leading *donors* in the OECD living up to most of the non-binding principles agreed upon by the members of the organization's Development Assistance Committee. For decades, Denmark has striven to remain among the "front-runners" in terms of relative aid volumes, by maintaining its aid level above the 0.7 % international GNI target (Lancaster 2008: 32). This case study has taken a closer look at one of the instruments behind Denmark's traditionally high ODA figures – the Danish mixed credit program called *Danida Business Finance* – and aimed at assessing the development orientation of this instrument which is located at the interface of export promotion and development policy.

Since the inception of the *Danish Mixed Credit Programme* in 1993, this hybrid instrument has undergone several transformations. The corresponding organizational and procedural changes – the latest of which were made in 2012/2013 – entailed an

²⁷³ Danida's Transparency webpage: <http://um.dk/en/danida-en/about-danida/danida-transparency/>

ever-growing emphasis put on the development orientation/development policy aspects in the design of the program. Today, Danida Business Finance is formally integrated in the organizational structures and procedures of the Ministry of Foreign Affairs/Danida and is located institutionally within Danida's Green Growth Department. Correspondingly, Danida Business Finance is guided by Denmark's overall development strategy (*The Right to a Better Life*) and is (to be) aligned with its sub-strategies, most notably the *Strategic Framework for Priority Area Growth and Employment* as well as the *Strategic Framework for Priority Area Natural Resources, Energy, and Climate Change*. Derived from these strategies Danida Business Finance the overall objectives of Denmark's development cooperation and in particular aims at providing financing for large infrastructure projects to thereby contribute to sustainable, green and inclusive growth and employment creation in the recipient country. Engaging the (Danish) private sector to steer development processes is seen as an important way of leveraging aid and of transferring technology and know-how. The accruing benefit and presumed competitive advantage for Danish companies are not explicitly highlighted in most official program descriptions.

Both the alignment of Danida Business Finance with Danida's partner countries and its focus on green growth are not yet reflected in available statistical data on the distribution of Danish mixed credit commitments. In the period 2000-2012 commitments for tied mixed credits for a total of 23 countries have been reported by Danida to the DAC's Creditor Reporting System. Among these, *Mozambique, Sri Lanka and China* can be identified as the three main beneficiaries of tied Danish mixed credits. With the new geographical focus on Danida priority countries a consolidation of the focus on Low Income Countries is to be expected. Both China (which has been graduating in accordance with the Arrangement's provisions) and Sri Lanka are not among the priority countries and are no longer eligible for mixed credit support. Thus, the composition of recipient countries can be expected to change over the next decade or so, entailing a growing share of LICs and LDCs, respectively, among the recipient countries. In the same period (2000-2012), mixed credit commitments in 16 different sectors were reported by Danida. The three largest sectors in this period were *transport and storage, water supply and sanitation and energy*, followed by projects in *communications* as well as in *industry*. It remains to be seen if the recently introduced prioritization of climate friendly and clean technology will have substantial effects on the sectoral distribution of mixed credit commitments by Danida.

This incorporation of Danish mixed credits into regular Danida procedures is reflected in the project selection and approval process. In order for mixed credit projects to comply with *overall* Danida activities and policy standards, the project appraisals include mandatory on-site visits by external consultants. The resulting reports which build the basis for project approval by the regular Danida Grant Committees are expected *inter alia* to demonstrate compliance with Danida's overall strategies and

activities and to provide an ex-ante assessment of the developmental impact of the potential project. Furthermore, mixed credit projects, like other Danida activities, are monitored during the entire project cycle and must fulfill minimum standards for ex-post evaluation. In recent years notable efforts have been made to increase the transparency of the Danish mixed credit program. For instance, all projects can be found in Danida's program and project database, and both agendas (ex-ante) and minutes (ex-post) of Grant Committee meetings – the decision-making body at the project level – are available on Danida's transparency webpage. In addition, external stakeholders are invited to participate in public consultations as part of the screening and approval process (in the case of project grants above DKK 35 million). Despite these efforts, the program as such, just as individual projects financed under it, remains largely outside the realm of public debate.

The Danish Danida Business Finance is a hybrid instrument which claims to 'kill two birds with one stone'. Yet, assessing the institutional embedding of the Danish mixed credit program, the distribution of political responsibilities and the parameters of the program's implementation suggests that considerable attention is directed to the development policy components and goals of this hybrid instrument. Thus, considering the institutional set-up, the project approval procedures as well as the program's monitoring and evaluation guidelines, Danida Business Finance projects can be expected to demonstrate a high level of development orientation. The recent geographical focus put on Danida priority countries will presumably further increase the weight attributed to the development policy components of the program. Export promotion interests are reflected in the instrument at least in so far as the great bulk of Danish mixed credits is conditional upon procurement of goods and services from Danish companies. A more conclusive assessment of the development orientation of Danida Business Finance and the individual projects financed under the program would require closer examination of the mechanisms at work in the project identification and initiation phase.

In spite of the organizational and procedural incorporation of the mixed credit program into Danida's overall structures, one overt contradiction to Denmark's role as "the good student in the DAC" is still inherent to the instrument: its tied nature. Resulting from the fact that tied mixed credits are always the default option and the accordingly insignificant number of untied projects approved, the untied mixed credit scheme is rather negligible. As has been briefly addressed, with regard to mixed credits Denmark replied to the OECD-wide trend towards the untying of aid in two steps. First, in 2002 an untied window of the facility was introduced. The scope of this untied program is, however, limited by the fact that international competitive bidding is required only in those cases, in which restricted national bidding has not been sufficiently competitive. In a second step, in 2005 Danida changed its domestic content requirements for mixed credit financing and thereby changed its perception of "tied" under the Danida Business Finance program (Interview B1). While previously 50 % Danish content was

required, any such threshold was removed – the criterion of relying on the procurement of goods and services from a Danish company, however, was maintained (Danish MfA/Danida 2006: 51). Ever since these changes were made, it seems that controversial discussions on the tying of mixed credits have faded, notably at both the governmental and the non-governmental level. To a certain extent this reflects the above mentioned generally low level of public involvement in or discussions about the mixed credit program. The overall consensus on the political level appears to be that the mixed credit program due to its small share of Danish overall ODA, neither reduces the effectiveness of Denmark's aid nor harms the country's reputation as a leading donor (Interview B1). On the contrary, this is argued to allow Denmark to create greater leverage of invested aid resources and to ensure support for development expenditures from important national stakeholders. In this vein, the program is perceived as the part of development assistance by means of which Danida can effectively engage the Danish business community to participate in Danida's development strategy (Interview B1). Ingrained in this argument is the idea that incentives are needed for the private sector to participate. Similarly, both of these arguments are taken up in the 2011 DAC Peer Review of Denmark which addressed relics of tied aid, notably the mixed credit scheme and Danida Business Partnerships (OECD/DAC 2011c). The review notes that Denmark considers these programs which together account for approximately 3 % of Denmark's total ODA as “[...] *constructive contributions to creating growth and employment in recipient countries. Denmark is aware of this transgression against the rules and has responded partially to the 2007 peer review recommendation by allowing the contractor flexibility in the procurement of goods and services and placing greater focus on projects in the poorest countries in Sub-Saharan Africa. However, according to Denmark, the public support benefits that accrue from these instruments justify their continued existence*” (OECD/DAC 2011c: 66, 67).

Following this line of reasoning, it comes as little surprise that the untying of the mixed credit program and a notable shift towards the program's untied window is not anticipated in the near future. Quite on the contrary, it seems that the mixed credit program is perceived as a way of integrating trade, aid and other policy fields in a more holistic approach towards development policy. It appears, however, that without increases in budgetary allocations to the program, the level of projects annually supported cannot be sustained. Due to a combination of the currently very low interest rates as well as the increased focus on LDCs, higher grants are required in order to meet the Arrangement's concessionality provisions. These developments entail a reduction of the leverage effect of this hybrid instrument, threatening its presumed cost-effectiveness. An untying of the program – which would reduce its costs as the Arrangement's concessionality requirements would no longer apply – does not, however, seem to be a policy option for the time being. This might not at last be due to the fact that the

project pipeline of concessional credit programs, for instance, in Norway and Finland, dried out rather quickly after they had been untied.

Concerning the future of the Danish mixed credit program, the ramifications of the recent shift towards Danida priority countries paired with the newly set focus on projects within Danida's green growth agenda remain to be seen. At present it appears that the recent policy changes (especially the new emphasis put on green growth) have created some degree of uncertainty in the business community. If not better communicated, this could lead to an underutilization of the Danida Business Finance instrument. Considering the fact that several interviewees described Danida Business Finance as an instrument of particular use for smoothening the phasing out of development aid in stronger developing countries, its usefulness for its newly prioritized poorer partner countries remains to be seen.

Without doubt the future of Danida Business Finance will significantly depend on the future of Danish development cooperation more generally. With regard to the strategic orientation of the latter, the recent cabinet-reshuffle of February 2014 and the concomitant substitution of the cabinet-level post of a Minister for Development Cooperation by a Minister for Trade and Development Cooperation will have to be considered. Whether these changes at the Ministerial level will entail reforms favoring Danish commercial interests and will have repercussions also on the strategic orientation of Danida Business Finance remains to be seen.



12. Germany

All over Europe development budgets have continuously been cut within the last years in reaction to the economic crisis in 2008/2009. Germany is one of the few countries, which recently has decided to increase the development budget by EUR 2 billion between 2014 and 2017. Despite this decision, it will be relatively difficult for Germany to live up with its commitment to meet the ODA/GNI-target of 0.7 % by 2015²⁷⁴.

The new Federal Minister for Economic Cooperation and Development, Gerd Müller (CSU), who has been in office since December 2013, now has the opportunity to show how these funds will be implemented in near future. The former minister Dirk Niebel (FDP), who was in office between 2009 and 2013, had his focus on fostering sustainable economic development as well as democracy and human rights within German Bilateral Development Cooperation (BMZ 2013a: 49-69).

Under Niebel's era, German development policy aimed at improving the relationship between foreign trade and development cooperation and specifically their contribution to poverty reduction via economic growth and private sector development. Moreover, an emphasis was put on innovative finance for development; here the KfW Bankengruppe has been playing a major role as one of the world's largest bilateral finance institutions for development (BMZ 2011).

This is reason enough to analyze the developmental orientation of the portfolio of the KfW Development Bank, which is implementing the German Financial Cooperation. Furthermore, Germany has recently been sharply criticized by civil society actors for leveraging their budget funds with funds raised at the capital markets (Terre des Hommes 2012: 14-17). In addition, Germany has triggered a debate about the definition of concessionality in the OECD with its ODA reporting practice; both will be part of this case study.

There have always been close linkages between development cooperation and foreign trade in Germany, thus some country facts and figures as well as the institutional set-up will be illustrated before analyzing the German Financial Cooperation more thoroughly.

²⁷⁴ BMZ: <http://www.bmz.de/20131223-1en>

12.1. Country Facts and Figures

12.1.1. Economy and Foreign Trade

Being the third largest exporter and importer in the world, Germany is a trading nation, accounting for more than half of the European Union's international trade. In Europe, Germany is the largest national economy, providing the fourth-largest economy by nominal GDP worldwide (USD 3167 trillion, 2012 et.)²⁷⁵.

Much of Germany's exports focus on manufactured goods and services. In particular German mechanical engineering products, vehicles, and chemicals are highly valued internationally; e.g. Germany is the leading producer of wind turbines and solar power technology in the world. Around one Euro in four is earned from exports and more than every fifth job depends directly or indirectly on foreign trade²⁷⁶.

The most important market for Germany is the European Union; about 57 % of all goods and services were delivered to its member states in 2012; followed by Asia with a share of 16 % and North and South America, with a share of approximately 12 %²⁷⁷. The top countries of destination of German exports were France, followed by USA, UK and the Netherlands in 2012; most imports to Germany came from the Netherlands, China, France and the USA (Statistisches Bundesamt 2013: 2).

In 2012, all German exported goods accounted for USD 1416.2 billion, whereas imported goods made up USD 1173.3 billion; thus, the export surplus was about USD 243.2 billion. Exports of goods and services account for 51.8 % of GDP. Apart from the financial crisis in 2008/2009, exports as a percentage of GDP have steadily risen within the last years.²⁷⁸

In comparison to these economic indicators, the German Official Development Assistance (ODA) was about USD 14.533 billion in 2011, equivalent to 0.39 % of GNI; preliminary data for 2012 show a slight decrease to 0.38 % of GNI. In real terms, this represents a 5.9 % increase over 2010; nevertheless Germany is among the seven members of the EU that have not met the 0.51 % ODA/GNI target for 2010 set by the EU (OECD/DAC 2012d: 3, 6 & 2013a: 200).

²⁷⁵ CIA, The World Fact Book: <https://www.cia.gov/library/publications/the-world-factbook/geos/gm.html>

²⁷⁶ Information Portal Economywatch: http://www.economywatch.com/world_economy/germany/export-import.html

²⁷⁷ Destatis, German Federal Statistical Office: <https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/ForeignTrade/TradingPartners/Current.html>

²⁷⁸ OECD: http://www.oecd-ilibrary.org/economics/country-statistical-profile-germany_20752288-table-deu

12.1.2. Development Cooperation

Germany's development cooperation policy is underpinned by the coalition agreement that covers each legislative period and the budget procedure; in particular the budget act passed by the Bundestag each year (OECD/DAC 2010).

The coalition agreement from 2009 defines the following key sectors for German development cooperation: good governance, education and training, health, rural development, protection of the climate, the environment and natural resources, and economic cooperation²⁷⁹. The agreement expresses the willingness to work towards achieving the 0.7 % ODA/GNI target.

Under the overall policy and decision-making authority of the Federal Chancellor, the Federal Ministry for Economic Cooperation and Development (BMZ) guides German development policy and financing. Hence, the oversight of German development cooperation is vested in the BMZ, with implementation carried out by a range of different ministries, federal states (Länder), agencies and "implementing organizations" (EuropeAid 2013: 2).

The BMZ has its own budget line, which forms part of the federal budget and denotes expenditure items for the running year. To increase predictability, some budget items include minimum expenditure volumes ("commitment appropriations"), usually for the following two to five years. Breakdowns of bilateral cooperation by region and sector are confidentially provided to Parliament but not published²⁸⁰.

Germany's development priorities are outlined in its overarching policy document, "Minds for Change" from 2011. This policy outlines five key areas: strengthening Africa, particularly through the promotion of the private sector; sustainable energy for poverty reduction; climate friendly development; helping fragile states; and the promotion of innovative global leadership (BMZ 2011: 10-12; OECD/DAC 2012d: 1).

Within the last years, the federal government carried out organizational and structural reforms of the German aid structure in order to streamline processes and further improve aid effectiveness. This particularly involved the German technical cooperation; here three organizations have been consolidated to form GIZ, the German Agency for International Cooperation in 2011. The foundation of DEval, the German Institute for Development Evaluation, in 2012 has been one of the latest institutional reforms.

12.1.2.1. Financial and Technical Cooperation

Apart from Technical Cooperation (TC), the Financial Cooperation (FC) is one of the most important instruments of German development policy. Its main task is to support

²⁷⁹ In the coalition agreement from 2013 rural development, health, education and training, protection of the climate, environment and natural resources, energy, civilian crisis prevention, conflict resolution and post-conflict peace building are defined as thematic focuses.

²⁸⁰ Information Portal SEEK Development: <http://donortracker.org/donor-profiles/germany/budget-process>

partner countries in the financing of measures which are important for their development. These might be investments in the education or health system of the country, in the water supply and wastewater system, in the energy sector, in climate protection or agriculture²⁸¹.

Within the framework of FC, the BMZ provides support in the form of financial payments, in particular subsidized loans, equity capital and grants, which are non-refundable (BMZ 2007: 10). The KfW Entwicklungsbank (Development Bank), which works on behalf of the German federal government, is the executing agency of the BMZ and responsible for project appraisals and implementing projects under Financial Cooperation²⁸².

If investments of this sort are to lead to lasting improvements, they must be accompanied by reforms. For this reason, FC is very often conducted in close coordination with other German development cooperation activities, e.g. technical assistance with the German Development Agency (GIZ), or broader international initiatives²⁸³.

One way of providing funds for projects in developing countries is by combining capital market loans with grants. Germany uses this instrument in both bilateral and European financial cooperation. This case study will consider these bilateral “blending” activities of Germany.

12.1.2.2. Programming of Bilateral Cooperation

Regional as well as country strategies are the management instruments within the German bilateral development cooperation; both are developed in close cooperation with the developing countries which receive assistance.

The regional strategies link the BMZ’s development policy principles or aims, and the individual country strategies. Country strategies are the key for country-level implementation; up to three priority areas are defined and negotiated between Germany and the recipient country. The framework and guidelines for these negotiations are basically provided by the national Poverty Reduction Strategy Paper (PRSP) drawn up by the recipient countries, and by the agreed priority areas of bilateral cooperation.

The negotiated strategies, objectives and priority areas of cooperation form the basis of the German bilateral cooperation. Programs or projects within Financial Cooperation or Technical Cooperation build upon the between Germany and the recipient country agreed priority areas and are based on intergovernmental agreements²⁸⁴.

“Thus we ensure that they [the projects’, author’s note] are always embedded in the partner’s development policy goals and priorities and are not just isolated solutions. It

281 BMZ: http://www.bmz.de/en/what_we_do/approaches/bilateral_development_cooperation/approaches/financial_cooperation

282 BMZ: <http://www.bmz.de/en/ministry/structure/index.html>

283 BMZ: http://www.bmz.de/en/service/glossary/F/finanzielle_zusammenarbeit.html

284 BMZ: http://www.bmz.de/en/what_we_do/countries_regions/laenderkonzentration/index.html

is essential for us that our commitment functions well and is shared in cooperation with the efforts of other donors“, explains an interview partner with regards to the coordinated approach of the German bilateral cooperation, which often includes European and international development cooperation (Interview C1).

The priority areas, which are closely aligned with the key sectors of German development cooperation and the individual country strategies, differ from country to country (Interview C1). In Vietnam, for example, sustainable economic development (including vocational training), environmental protection and conservation of natural resources (including adaptation to climate change) and health care are the priority areas²⁸⁵.

12.1.2.3. Country and Sector Concentration

The official German development cooperation concentrates on 50 program partner countries. The assistance has officially been cut from 120 developing countries to the above mentioned number within the last five to ten years in order to enhance aid effectiveness according to the Paris Agenda on Aid Effectiveness and recommendations made by the OECD/DAC in corresponding reviews²⁸⁶.

The following table illustrates the bilateral development cooperation in the context of country programs²⁸⁷.

Table 13: Bilateral Development Cooperation in the Context of Country Programs

Region	Partner Country
Asia	Afghanistan, Bangladesh, India, Indonesia, Cambodia, Kyrgyzstan, Laos, Mongolia, Nepal, Pakistan, Tajikistan, Uzbekistan, Viet Nam
South Eastern Europe / Caucasus	Albania, Kosovo, Serbia, Ukraine
Latin America and the Carribean	Bolivia, Brazil, Ecuador, Guatemala, Honduras, Colombia, Mexico, Peru
Middle East	Egypt, Palestinian Territories, Yemen
Africa	Ethopia, Benin, Burkina Faso, Burundi, Ghana, Cameroon, Kenya, D.R. Kongo, Mali, Malawi, Morocco, Mauritania, Mozambique, Namibia, Niger, Rwanda, Zambia, South Africa, South Sudan, Tanzania, Togo, Uganda

Source: Federal Ministry for Economic Cooperation and Development, BMZ²⁸⁸

285 BMZ: http://www.bmz.de/en/what_we_do/countries_regions/asien/vietnam/zusammenarbeit.html
 286 BMZ: http://www.bmz.de/en/what_we_do/countries_regions/laenderkonzentration/index.html
 287 BMZ: http://www.bmz.de/en/what_we_do/countries_regions/laenderkonzentration/tabelle_neu.html
 288 Ibid.

As illustrated in the table above, Africa will remain the main focus of German development cooperation in regional terms. Almost half of all partner countries (24) are in sub-Saharan Africa.

According to the latest OECD DAC mid-term review (2012), in 2010 German's top ten ODA-recipients included nine Middle Income Countries. "This ODA-allocation pattern is unique among DAC members and is partly a reflection of Germany's increasing use of concessional loans as part of differentiated development partnerships, the increasing engagement of other ministries in emerging economies and an outcome of Germany's strategy for working with emerging economies for the purpose of global and regional development and its policy of focusing on global public goods, such as climate and food security" (OECD/DAC 2012d: 3).

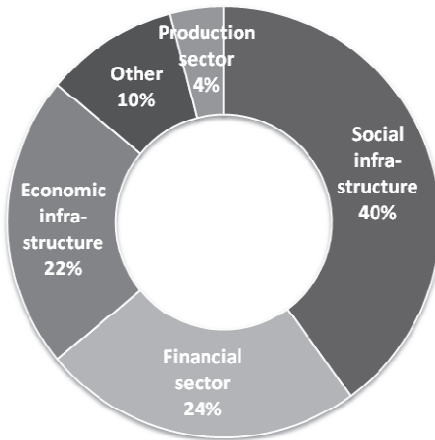
Sector Concentration

According to the Annual Report of the KfW Development Bank from 2012, the greatest share of Financial Cooperation (FC) commitments by priority development sector is allocated to social infrastructure (40 %), followed by the financial sector (24 %) and economic infrastructure (22 %) (KfW Entwicklungsbank 2012a: 45).

In comparison, in 2007 social infrastructure had a share of 24 %, the financial sector had about 32 %, and economic infrastructure accounted 28 % (KfW Entwicklungsbank 2007a: 77). In 2002, the social sector had about 40 %, followed by economic infrastructure (27 %) the financial sector (12 %), and the producing sector (7 %) (KfW Entwicklungsbank 2002: 58).

Figure 12.1 illustrates the KfW commitments by priority development sector in 2012.

Figure 12.1: KfW Commitments by Priority Development Sector 2012



Source: KfW Entwicklungsbank Annual Report 2012: 45

In the area of social infrastructure the KfW Development Bank supported in 2012 projects and programs in the German government's priority areas, which encompass particularly to water supply, solid waste management and sanitation, health-care systems and education. The financial sector mostly includes commitments to the micro-finance sector. KfW funded in 2012 environmental loans and supported microfinance institutions. Apart from transport and communications, renewable energy use and efficient, climate friendly use of energy were the focus of most projects in the area of economic infrastructure (KfW Entwicklungsbank 2012a: 45).

The KfW Development Bank has been working in climate protection and adjustment to climate change for more than twenty years; e.g. committed a total of EUR 7 billion for cross-sectoral environmental and climate protection between 1997 and 2007 (KfW Entwicklungsbank 2007a: 3-4).

However, both areas expired by the end of the nineties in terms of approved projects (Interview C1). Due to global warming and climate change global responsibility for climate protection has again become an important topic and prompted Germany to re-announce supporting proposals and projects in the area of climate protection and energy (KfW Entwicklungsbank 2007a: 9-13).

The strategic refocus on climate protection and energy had a remarkable impact on the funds being used within the Financial Cooperation; they have led to an increased use of interest-reduced loans (Interview C1).

12.2. Profile of Financial Cooperation

The Financial Cooperation (FC) is part of the official German Development Cooperation. Hence, the objectives, strategies and priority areas of Germany's Development Policy are the framework, in which the Financial Cooperation is being done. Unlike the Technical Assistance, the Financial Cooperation is completely untied. In other words, financial loans are in principle not tied to goods and services from German companies (Interview C2, C1).

12.2.1. Legal Background/History

As Germany's Development Policy is not defined by law, but underpinned by the coalition agreement that covers each legislative period and the budget procedure, there are administrative rules and different policy documents that guide the KfW Development Bank as executing agency.

The main policy document "Guidelines for bilateral financial and technical cooperation with partner countries of German development cooperation" includes procedures and competences that bind the government, executing agencies and other involved actors (BMZ 2008). Thus, BMZ and KfW Development Bank have to act upon these regula-

tions in order to initiate, assess, finance, monitor and evaluate financial cooperation projects (Dann 2012: 144-145).

The KfW Development Bank has executed the Financial Cooperation on the basis of the "General Contract" since 1961. The Bank's mandate is to develop project proposals, and to finance, monitor and evaluate projects which have been approved by the BMZ.

12.2.2. Institutional Environment

Several actors are involved within the framework of the German bilateral financial cooperation (FC). In this set-up, the Federal Ministry for Economic Cooperation and Development (BMZ) is the key actor.

BMZ

Being in charge of the German development policy and financing, the BMZ not only provides FC support in the form of financial payments, but oversees the programming of bilateral financial development cooperation. This programming includes the development of regional and country strategies in general, government negotiations regarding priority sectors and concrete projects as well as the setting up of procedures, terms and conditions of Financial Cooperation instruments.

The BMZ was established as Federal Ministry for Economic Cooperation in 1962. Nevertheless, the Federal Ministry for Economic Affairs (BMWi) and the Federal Foreign Office (AA) still were in charge of development assistance; the BMWi for financial assistance and the AA for technical assistance. In general, fostering foreign trade policy was the principal motive that triggered Germany to provide development assistance back in the 1950ies (Dann 2012: 44-45).

It was Minister Erhard Eppler (1969-1974) who succeeded in constituting development policy as a relatively autonomous policy field by disburding development assistance from its subordination of foreign trade policy. Main competences included inter alia the political responsibility for the financial assistance and final decision-making powers regarding project approvals. Nevertheless, the BMZ had to consult other institutions before giving approval but the Interministerial Committee (IMC) which had decided upon project approvals of financial assistance under the responsibility of the BMWi was abolished (Dann 2012: 61-63).

In the 1980ies German development policy again became an instrument of Germany's own interests and thus, of general German foreign policy. To this end, German development policy was subordinated and exploited by economic and foreign policy. This means that development loans were tied to goods and services from German companies, which were also more actively involved in identifying and defining new projects (Dann 2012: 81-82).

In 1993, the BMZ was renamed to Federal Ministry for Economic Cooperation and Development and thus considered “development” in its name for the very first time. Nevertheless, the 1990ies were characterized by an excessive politicization and conditionalization of development cooperation. Although the BMZ's competencies were formally stabilized, the ministry was continuously losing them to the German Development Agency GTZ (nowadays GIZ), which had been founded in 1975 (Dann 2012: 83).

Though Minister Heidmarie Wieczorek-Zeul (SPD) was in office in 1998-2009 and had the possibility to influence decisions of the government as a member of the cabinet, the degree of influence and weight of the BMZ in the government is a matter of debate because it was challenging to improve the relationship between development cooperation and foreign policy, in particular security and defense policy²⁸⁹.

Moreover, the ministry underwent two reorganizational reforms (2003, 2010) in order to strengthen the efficiency of development cooperation as well as to ensure the implementation of the new main political focal points, economic development and education (OECD/DAC 2010: 64-65). Further, the BMZ has been strengthened with the addition of 196 new jobs in the last couple of years (this represents an unprecedented increase in the staffing level of 30 %). Herewith, BMZ in particular stretched its organizational capacity at field level by additional 46 cooperation officers in partner countries (OECD/DAC 2012d: 3-4).

Today, the terms and conditions governing the awarding of Financial Cooperation funds are laid down by the BMZ in agreement with the Federal Ministry of Finance (BMF), the Federal Foreign Office (AA) and the Federal Ministry for Economics and Technology (BMWi)²⁹⁰ every year. They take into account the specific economic situation and the debt sustainability of each individual developing country²⁹¹.

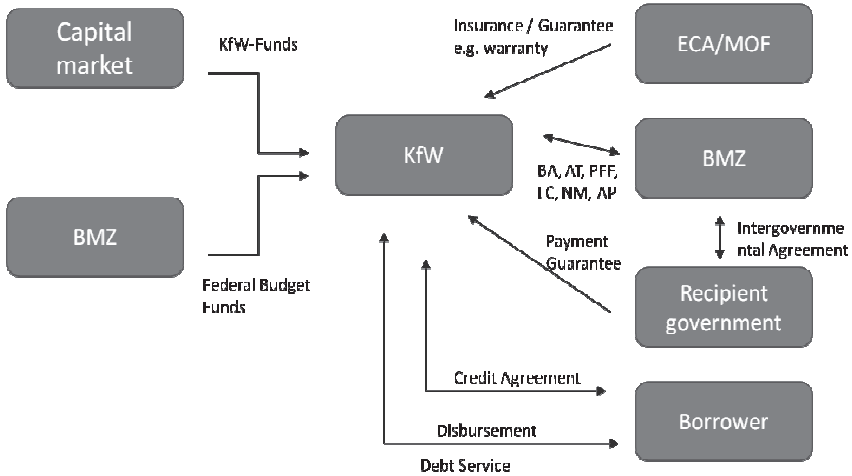
The following figure illustrates the institutional set-up of the German bilateral Financial Cooperation, including its main actors and processes:

²⁸⁹ Die ZEIT, German Newspaper: http://www.zeit.de/2003/30/Entwicklungspol_

²⁹⁰ In December 2013, the Ministry was recreated as Federal Ministry of Economics and Energy (Coalition Agreement 2013).

²⁹¹ BMZ: http://www.bmz.de/en/what_we_do/approaches/bilateral_development_cooperation/approaches/financial_cooperation

Figure 12.2: Institutional Set-up of the German Bilateral Financial Cooperation



Source: BMZ n.s.: Slide 12

Figure 12.2 illustrates that intergovernmental agreements between the BMZ, which acts on behalf of the Federal Government and the governments of the corresponding partner countries are the basis for the official bilateral Financial Cooperation.

KfW Development Bank

The KfW Development Bank is another key actor. The bank is part of the KfW Banking Group (KfW Bankengruppe, formerly Kreditanstalt für Wiederaufbau) and conducts Germany's financial cooperation with developing countries on behalf of BMZ. The KfW Development Bank audits and implements loans and grants allocated to them from the federal budget. Furthermore, the KfW Development Bank complements federal government funds by raising additional resources on the capital market and deploying these for German development and climate protection finance²⁹².

The KfW Banking Group is a body under public law, which was founded in 1948. This law was amended upon the implementation of the Financial Cooperation in 1961. Since 1966, the KfW has acted upon the general mandate signed between the Federal Government (BMZ) and the KfW Development Bank. The contract covers finance and management of resources, monitoring and reporting requirements and has been amended most recently in the year 2009 (Dann 2012: 142).

The DEG (founded in 1962, "Deutsche Investitions- und Entwicklungsgesellschaft") is one of the KfW Banking Group's subsidiaries. In contrast to the KfW Development

²⁹² KfW Entwicklungsbank: <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/About-us/Unser-Unternehmen/>

Bank, the DEG's main activities are private sector development which includes financing and structuring of investments of companies and other private sector projects in developing and transition countries²⁹³.

Another subsidiary of the KfW Banking Group is the KfW IPEX-Bank. Being a traditional export bank, it provides medium to long-term international project and export finance solutions. Further, the bank "is responsible for providing finance to support the German and European Economy, a task derived from the legal mandate assigned to the KfW Bankengruppe"²⁹⁴.

The executive bodies of the KfW Group are the Executive Board and the Board of Supervisory Directors. The Executive Board has six members, currently three of them are experienced bankers with a background in law and business administration; others have expertise in agriculture, consulting and privatization. At least two board members are part of political parties (CDU, SPD).

"The Board of Supervisory Directors and its committees supervise the conduct of the bank's business and the administration of its assets. The main tasks for which it holds responsibility are the appointment and dismissal of members of the Executive Board, the approval of the financial statements as well as the planning and selection of the auditor to be proposed by the Supervisory Authority."²⁹⁵

The Board of Supervisory Directors has three committees. Whereas the Executive Committee deals with legal and administrative matters, the Credit Committee concerns itself with credit matters. Members of the Board of Supervisory Directors include inter alia representatives of business associations (BDI, DIHK) and trade unions (e.g. DGB).

Environmental and climate protection, financial system development as well as water supply and sewage disposal are the key priority areas of the KfW Development Bank; main objectives are the promotion of reform processes, investments, consultancy and support service in cooperation with governments and state institutions²⁹⁶.

Partner Country

Another important key actor is the partner country including its corresponding institutions. The German bilateral Financial Cooperation primarily provides financing for projects and programs in the public sector (social sector, economic development and financial sector), thus the government and/or government-related enterprises are mainly involved in such projects.

²⁹³ DEG: <https://www.deginvest.de/International-financing/DEG/Die-DEG/Unternehmen/>

²⁹⁴ KfW IPEX Bank: <https://www.kfw-ipex-bank.de/International-financing/KfW-IPEX-Bank/About-KfW-IPEX-Bank/Self-image-and-mission/>

²⁹⁵ KfW Entwicklungsbank: <https://www.kfw.de/KfW-Group/About-KfW/Vorstand-und-Gremien/Vorstand/>

²⁹⁶ KfW Entwicklungsbank: <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/About-us/Unser-Unternehmen/>

The Ministry of Finance or another relevant Ministry dealing with the coordination of development cooperation usually acts as the counterpart in the partner country. The Ministry of Planning is not infrequently responsible for these issues in (former) Soviet countries. Partner countries sometimes also have a Ministry for Development Cooperation or planning authorities below ministerial level which are in charge of the corresponding issues (Interview C1).

Consultations and negotiations take in principal place in the partner country. Depending on sectors, which have been agreed upon in the country strategy, relevant ministries of the corresponding partner country are present in negotiations or consultations as well, e.g. Ministry of Agriculture, Ministry of Health or Ministry of Infrastructure.

Others: AA, GIZ, ECA

The KfW Development Bank and the German Agency for International Cooperation (GIZ) are closely involved in the set-up of the Financial Cooperation. Both form part of informal consultations, which take place prior to the negotiations, as well as in the following formal government negotiations. BMZ is negotiator in both cases; KfW Development Bank and GIZ provide technical support and advice (Interview C1).

Both, the formal negotiations and the informal consultations take place in the partner country. Thus, the German ambassador of the corresponding partner country who as well represents the German Federal Foreign Office (AA) is involved.

If the BMZ approves a proposal, which has been developed by the KfW Development Bank in cooperation with a corresponding partner country, the project is financed and monitored by the KfW Development Bank.

The GIZ is sometimes not part of projects or programs financed within the German Financial Cooperation. The Agency usually provides smaller Technical Assistance (TA) components; an interview partner states that GIZ brings in know-how in training and capacity building. Further, this interviewed stakeholder remarks that there also collaborative projects, in which the GIZ provides TA and the KfW Development Bank infrastructure financing (Interview C4).

Moreover, the Federal Government, represented by the Ministry of Finance guarantees for untied financial loans in the form of federal guarantees and sureties covering the risk of non-payment for the KfW Development Bank²⁹⁷.

12.2.3. Terms and Conditions

The German Financial Cooperation (FC) provides financing to governments or government-related enterprises, e.g. energy or water supplier in developing countries (Interview C4).

²⁹⁷ BMZ: http://www.bmz.de/en/what_we_do/approaches/bilateral_development_cooperation/approaches/financial_cooperation

FC-Conditions are specified every beginning of the year by the Federal Ministry for Economic Cooperation and Development in coordination with the Federal Ministry of Finance, the Federal Ministry of Economics and Technology and the Federal Foreign Office with reference to the conditions set up by the World Bank (Interview C2).

The main criterion which establishes the type of funding being used by the KfW Development Bank is the per-capita income of a partner country. Countries classified as Least Developed Countries (LDCs) receive non-repayable grants (to 100 %), all other countries receive loans. The use of exemptions is afforded by the Guidelines and applies to proposals that are e.g. explicitly related to climate and resource protection (Interview C2; BMZ 2008: 23).

If standard conditions are not met, deviations have to be clearly justified and well-argued in coordination with other ministries. An interview partner e.g. mentioned that for a long period South-Eastern Europe had been qualified for particularly favorable conditions although the countries in this region already had higher Per-Capita Income (Interview C2).

Developing countries have to meet certain criteria in order to qualify for FC development loans: They have to be partner countries of the German Development Cooperation. A partner country's performance including the negotiated priority areas has to be robust in order to provide corresponding guarantees. Another crucial point worth taking into consideration is the question whether a loan is the necessary and adequate instrument (Interview C2).

The FC instruments, which are eligible to finance projects in each priority country, are listed in the "List of Conditions" ("FZ-Konditionenliste"). This policy document is strictly confidential and not accessible to the public.

12.2.4. Financial Instruments

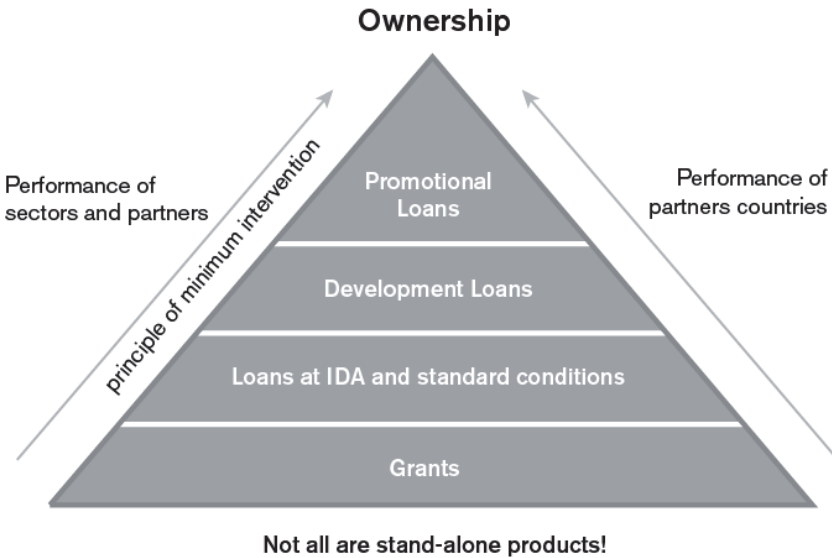
The German bilateral Financial Cooperation provides funds out of the federal budget which are complemented by funds that have been raised on the capital market by the KfW („KfW funds“). According to several interview partners at KfW, these additional funds enable the KfW Development Bank to substantially leverage the lending volume and thus, broaden the effectiveness of the German Development Cooperation (Interview C1, C4, C3).

12.2.4.1. Overview

Programs and projects are either purely financed from federal budget funds (grants and/or loans at very advantageous standard conditions) or from a mixture of federal budget funds and loans from KfW funds. The KfW Development Bank additionally offers loans at near-market conditions from pure KfW funds, so-called promotional loans (Interview C4).

The following figure provides an overview of the different funds of the German bilateral Financial Cooperation. The figure illustrates that the performance of the partner country is a crucial determinant for the type of funding available:

Figure 12.3: Financing Pyramid – Financial Cooperation Funds



Source: KfW Entwicklungsbank 2011

The loan conditions vary substantially and depend on the sector, the nature and cost-effectiveness of the project. Further, the economic situation of the given partner country, its level of indebtedness and its state of development form the main criteria for financing projects and programs. Thus, the KfW Development Bank provides specifically tailored financing for their partner countries²⁹⁸. Several interview partners confirmed that apart from providing different funds, individual financial proposals are developed for every single project, considering very diverse criteria (Interview C1, C2, C4).

As illustrated in Figure 12.3, the commitment and performance, in short – ownership – of the partner country are key for every single project or program. According to an interview partner, no single FC-proposal is financed without an injection of own resources by the partner country (Interview C3). Ownership of the partner country is

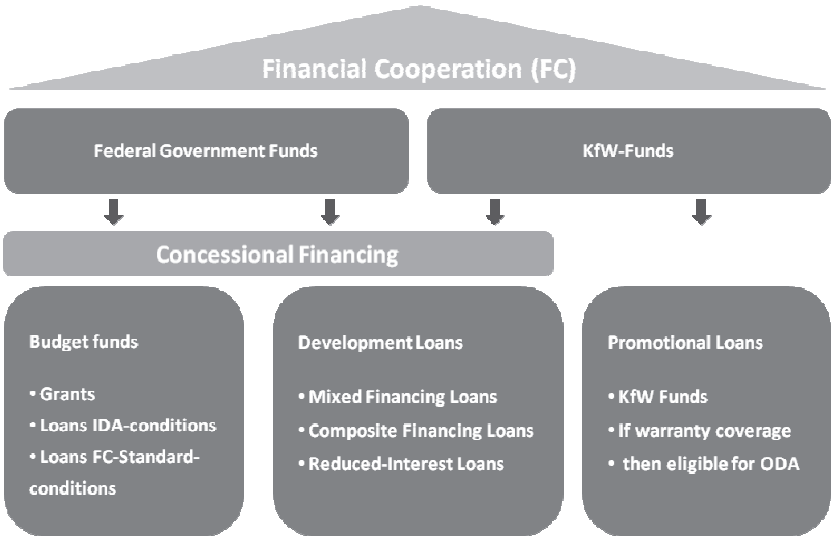
²⁹⁸ KfW Entwicklungsbank: <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/About-us/Unsere-F%C3%B6rderinstrumente/>

one of the critical principles, German Development Cooperation demands in accordance with international agreements (Interview C4).

Projects and programs do not only have to meet the development needs of the partner countries; in terms of financing they also have to be technically feasible for both, the creditor (federal budget funds, KfW funds) and the borrower (partner country); (Interview C2).

The following figure illustrates the different funds of the German Financial Cooperation divided into funds from the federal development budget, funds raised purely by the KfW and the ones they provide jointly:

Figure 12.4: Different Instruments of Financial Cooperation



Source: BMZ n.s.: Slide 12

12.2.4.2. Federal Budget Funds

Grants, and loans, offered at very low interest rates, are purely provided by the Federal Budget Funds. Although provided by the federal budget, both are administrated by the KfW Development Bank.

Since 1978, Least Developed Countries (LDCs) have received grants that do not need to be repaid. There are also conditions upon which Non-LDCs may receive grants for special projects. This derogation from the rules is defined in the guidelines and applies for projects or programs targeting climate protection or poverty reduction

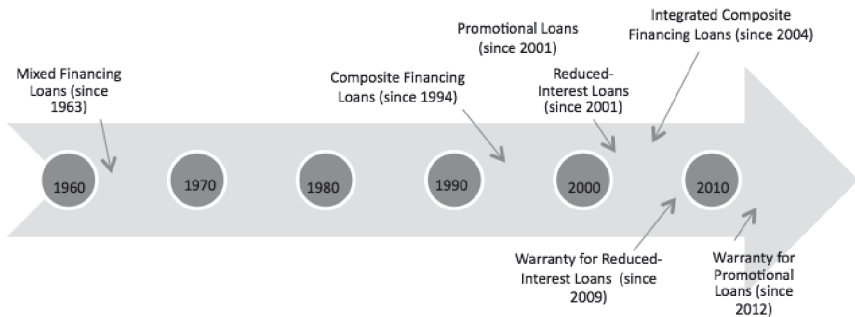
(BMZ 2008: 23). In this way, e.g. Brazil may also receive funding via grants (Interview C2).

The loans provided by the Federal Budget Funds are offered at very low rates of interest compared to the interest rates at capital markets. The terms and conditions of these soft loans are similar to IDA-conditions. Thus, countries with an annual per-capita income of currently up to USD 1915 (status: 2012) are offered loans at a very low interest rate of 0.75 % p.a., a maturity of 40 years and a 10 years grace period (e.g. Ethiopia, Burkina Faso); (BMZ n.s.: Slide 5; Interview C2).

In addition, the KfW Development Bank offers loans at standard conditions, eligible for countries with an annual per-capita income of more than USD 1915 (status: 2012). FC standard conditions include loans with an interest rate of 3 % p.a., a maturity of 30 years and a 10 years grace period (e.g. Algeria, Morocco, Indonesia) (Interview C1).

The following figure illustrates that at the end of the 1990ies the instruments of the German Financial Cooperation have been modernized; starting with Promotional Loans and Reduced-Interest Loans in 2001 and an adapted form of Composite Financing in 2004 (Interview C2).

Figure 12.5: Short History of Financial Cooperation



Source: BMZ n.s.: Slide 7

12.2.4.3. FC Development Loans

Loans and grants from the German development budget (BMZ) are complemented by the KfW Development Bank with funds it raises under favorable conditions on the capital markets.

BMZ and KfW Development Bank created this kind of loans in order to enhance the effectiveness of the Federal Budget Funds available for development cooperation and

to increase the volume of German Official Development Assistance (KfW Entwicklungsbank 2011: 1-2).

Several interview partners agreed on the increased volume and scope of German Financial Cooperation by combining funds emanating from the federal budget and the capital market. They explained that due to development loans large-scale projects could be financed in the area of social and economic infrastructure (e.g. power house, underground train system) (Interview C4, C3).

Although terms and conditions of development loans are not as favorable as those from pure budget funds, they are significantly below market conditions. Development loans are combined in such a way that the projects are able to cover the costs and fall under ODA criteria (KfW Entwicklungsbank 2011: 1-2).

FC development loans include reduced-interest loans as well as composite and mixed financing. They differ in (1) combining federal budget funds with KfW funds raised at capital markets, (2) maturity and grace period and (3) details of any guarantees provided.

Mixed financing loans mark the beginning of the German Financial Cooperation back in 1963. To this end, loans with favorable conditions from the German development budget with long maturities and grace periods, and an interest rate of 5 %, which is geared to IDA conditions, are combined with KfW funds raised on the markets. The KfW funds have less favorable conditions, higher interest rates and shorter maturities. In this case, the partner country is offered one contract with two different tranches (Interview C4).

Mixed financing loans are covered through export credit insurance via Euler-Hermes and thus, contain a minimal procurement tied share of German goods and services. According to an interview partner this financial product is hardly used today because it does not qualify anymore to meet the general efforts of Financial Cooperation projects being not procurement tied to goods and services from German companies (Interview C2, C4).

Mixed financing has been primarily used for infrastructure projects which have one large supplier and a relatively long lifetime (Interview C4). In the year 2013, this form of financing has only been used twice (Interview C2).

Composite financing loans are very similar compared to the mixed financing loan type; both have in common that loans with favorable conditions from the development budget (BMZ) are combined with KfW funds raised on the markets. The difference is that while KfW's risks are covered by an ECA when using mixed financing loans, composite financing loans are covered by a credit guarantee of the German Government (MoF). For the mixed financing loan type, KfW's risks are covered up to 90 % by an ECA; when the KfW provides composite financing loans, up to 80 % of the credit are guaranteed by the Ministry of Finance (MoF) (Interview C2). Since 1994, compo-

site financing loans have been broadly used to finance developmentally important infrastructure projects in partner countries (BMZ n.s.: Slide 7). As the conditions from the federal budget include long loan maturities, this loan type is in general more suitable for long-lasting infrastructure projects (KfW Entwicklungsbank 2011: 1-2).

In contrast to mixed financing loans, composite financing does not have to be done with one large supplier; due to the type of guarantee (from the MoF) infrastructure projects with many smaller suppliers are feasible (Interview C4, C2).

Reduced-interest loans are development loans, for which funds are raised on the capital markets by the KfW Development Bank. These KfW funds are then combined with grants, which come from the development budget and subsidize the interest rate for the borrower (Interview C4).

Reduced-interest loans have been used since 2001 for financing developmentally relevant infrastructure projects, as long as the maximum maturity of this loan type is adequate for the project (BMZ n.s.: Slide 7). According to the KfW Development Bank, many partner countries are in this way enabled to invest in innovative and environment-friendly energy, environmental and climate technologies which otherwise would not have been affordable (KfW Entwicklungsbank 2011: 1-2).

An interview partner states that this loan type has advanced to the most important FC-instrument (Interview C4). Another one confirms this development and mentions that meanwhile up to 60-70 % of all FC-projects or programs are financed with reduced-interest loans (Interview C2).

Since 2009 reduced-interest loans have been largely covered by a guarantee of the German Government (MoF) (BMZ n.s.: Slide 7). In this way, projects are now affordable for partner countries and comply with ODA criteria (KfW Entwicklungsbank 2011: 1-2).

To qualify as ODA, a transaction must be concessional in character and convey a grant element of at least 25 % according to the DAC's definition. This 25 % grant element is calculated at a rate of discount of 10 % and should reflect a donor's budgetary effort in favor of a developing country (OECD/DAC 2013c: 2).

As long-term interests rates in Germany and most other member countries are well below 10 %, fulfilling the grant element has become much easier (Fritz 2013: 25-26). Even more, sometimes the concessional level is de facto negative and thus, does not imply any budget effort for the donor, a practice which has been sharply criticized by various interview partners (Schweiger 2013: 13-16).

12.2.4.4. FC Promotional Loan

The German Financial Cooperation is completed by so-called promotional loans. They have been designed to finance development projects in countries without apparent indebtedness problems. They are primarily offered to developing countries with signif-

icantly higher levels of income (threshold countries), for which other available FC funds are not suitable anymore (KfW Entwicklungsbank 2010).

The award of these funds is conditional on the indebtedness of a country; in addition, projects have to be commercially cost-effective and provide added-value in terms of development policy²⁹⁹.

Since 2001, the FC promotional loan has been available under terms and conditions that are close, but still below market conditions. Although the funds for promotional loans are purely raised on the capital markets by the KfW Development Bank, the award of these funds needs the final approval of BMZ (Interview C2; BMZ n.s.: Slide 3).

Promotional loans form part of FC funds and are included in the forecasts by the ministry's desk officers. If possible, the use of this loan type is included in the minutes of the bilateral negotiations between BMZ and the corresponding partner country (Interview C1). In appropriate cases – depending on the conditions – promotional loans are covered by a guarantee from the federal budget (Interview C2).

If such loans are covered by a state guarantee, they must be eligible for ODA according to Germany's interpretation of concessionality because they incorporate an effort (in the implicit form of a guarantee for the default of the loan) by the German government (Interview C10)³⁰⁰. Critical voices repeatedly pointed out that such reporting practice erode the ODA-concept, in particular as they refer to large amounts of loans, which do not meet any reasonable definition of “concessional in character” (Fritz 2013: 25-26).

According to the KfW Development Bank this type of loan complements the available FC funds and is particularly appropriate for promoting private and public investments in infrastructure, refinancing of financial institutions and for credit and equity investment operations in the micro finance sector (KfW Entwicklungsbank 2010).

For instance, China does not receive any more grants or soft loans from the German development budget. Here promotional loans are used for financing public transport projects in order to continue the cooperation with China as a former development cooperation partner country. An interview partner mentioned that apart from China, Thailand or Vietnam, some East-European countries qualify for promotional loans (Interview C1).

The promotional loan has accounted for the smallest share of all FC funds until now. Another interviewed person confirms that this instrument is used very carefully and mentions that the indebtedness of a country is seriously assessed by the KfW Development Bank upon the basis of the debt sustainability analysis of WB and IMF (Interview C2).

²⁹⁹ KfW Entwicklungsbank: <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/About-us/Unsere-F%C3%9B6rderinstrumente/>

³⁰⁰ OECD: <http://www.oecd.org/dac/stats/concessionality-note.htm>

12.3. Performance of Financial Cooperation

The statistical data provided in the following aims at analyzing the quantitative evolution of the German Financial Cooperation including their sectoral and geographical distribution. The chapter mainly draws on information extracted from the KfW Transparency Portal, but will also take into account information from the DAC's Creditor Reporting System, national budget frames, KfW Development Bank' Annual Reports and builds on data provided by interview partners.

12.3.1. Development of Financial Cooperation

The total volume of loan commitments has significantly increased in recent years by combining federal budget funds with funds raised at the capital markets.

The following table illustrates the total volume of commitments between 2003 and 2012, which rose from EUR almost 1.6 billion in 2003 to nearly EUR 5 billion by 2012. The German Financial Cooperation almost doubled its funds compared to the year 2006 when around EUR 2.5 billion had been committed.

Table 14: Total Volume of Commitments (2003-2012)

Year	Amount in EUR million
2003	1.577
2004	1.934
2005	1.881
2006	2.445
2007	2.902
2008	3.313
2009	3.331
2010	4.452
2011	4.532
2012	4.916

Source: KfW Entwicklungsbank 2007a: 73; KfW Entwicklungsbank, Transparency Portal³⁰¹

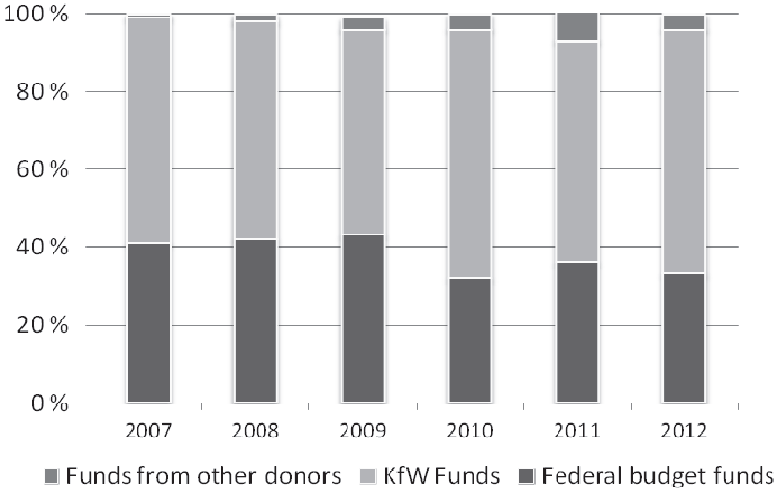
The share of German budget funds in the commitments of KfW Development Bank rose from EUR 1 billion in 2001 to around EUR 1.6 billion in 2012. As a result of the blending of market funds the total volume of commitments rose during the same peri-

³⁰¹ Information can be accessed at <http://transparenz.kfw-entwicklungsbank.de/>

od from just under EUR 1.6 billion to nearly EUR 5 billion by the end of 2012. Of these, over EUR 3 billion were KfW funds raised at the capital markets (KfW Entwicklungsbank 2007a: 73).

The following figure illustrates the share of Federal budget funds and KfW Funds between 2007 and 2012.

Figure 12.6: Origin of FC Funds (2007-2012)



Source: KfW Entwicklungsbank, Transparency Portal³⁰²

Total commitments have more or less continuously increased since 2002 as illustrated in the following table. In comparison to other years, particularly the period between 2007 and 2009 marks the beginning of an overall increase in terms of the total volume of grants, development loans and promotional loans which have been provided within the German Financial Cooperation.

302 Please see <http://transparenz.kfw-entwicklungsbank.de/en/mittelherkunft/>

Table 15: Total Commitments (2002-2012), in EUR million

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
FC grants	680	740	703	751	864	803	882	1112	1036	1336	1347
FC standard loans	182	227	271	307	280	277	351	230	179	145	179
FC development loans	249	287	782	492	704	579	1033	878	2142	1713	1600
*Total budget funds	109	101	321	157	198	131	213	106	215	134	112
*Total KfW funds	140	186	461	336	507	448	821	772	1927	1579	1487
FC promotional loans	41	246	160	247	512	1263	1314	1151	913	996	1603

Source: KfW Entwicklungsbank Annual reports 2004, 2007, 2012

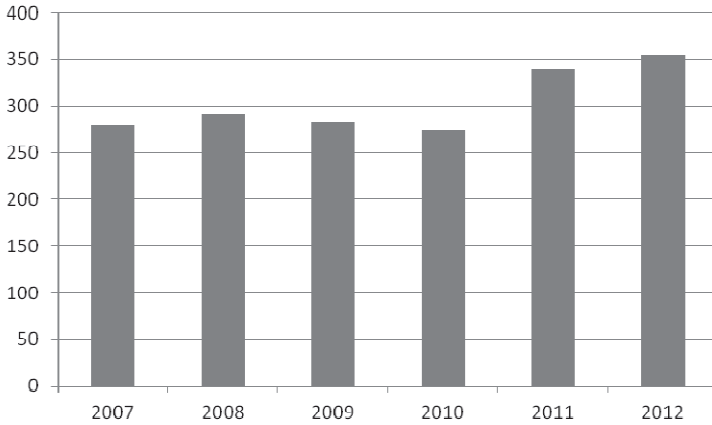
The volume of standard loans has decreased in favor of development loans and promotional loans within the last years. Federal budget funds (FC grants) have sharply increased since 2009 whereas total budget funds, which go into development loans, have substantially varied at a rather low level in the last five years. In comparison, the high volume of total KfW funds raised at the capital markets has dramatically increased the leverage of development loans. While the leverage ratio (total KfW funds to total budget funds) was 7:1 in 2009, the analysis suggests that the leverage nearly doubled to 13:1 in 2012.

In general, development loans, in particular reduced-interest loans, have advanced to the most important FC-instrument. Table 15 indicates that on average about EUR 1800 million has been committed in the form of development loans in the period 2010-2012. In addition, the volume of promotional loans has sharply increased since 2007. The guarantee which has been provided by the Ministry of Finance since 2012 led to a high peak of commitments with about EUR 1600 million last year.

More than 270 different projects have been financed each year since 2007. In the last years the number of projects has increased to 354 projects in 2012 and 341 projects in 2011.

Most project proposals, which receive funding, have a project size between EUR 5 and 15 million; a few are smaller and thus, up to EUR 5 million. The establishment of reduced-interest loans has provided the opportunity to finance infrastructure projects at large-scale; e.g. Metro-projects which have a total volume of several EUR 100 million (Interview C1).

Figure 12.7: Number of FC Projects (2007-2012)



Source: KfW Entwicklungsbank, Transparency Portal³⁰³

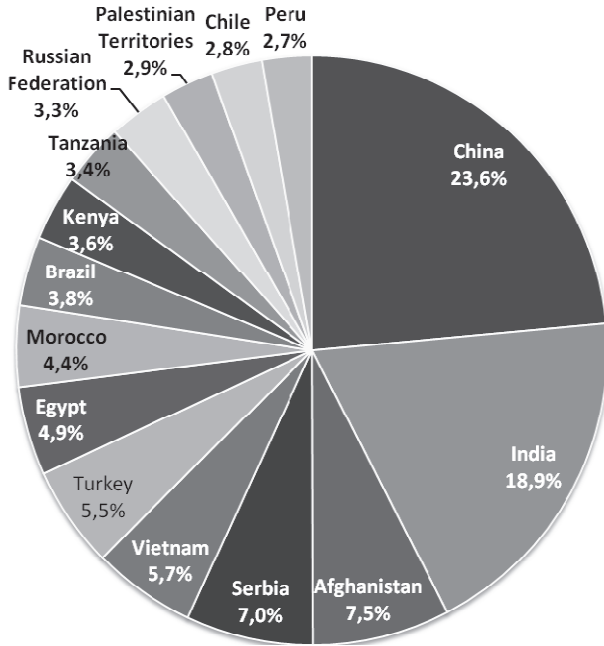
12.3.2. Recipient Countries

Apart from China, Turkey and the Russian Federation, all main recipients are part of Germany's bilateral development cooperation in the context of country programs. The following figure illustrates that China, India and Afghanistan have been the key recipients between 2007 and 2012.

An interviewed stakeholder points out that the graduation of countries has in turn led to an increased use of (Promotional) Loans. Thus, countries like China do not receive any more grants but loans; further eligibility for countries like Sri Lanka and Philippines which have received grants is expiring. According to this source, Vietnam and India are big and interesting cooperation countries (Interview C1).

303 Please see <http://transparenz.kfw-entwicklungsbank.de/en>

Figure 12.8: Main Recipients of Financial Cooperation (2007-2012)



Source: KfW Entwicklungsbank, Transparency Portal³⁰⁴

12.3.3. Sectors

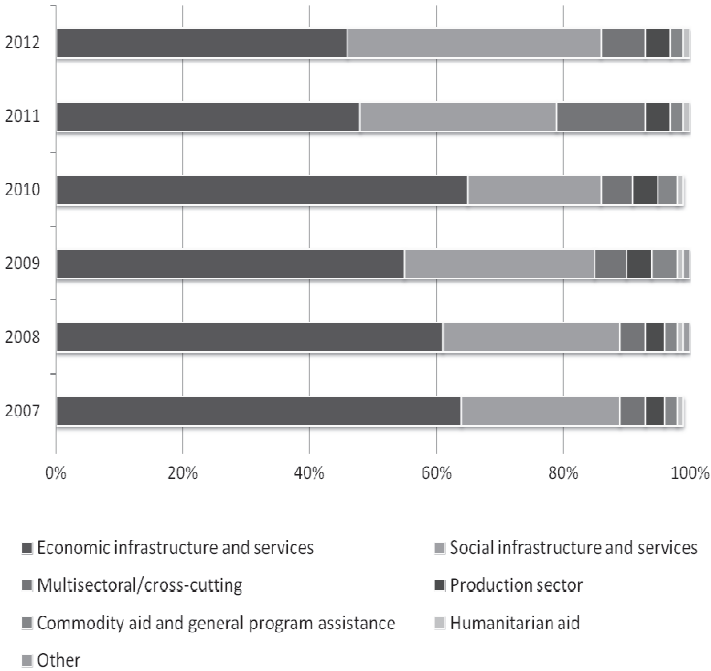
The key sectors of KfW Development Bank's activities are environmental and climate protection and the promotion of financial, social and economic infrastructure.

Based on the data provided by the KfW Development Bank's transparency portal, which is based upon the Creditor Reporting System (CRS) purpose codes for sector classification of the OECD, the key sectors have been analyzed.

The following figure illustrates that economic infrastructure as well as social infrastructure have had highest shares between 2007 and 2012.

³⁰⁴ Please see <http://transparenz.kfw-entwicklungsbank.de/en>

Figure 12.9: Key Sectors of Financial Cooperation (2007-2012)



Source: KfW Entwicklungsbank, Transparency Portal³⁰⁵

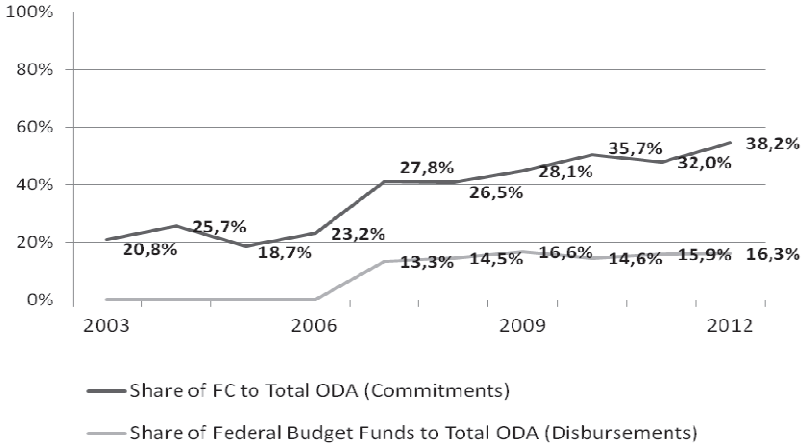
Here economic infrastructure includes banking and financial services, energy generation and supply, transport and storage as well as business and other services. Water and sanitation, education, health, government and civil society, population policies/programs and reproductive health are key subsectors of social infrastructure and services.

12.3.4. Share of Financial Cooperation to Total ODA

The German Financial Cooperation has accounted for more than 30 % of total ODA in 2010-2012. Although the share of FC to total ODA varies in 2003-2012, a general increase is identified, except from the slight decrease in 2011. The following figure illustrates its highest peak in 2012 (around 38.2 % of total ODA). In comparison, the share of federal budget funds to total ODA – data is available from 2007 onwards – has only varied slightly; from 13.3 % in 2007 to 16.3 % in 2012.

305 Please see <http://transparenz.kfw-entwicklungsbank.de/en/sectoren>

Figure 12.10: Share of FC/Federal Budget Funds to Total ODA (2003-2012)



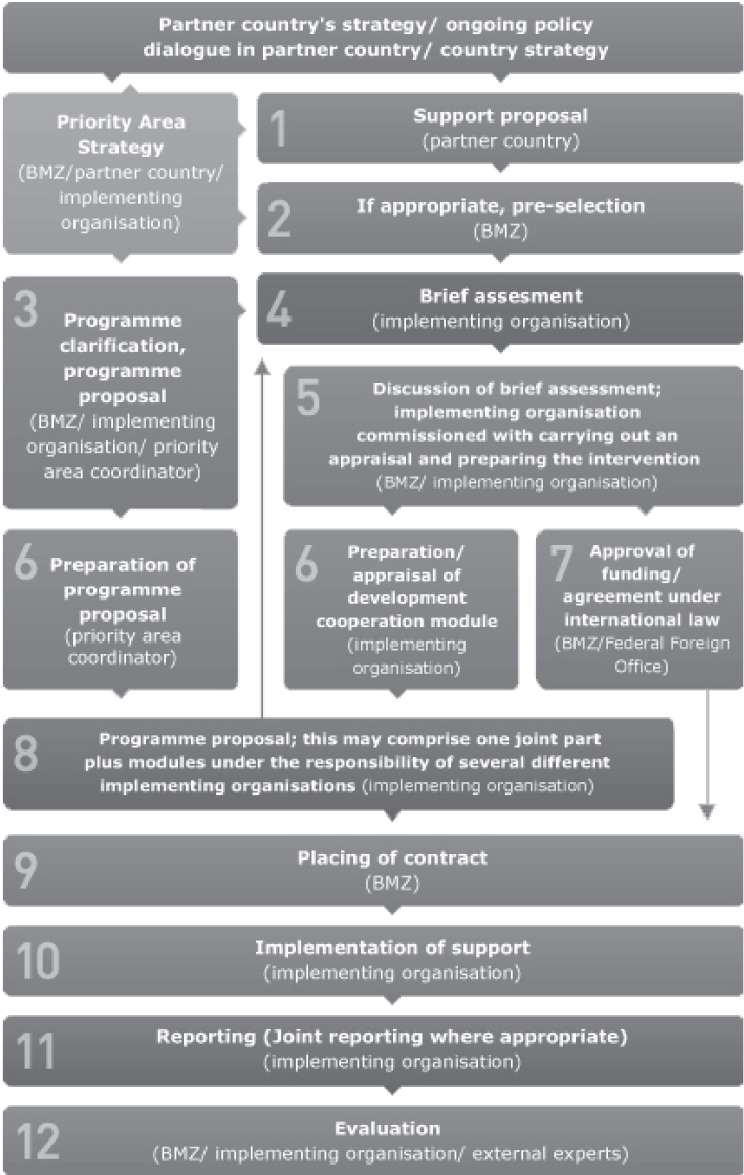
Source: OECD/DAC Statistics 2014; KfW Entwicklungsbank Annual Reports; KfW Entwicklungsbank, Transparency Portal³⁰⁶

12.4. Planning and Implementation of FC Funds

All projects that are supported by the German Financial Cooperation go through the same processing cycle. Every stage of this cycle is subject to various checks and balances, e.g. quality assurance reviews (KfW Entwicklungsbank 2012b: 3). The following figure illustrates the planning and implementation of Financial Cooperation as well as Technical Cooperation in the strict sense.

³⁰⁶ KfW Entwicklungsbank, Transparency Portal: <http://transparenz.kfw-entwicklungsbank.de/>

Figure 12.11: Planning and Implementation of Financial and Technical Cooperation



Source: Federal Ministry for Economic Cooperation and Development, BMZ³⁰⁷

³⁰⁷ BMZ: http://www.bmz.de/en/what_we_do/approaches/bilateral_development_cooperation/approaches/index.html

12.4.1. Intergovernmental Agreement and Project Pre-Selection

The official bilateral Financial Cooperation is based on intergovernmental agreements between the Federal Government of Germany, represented by the BMZ and the governments of the corresponding partner countries.

These intergovernmental agreements are in turn framed by the programming of the Official German Bilateral Cooperation: Its regional strategies, country strategies and key sectors form the framework for any intergovernmental negotiation about projects or programs to be financed with FC funds.

Before starting intergovernmental negotiations, the BMZ decides in informal consultations with the partner country on bilateral assistance priorities based on its country strategies and on the partner country's development strategy.

These informal consultations take place every two or three years; the main stakeholders are the BMZ as negotiator, the KfW Development Bank and the GIZ are represented (for technical questions) and the respective German ambassador (AA). Their counterparts are the Ministry in charge of development cooperation and relevant line ministries or public authorities of the partner country (Interview C1).

Proposals for projects or programs are then briefly described by the KfW Development Bank for the BMZ. This brief statement of opinion (2-3 pages) includes a short description about the preparation and feasibility of the project, its developmental soundness and alignment with the priority areas of the given country; in short this brief statement of opinion evaluates whether the planned project is promising and beneficial. An interview partner concludes that this assessment is relatively basic and solely intended as a basis for the BMZ to decide whether this project will be put in the federal budget and further, be part of intergovernmental negotiations (Interview C1; KfW Entwicklungsbank 2012b: 4).

The KfW Development Bank's main duty in this process is to ensure the sufficient supply of proposals to meet the demand of projects; to develop proposals in cooperation with relevant line ministries from partner countries, which then are ready to be discussed in these informal consultations, and furthermore, negotiated in the formal intergovernmental negotiations (Interview C1).

Quite contrary to this procedure, different interview partners highlighted that ownership of the partner country is key. According to them, in principle the partner countries themselves propose projects and programs, which form part of the informal consultations as well as the official intergovernmental negotiations (Interview C3, C1, C2).

The ownership of partner countries is here solely indicated by the fact that projects are as well but not exclusively proposed by the partner country. Further, their development strategy is one of the key documents which are considered in the intergovernmental negotiations. It is important to note that the involvement of the KfW Devel-

opment Bank in general depends to a large extent on the capabilities and capacities of the given country (Interview C3).

The BMZ also provides a studies and counselling fund with a volume of EUR 15-20 million per year. This fund, which is administrated by the KfW Development Bank, finances studies needed for project definition, including preliminary and feasibility studies in order to prepare a project or program (KfW Entwicklungsbank 2013: 20; Interview C1).

The studies and counselling fund is not necessarily used to prepare every single project because projects or programs are also prepared by a given study of the partner country. In addition, new projects proposed are very often follow-up projects; hence there is usually no need for doing an overall preparation or feasibility study again (Interview C4).

An interviewed stakeholder estimates that one third of all projects, in absolute numbers, between 30 up to 40 projects per year, are prepared with resources of the studies and counseling fund (Interview C1).

According to the website of the KfW Development Bank, *“The partners in the respective developing country itself are responsible for procuring consultancy, construction works, supplies and services for the programs and projects”* they finance³⁰⁸. Several German interview partners agreed upon the importance to put the partner country in the “driver’s seat” (Interview C4, C3).

Nevertheless, the KfW Development Bank supports and assists in preparing the project and provides back-up services during implementation. The Terms of Reference (ToR) of the above mentioned preparation and feasibility studies are provided by the KfW Development Bank in cooperation with the corresponding ministry (Interview C1). The partner country then carries out an international call for tender. The invitation to participate in an international competitive bidding process is usually published in the developing country and in Germany, if appropriate also in international media (KfW Entwicklungsbank 2007b: 8). These ToR often ask for very specific consultancy and for companies, which have a proven record of similar projects and country experience. Thus, in general technical consultants win these tenders because of the technical rather than socioeconomic questions that have to be answered. An interviewed person concludes that these engineering consultants are very often from industrial countries, not only from Germany, also from Great Britain, France or the USA (Interview C1).

³⁰⁸ KfW Entwicklungsbank: [https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/About-us/Vergabe-von-Auftr %C3 %A4gen/](https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/About-us/Vergabe-von-Auftr%C3%A4gen/)

12.4.2. Decision-Making and Project Selection Process

The stakeholders of the formal intergovernmental negotiations are the same as in the informal consultations held earlier on: the BMZ, the KfW, the GIZ, the AA and their counterparts from the given partner country. They agree upon concrete projects on the basis of the existing proposals and studies.

The negotiated projects and programs, their volume of funding and other results of these negotiations are protocolled. These minutes form the basis for the intergovernmental agreement between the German Federal Government and the government of the partner country. This agreement is binding under international law (Interview C1).

The developmental orientation, the volume of funding pledged and other important details are then agreed and implemented by the KfW Development Bank in the name and on behalf of the German government on the basis of the intergovernmental agreement.

In detail, the KfW Development Bank is commissioned by the BMZ to conduct an on-site appraisal. The ministry gives its approval on the basis of the brief statement of opinion done by the KfW Development Bank which then serves as basis for the decision to release these funds in the federal development budget (Interview C1; KfW Entwicklungsbank 2012b: 5).

Then the KfW Development Bank conducts the on-site appraisal, guided by a confidential handbook from the BMZ, which has been operationalized for KfW staff. An interview partner confirmed that the bank is obliged by their very formal guidelines to carry out a full and complete examination of all the relevant facts and circumstances.

According to this interview partner, the questions and criteria are manifold and similar to those of the World Bank (Interview C1). This on-site appraisal of a project or program includes (KfW Entwicklungsbank 2007b: 17):

- the overall economic situation in the partner country as well as the proof of necessity of the given project or program; e.g. in the form of a sectoral or regional analysis
- the conceptualization, if necessary the design and technical characteristics (planning, implementation, operation), including opportunities to cooperate with the private sector
- relevant legal basis; organization, management and economic conditions of the project executing partner (including the partner's ability to implement the project on his/her own), potential support by trained professionals as well as the requisite education and training
- total costs (foreign currency costs, total local costs) and the financing of these costs, human and material supplies as well as financial contributions of each single stakeholder

- Macroeconomic, socio-economic and socio-cultural impacts (e.g. possibility of conflict between different (ethnic) groups), gender aspects and environmental and social compatibility; economic aspects, operational and commercial risks, the target group's attitude towards the project (Interview C1).

Another interview partner concludes that there are few criteria for assessing the developmental orientation of the given project or program. Within financial cooperation, measures are rather more assessed along the logframe matrix and corresponding indicators (Interview C2).

These on-site appraisals usually include field missions. All criteria have to be assessed each time and reported to BMZ. The appraisal report includes a proposal for funding (Finanzierungsvorschlag) which is based on the "List of Conditions" ("FZ-Konditionenliste") (Interview C1).

This program proposal is similar to the appraisal reports (Bankprüfberichte) of the World Bank; according to a stakeholder the reports of the KfW are shorter but usually contain quite similar information (Interview C1).

If the appraisal, done by the KfW Development Bank, is positive, BMZ country desks (Länderreferate) normally approve the developmental criteria of the project appraisal as well as the proposal for funding. At this stage adaptations or changes regarding the developmental soundness of the project or the funding proposal could be amended by the BMZ because the ministry gives final approval for funding (Interview C2).

Thus, the KfW Development Bank has to take into account the ministry's objections and has to come up with developmental improvements or other financial proposals. In general, these proposals are developed jointly; because it is in the interest of both that the BMZ gives the KfW Development Bank the negotiating mandate for the loan agreement (Interview C1).

Once the KfW Development Bank has received the ministry's approval, the bank concludes the loan agreement with the corresponding government. The framework for the delivery of services to support projects or programs and for the selection of consultants are also agreed upon in the loan agreement or other agreements between the project executing agency and the KfW (KfW Entwicklungsbank 2013: 3).

These loan agreements generally do not have to be negotiated in detail; according to an interview partner, most partner countries are familiar with this kind of contracts. The contract is made up of 8 to 10 pages, particular risks have to be dealt with in the annex (Interview C1).

"The supplies and services to be financed, the disbursement procedure to be applied and the details of the documents to be submitted to the KfW Development Bank are specified in the 'Separate Agreement' to the 'Loan/Financing Agreement'" (KfW Entwicklungsbank 2006: 1).

After signing the loan agreements, the KfW Development Bank makes the funds available. The Bank also deposits the grants and loans from the federal development budget (Interview C2). The payments are usually transmitted to the project partner or the project-executing organization, e.g. government-related energy supplier (Interview C4).

12.4.3. Implementation-Planning and International Competitive Bidding

The KfW Development Bank supports the project executing organization in the partner country in preparing the project. One of these back-up services provides an independent qualified consultant to advise on particular technical questions of the planning and implementation of the project, including the tender (Interview C4).

In detail, the local or international consultant, who is generally awarded by the project executing agency via tendering, provides support for the project-executing agency in the detailed design of the project.

This often includes the consultant's role as a tender agent, preparing the tender documents (including technical specifications and the draft contracts for supplies and services), holding the tender, assessing the bids and proposing an applicant to be awarded the contract, drafting the contract, drawing up the final design, including the architectural plans, supervising the execution of the project and monitoring its development (KfW Entwicklungsbank 2013: 20).

"The consultant's services also include examining and approving invoices and supporting the project executing agency in foresighted cost and financial management of the project, in dealing with contractual issues, in accepting the project and in drawing up reports on the development of the project" (KfW Entwicklungsbank 2013: 20).

In principle, contracts for goods, works and associated services are always awarded by the project executing agency in charge of the implementation of the project, which in most cases is also the agency that calls for an International Competitive Bidding (ICB). In exceptional cases other awarding procedures may be applied. For instance, in individual cases, the KfW Development Bank may carry out part or all of the selection procedure and commission the consultant on behalf and in the name of the project executing agency (KfW Entwicklungsbank 2013: 4-6).

Nevertheless, the general role of the KfW Development Bank is to make sure that calls to tender and contract awards proceed according to international rules. Even though the bank emphasizes the commitment and ownership of the partner country, it still plays an active part in the preparation and implementation of the projects financed.

The bank's obligation to exercise due diligence consequently influences the project in a manner that is appropriate to the case in hand: This influence shall ensure that the funds provided are spent as efficiently as possible and that the contracts are awarded

on the basis of fair and transparent competition, which is designed to identify the most suitable bidder according to performance and price (KfW Entwicklungsbank 2013: 5 & 2007b: 4).

Further, the bank will examine the tender documents, assessment reports, proposals for the award of the contract and draft contracts for prior approval to ensure that they conform with the agreements made with the Project Executing Agency and with international practices (KfW Entwicklungsbank 2007b: 4).

Once, the preparation for the International Competitive Bidding (ICB) is done, the Project Executing Agency will publish an international invitation to tender supplies and services for the corresponding project. Publication in the partner country will follow the rules and regulations applicable there, but in principle publication will take place in the daily newspapers of the partner country (KfW Entwicklungsbank 2007b: 7).

In addition, the procurement notice must be published in Germany in the databases of Germany Trade & Inward Invest Agency (GTAI) beforehand (KfW Entwicklungsbank 2007b: 6.). Due to the guidelines of the German bilateral financial and technical cooperation, the German economy must be informed as early as possible about projects financed with FC funds. An interviewed person states that in addition to the GTAI, publication takes place in the EU Official Journal (Interview C1).

The bidding documents include the following (KfW Entwicklungsbank 2007b: 8-9):

- general information about the project and the supplies and services to be provided
- information on the execution of the bidding process and evaluation procedures
- sample form of tender
- general and specific conditions of contract and, if appropriate, draft contract
- general technical conditions of contract, neutral technical specifications with bill of quantities, specifications or performance criteria for performance-based contracts
- clear and complete design documents
- specification of standards and measuring system applied
- specimen declaration of undertaking
- standard forms of bid bond, advance payment bond and performance bond
- preliminary cost estimates, unless there are serious reservations against their disclosure

The bidder has to ensure a fair and transparent competition and comply with, at least those ILO core labor standards that have been ratified by the partner country (KfW Entwicklungsbank 2007b: 7).

According to an interviewed person, the documents the bidder has to hand in vary from case to case; in general they heavily depend on the procurement system and legal issues in the partner country (Interview C1).

The bids are usually evaluated by the contracting agency in cooperation with the tender agent or by the tender agent. If specified in the bidding documents, apart from the price, several factors are evaluated (KfW Entwicklungsbank 2007b: 10-11):

- delivery of construction period
- personnel
- equipment lists
- environmental and social acceptability
- costs of operation and total useful life
- supply of spare parts
- qualification for training local personnel

The purpose of the evaluation is to determine the most advantageous offer by assessing all individual bids and by subsequently comparing all the bids submitted. The contracting agency has to send the detailed evaluation report to the KfW Development Bank, which generally reserves the right to review all the bids and corresponding documents (KfW Entwicklungsbank 2007b: 20).

In principle, the procurement procedure is confidential. The decision to whom the contract is awarded is made by the partner-contracting agency. The KfW Development Bank may withhold funding if the award of the contract has not been carried out adequately (e.g. unduly favorable treatment of a bidder, offer does not comply with the public invitation to tender, serious deviation from the project design, corruption) (KfW Entwicklungsbank 2007b: 20).

Once a supplier is awarded the contract, the consultant further provides "support for the Project Executing Agency in developing operation and maintenance concepts, in advising and training skilled personnel to operate and maintain the facilities constructed under the project, and in carrying out flanking measures (e.g. hygiene advisory campaign in connection with drinking water supply projects)." (KfW Entwicklungsbank 2013: 20).

12.4.4. Payment Terms, Guarantees and Insurance

One of the KfW Development Bank's duties is to deal with payment terms, in particular to administrate disbursements and repayments of projects or programs to be financed with FC funds.

The bank disburses loans and non-repayable financial contributions (grants) according to the progress of the corresponding project or program to be financed or upon re-

quest of the project executing agency. Further, the KfW Development Bank supervises the contractually agreed utilization of the funds (KfW Entwicklungsbank 2006: 1).

According to the KfW Development Bank its disbursement procedures are in line with the Paris Declaration (PD) in which donors have committed themselves to align their procedures more strongly with those of the partner countries. The bank generally applies this principle by providing all necessary information in order that partner countries are able to allocate the funds in their public budgets (KfW Entwicklungsbank 2006: 1).

The KfW Development Bank provides direct disbursements as well as reimbursements. Upon request of the project executing agency, payments are directly disbursed to the enterprises ("suppliers") whose supplies and services are to be financed by FC funds (Interview C3).

An interview partner states that the KfW Development Bank usually applies reimbursements. Here the project executing agency or the authorized party first performs the full payment of amounts which are then requested by the partner and subsequently reimbursed by the KfW. If necessary, specific audits are done by independent auditors in order to examine whether the funds were used for the contractually agreed purpose (Interview C3).

In some cases the KfW Development Bank provides a so-called disposition fund. This fund is endowed with an adequate amount, if the authorized party, in most cases the project executing agency, is not able to pre-finance the supplies and services. The funds are then disbursed to cover the needs of the project over a period of up to four months. In contrast to reimbursements, disposition funds have to be audited on a regular basis by independent auditors (KfW Entwicklungsbank 2006: 2; Interview C3)

Guarantees

In general, the project executing agency is the borrower who receives funding from German Financial Cooperation. Since the partner country is not the borrower, it usually provides a state guarantee in order to guarantee for any payment defaults (Interview C4).

In addition, FC funds are conditional upon guarantees covering the risk of non-payment for the KfW Development Bank which are either covered by Euler-Hermes (ECA) or the German Ministry of Finance (Interview C4).

Further, the contractor has to provide different bonds (bid bonds, advance payment bonds and performance bonds) in order to guarantee that all obligations will be duly fulfilled (KfW Entwicklungsbank 2007b: 16, 21-23).

Insurance

According to the procurement guidelines, all “goods and works are to be insured adequately and to the customary extent against all risks that may occur up to the orderly completion and acceptance of the project so that replacement or rehabilitation is possible in the event of damage.” (KfW Entwicklungsbank 2007b: 16-17).

An interviewed person concludes that the KfW Development Bank supports the project executing company in guarantee or insurance issues but the bank’s main function herein lies in auditing if these issues are considered adequately in each project (Interview C1).

12.5. Monitoring and Evaluation

The KfW Development Bank monitors the progress of the measures financed with FC funds until the project or program will become operational. Once the project has been completed, the bank reviews whether the development objectives have been achieved and will have a lasting impact³⁰⁹.

12.5.1. Reviewing Project-Related Progress

The monitoring results are submitted by the KfW Development Bank to the ministry on a regular basis. They include reviewing the progress of outstanding action and consider (KfW Entwicklungsbank 2007b: 18-19):

- the latest development in the given sector
- the impacts of the implemented actions
- compliance with planning and financing (int. al. schedule and budget)
- potential difficulties which have occurred during the implementation
- potential modification of framework conditions
- recommendations

The reports that review the progress of a project or program in principle may be reports of the project executing agency or local staff as well as results of an interim evaluation or other knowledge acquired by the KfW Development Bank and their corresponding stakeholders (KfW Entwicklungsbank 2007b: 19).

If framework conditions change substantially during the implementation phase, the KfW Development Bank must immediately report to the ministry. In such cases the ministry reserves the right to request reports (KfW Entwicklungsbank 2007b: 19).

³⁰⁹ BMZ: http://www.bmz.de/en/what_we_do/approaches/bilateral_development_cooperation/approaches/financial_cooperation

In addition, the KfW Development Bank conducts field visits once or twice per year in order to monitor the operation of the respective project. If problems occur, the bank will conduct as many field visits as necessary. These progress reviews are then submitted to comply with BMZ in order to the reporting obligations. At the end of these reviews final inspection reports are drawn up. Here, KfW staff also includes engineers who determine which deliverables have to be mended (Interview C1).

12.5.2. Independent Ex-Post Evaluation

Two up to five years after a project or program has been implemented or has become operational, the KfW Development Bank generally conducts evaluations of these measures and activities.

This so-called ex-post evaluation is carried out in order to analyze whether the expected developmental impacts of a given project have actually been achieved and whether they have initiated a sustainable development process. Aspects being evaluated consider the whole project cycle, the environment, the partner and involved agencies as well as the target group³¹⁰.

The evaluations are done by the Evaluation Department of the KfW Development Bank (FC Evaluation) or by assigned external consultants.

The Evaluation Department is officially an independent unit, which reports directly to the Board of Managing Directors. This board also appoints a highly qualified expert in the field from the outside as head of KfW's Evaluation Department in order to ensure that this unit is able to work independently (from regional divisions which are responsible for the planning and implementation of FC funds)³¹¹.

An interviewed stakeholder claims that despite the independence of the evaluation unit, external consultants are in practice still more independent, simply because of the fact that these evaluations are external and not in-house. This may call the independence of the evaluation unit, e.g. from regional divisions, into question. In addition, this interview partner argues that external consultants are often interested in follow-up orders and thus, external consultants are not always more critical in their evaluation reports (Interview C1).

12.5.2.1. Approach and Methodology

The Evaluation Department moved away from assessing every single project in 2007; since then a representative sample of individual projects has to be submitted for ex-post evaluation. According to an interview partner, approximately half of all implemented projects are evaluated in this sample per year; in total about 60 projects. Further,

³¹⁰ KfW Group: https://www.kfw.de/KfW-Group/Newsroom/Aktuelles/Pressemitteilungen/Pressemitteilungen-Details_10223.html

³¹¹ KfW Entwicklungsbank: <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/Evaluation/Unabh%C3%A4ngige-Evaluierungseinheit/>

the interviewed person mentions that this random sampling allows more profound and thorough analysis; e.g. providing own surveys, conducting thematic research or applying a more sophisticated methodology (Interview C1).

On the bank's website, the Evaluation Department states that this representative sampling provides a solid basis for the bank in order to determine the success rate of Financial Cooperation activities (Interview C1).

It seems questionable whether it is sufficient to evaluate every second project. Evaluations are not solely done in order to measure the success rate or to organize learning effects; they are essentially conducted to demonstrate whether funds have been employed efficiently and whether the target group is affected positively by the impacts of a given project or program. Thus, every single project should be evaluated thoroughly.

About two thirds of all evaluations are done by the Evaluation Department of the KfW Development Bank, one third of all projects evaluated is conducted by external and independent consultants. As a general rule, the Evaluation Department never assigns individuals who have worked on the project under evaluation (Interview C1).

12.5.2.2. Logframe and Field Missions

Ex-post evaluations are generally based on the Logical Framework Matrix ("Logframe"). In principle, this matrix is produced every time when the KfW Development Bank is commissioned by the ministry to conduct an on-site appraisal of a given project in order to provide a basis for the decision whether to finance the measures with FC funds. Thus, the logframe matrix is of major relevance throughout the whole process.

On the basis of the logframe matrix the therein-formulated indicators and other related documents and interim reports of a given project, the evaluators assess the implemented measures of a corresponding project or program (Interview C1).

Field missions are usually part of an ex-post evaluation: Evaluators conduct interviews with representatives of the executing agency and the target group; analyze corresponding data and statistics; assess statements and information of other stakeholders, e.g. other external donors working in the sector the project corresponds to. The evaluation reports also consider documents and reports that are related to a given project or program and have been produced over the whole project cycle³¹².

Criteria which are applied to measure a project's development success are the following: relevance, effectiveness, efficiency, overarching developmental impact and sustainability. "The bank considers a project sustainable if the project-executing agency

³¹² KfW Entwicklungsbank: <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/Evaluation/Ex-post-Evaluierungen/>

and/or the target groups are willing and able to carry on with the project once the external support comes to an end.³¹³

The ex-post evaluations of the Evaluation Department in principle address the following key questions:

- “How have the partner country, the sector and the environment of the project/program changed since preparation? Did the project/program specifically address a major constraint in the partner country and has it contributed to solving a core problem?
- Was the project/program carried out as originally planned (planned versus actual comparison of measures, costs and finance)? If applicable, were deviations warranted?
- Which elements of the design have proved more or less effective? To what extent have important anticipated effects actually occurred and how sustainable will they be?
- What other positive and negative effects (also non-intended impacts) have occurred? What could and should be done differently/better in new projects/programs from today's point of view?³¹⁴.

In addition, at the end of each evaluation, a final performance assessment of the given project or program is done. Measures are considered to be successful (rating 1-3) or not successful (rating 4-6).

The ex-post evaluation reports are submitted to the BMZ; abridged versions covering individual projects are published online and are available to the public. Additionally, every couple of years the Evaluation Department publishes analysis reports, which focus on different topic areas, with more detailed information about different sectors or regions, and provide detailed performance statistics³¹⁵.

12.6. Transparency and Accountability

Although Germany's development policy is not defined by law, there are guidelines and procedures that guide the BMZ being in charge of German development policy formulation and financing and the KfW Development Bank as the executing agency for FC funds.

³¹³ KfW Entwicklungsbank: <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/Evaluation/FAQ-Frequently-Asked-Questions/>

³¹⁴ KfW Entwicklungsbank: <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/Evaluation/Ex-post-Evaluierungen/>

³¹⁵ KfW Entwicklungsbank: <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/Evaluation/Ergebnisse-und-Publikationen/>

Further, the BMZ has reporting duties to the parliament. In addition, the Federal Court of Auditors regularly audits the financial management of the Federal government, its ministries and executing agencies. Therefore, the BMZ and the KfW Development Bank are quite regularly monitored. The Bank is also continuously supervised by the private auditing company PricewaterHouseCoopers.

The role of the German civil society is more strongly focused on the export credit transactions. Here, the KfW IPEX-Bank, one of the KfW Banking Group's subsidiaries is regularly criticized.

12.6.1. Involvement of the Parliament

Forming part of the overall development cooperation, the financial cooperation is as well underpinned by the coalition agreement that covers each legislative period and the budget procedure ("Einzelplan23"). Since the 14th legislative period (1998-2002) policy statements on development have been an integral part of the debates of the Bundestag (EuropeAid 2013: 1).

The Parliamentary Budget Committee (PBC) decides upon the development cooperation budget every year, which has been drafted by the BMZ based on the ceiling of the overall federal budget allocated by the BMF. Before the PBC agrees upon a final version, the draft is debated in the corresponding committees. Thus, every year FC funding is agreed upon during the budget procedure³¹⁶.

The BMZ has reporting duties to the parliament regarding the approval of FC funds. The BMZ as well regularly reports to the Parliamentary Committee for Economic Cooperation and Development (AWZ) about the developmental impact of evaluated projects³¹⁷.

Furthermore, members of the parliament are entitled to ask questions which have to be answered by the government or the corresponding ministry. German NGOs regularly make use of this option and ask parliamentarians to request information about projects or programs being financed by the KfW.

Several interview stakeholders of the German civil society conclude that parties in opposition to the government are more eager to help with such requests (Interview C9, C7).

12.6.2. Auditing of Financial Management

The financial management of the federal government, its various property funds and state-owned companies are regularly examined by the Federal Court of Auditors. Thus, the BMZ and also the KfW Development Bank as one of the ministry's executing agency are audited by the Federal Court of Auditors.

³¹⁶ Information Portal, SEEK Development: <http://donortracker.org/donor-profiles/germany/budget-process>;

³¹⁷ BMZ: http://www.bmz.de/de/was_wir_machen/wege/erfolg/evaluierung/evaluierungsberichte/index.html

As an independent and not subordinated organization of the federal government, the Federal Court of Auditors is able to freely choose the subject matters it intends to audit. The court usually does not only deliver recommendations, but also provides advice and counseling for the audited bodies in order to point out the potential for savings or increases in revenue.

An interview partner explains that the court in principle does not audit the business activities of the KfW Development Bank, but rather examines specific issues, given projects or programs, e.g. fiduciary participations or appropriations for preparatory and complementary investment measures (Interview C3).

Once the Federal Court of Auditors has audited the KfW Development Bank, the bank receives the audit findings in a ‚management letter‘ for comment. The final report is sent to parliament where representatives of the corresponding ministries answer to questions of the members of parliament in the Parliamentary Budget Committee (PBC). According to an interviewed stakeholder, the individual reports are confidential; only the annual reports have to be made public (Interview C3).

German Banking Act

The KfW Development Bank is supervised by the Ministry of Finance, in consultation with the Federal Ministry of Economics and Technology (BMWi) (Interview C3; KfW 1969: 12).

Being a public body (AöR), founded by law (Law concerning Kreditanstalt für Wiederaufbau) and acting upon a political mandate, the KfW is not regulated by the German Banking Act (KWG, „Banking Act“) (Interview C3).

According to the law concerning the KfW, there is as well no supervision by the Federal Financial Supervisory Authority (BaFin). However, the federal government has the legal option to declare certain provisions of the KWG applicable, including supervision by the Financial Supervisory Authority (KfW 1969: 13).

An interview partner highlights that the bank generally has to comply with stronger regulation procedures for the funds raised on the capital markets than for federal budget funds; according to him, especially handing out grants is significantly easier than other FC funds (Interview C3).

Certified accountants

The KfW Development Bank is not only audited by the Federal Court of Auditors for executing the federal budget funds from the BMZ but also by an external private accountant consultancy (Pricewaterhouse Coopers – PWC) (Interview C1, C3).

PWC is officially commissioned by the BMZ simply because of the ministry’s obligation to audit the sound management of public finances. Nevertheless the KfW Devel-

opment Bank, being contracted as executing agency, concludes the contract with the auditing company (Interview C3).

In contrast to the Federal Court of Audit, PWC conducts audits of all business activities. A stakeholder mentions that an audit team is constantly busy throughout the whole year in order to audit the KfW's business activities (Interview C1).

12.6.3. German Institute for Development Evaluation

The main purpose of the German Institute for Development Evaluation (Deutsches Evaluierungsinstitut der Entwicklungszusammenarbeit – DEval), which was founded in the year 2013, is to provide independent evaluation of the performance of German development cooperation measures in order to support the work of the BMZ and the ministry's implementation organizations, such as the KfW Development Bank³¹⁸.

DEval intends to conduct an overarching evaluation of all FC Funds in 2015 (which has been planned for 2013 but then postponed to 2015). In this first evaluation, instruments of financial cooperation, which are leveraged by capital market funds, are evaluated (DEval 2013: 1; Interview C2).

In general, DEval also helps the German Parliament (Bundestag) to perform its parliamentary role of overseeing the work of the executive and provides the evidence it needs to formulate German policy initiatives in the field of international cooperation³¹⁹.

12.6.4. Civil Society and Availability of Information

Projects to be promoted with FC funds are devised jointly by the German government and the government of the partner country. Before these negotiations start or final approvals are given, the BMZ regularly invites civil society actors to stakeholder consultations in which individual partner countries are the subject for debate (Interview C1).

All press information about the projects to be financed with funds from German Financial Cooperation is published online by the BMZ after the involved governments have signed the intergovernmental agreement. An interview partner mentions that no information is available before the approval because a prejudgment and/or influence of the intergovernmental negotiations are not desired. Once the loan agreement has been signed project information is available to the public (Interview C1).

The GTAI (Germany Trade & Inward Invest Agency) being the economic development agency of Germany provides information about tenders of German Financial Coopera-

³¹⁸ DEval: <http://www.deval.org/de/about-us.html>

³¹⁹ Ibid.

tion (so-called “KfW tenders”). The GTAI is a public enterprise; thus, interested parties are charged for the information provided³²⁰.

Though international export and project financing is covered by the KfW IPEX Bank, the promotion of KfW-tenders enables German business to benefit from informational and institutional advantage in order to acquire business opportunities abroad. Further, German business is institutionally organized in various associations, e.g. the Federation of Industries (BDI), the German Chambers of Commerce and Industry (DIHK) and/or the German Association of Consulting Engineers (VBI).

These associations have in common that they lobby for an increased cooperation between German business and German development policy. Their representatives specifically promote private sector development in developing countries, German know-how and technology transfer, e.g. in the infrastructure sector, and innovative development finance instruments (DIHK 2010; BDI 2007; AGE 2005).

Interestingly, the Working Group on Development Policy of German business (AGE) stated in a 2005 published position paper that partner countries should be more thoroughly supported by donor countries when defining projects and preparing the tender (AGE 2005: 11)³²¹.

Ever since AGE representatives recommended to the government and corresponding ministries that the cooperation between German business and partner countries of German development cooperation should commence when identifying new development cooperation projects and could include the involvement of German business in the formulation of country strategy papers, the overall aim of German business became apparent (BDI 2007: 5).

In fact, several position papers illustrate that German business take an interest in generating foreign business opportunities within development cooperation. Representatives of DIHK e.g. demanded that German business should be involved when BMZ jointly with other ministries decides upon partner countries and priority sectors (DIHK 2010: 7).

In other words, German business have highlighted that they want to be involved in (in-)formal negotiations of potential development cooperation projects early on. Although an interviewee denied that German business forms part of concrete project negotiations, their lobbying activities indicate that there are closer relationships than officials state in public (Interview C1).

This is also confirmed by the fact that German business representatives (BDI, VBI) are regularly consulted by the BMZ in order to discuss options regarding the greater involvement of German business in bilateral and sectoral development cooperation.

³²⁰ GTAI: <http://www.gtai.de/GTAI/Navigation/EN/Trade/search-kfw-tenders.html>

³²¹ AGE: http://www.csgermany.de/www/csr_cms_relaunch.nsf/id/arbeitsgemeinschaft-entwicklungspolitik-de

This working group headed by BDI was established in 2006 and aims at enhancing business relationships between political and business stakeholders³²².

German Non-Governmental Organizations (NGOs) regularly criticize the strong(er) promotion of foreign trade in order to prevent fostering the involvement of Germany's business sector within the official German development cooperation.

Erlassjahr, a German NGO has recently also commenced to monitor the mixed financing activities within the German financial cooperation (Erlassjahr 2013). Nevertheless, the role of the German civil society is more strongly focused on the exports and projects which are financed by the KfW IPEX-Bank. The bank, one of the KfW Banking Group's subsidiaries, is regularly criticized by different NGOs, for instance by Urgewald, a German environmental NGO, for financing projects which violate environmental and social standards (Interview C7).

An interview partner states that due to the harsh critique by the German civil society, the BMZ and the KfW have started to consider the compliance with environmental and social standards more strongly. Further, the interviewed person conceives that within FC the main actors could even do more to contribute that goods and services are awarded to companies which provide high quality and respect minimum standards (Interview C2).

The KfW Development Bank created a transparency portal on development finance in order to support the international efforts for greater effectiveness and transparency in development cooperation. The portal is complete since January 2014 and provides information about the bank's engagement in partner countries, relevant sectors, indicating the sources of funds from 2007 onwards. Brief outlines of evaluation reports provide results of implemented projects. In addition, the portal is supplemented with a project database containing more detailed information on all projects agreed by contracts signed since January 2013³²³.

By establishing the transparency portal, the bank responds to critics of the German civil society and supports the BMZ in aligning with the ministry's transparency and accountability activities³²⁴. In fact, the transparency portal is an important, but long overdue step. However, no detailed development-related information, e.g. country and project eligibility criteria or the assessment of the expected developmental impact of given projects is available. Moreover, no insights about concrete financing conditions, e.g. the level of concessionality and/or the source of market funds are provided for the public.

322 VBI: <http://www.vbi.de/aktuelles/newsletter/news/bdi-arbeitskreis-entwicklungspolitik-unter-vbi-vorsitz/>

323 KfW Entwicklungsbank, Transparency Portal: <http://transparenz.kfw-entwicklungsbank.de/en/ueber/index.html>;

324 BMZ: http://www.bmz.de/en/what_we_do/approaches/transparency-for-greater-effectiveness/index.html

12.7. Conclusion and Outlook

Germany is one of the few European countries, which has recently decided to increase the development budget by EUR 2 billion between 2014 and 2017. Despite this decision, it will be relatively difficult for Germany to live up to its commitment to meet the ODA/GNI-target of 0.7 % by 2015.

Nevertheless, Germany's development cooperation currently provides one of the strongest bilateral finance institutions for development as well as one of the biggest development agencies worldwide. On the other side, Germany has enjoyed an international reputation as the World Champion in Exports ("Exportweltmeister") for decades, exporting various goods and services, from the smallest precision equipment to the largest industrial plants.

Apart from the Financial Cooperation, whose developmental orientation has been analyzed in this report, the Technical Cooperation is one of the main pillars of the official German Development Cooperation. In general, the Technical Cooperation is formally and institutionally separated from export and project financing. Whereas the KfW Development Bank is implementing the FC funds being the executing agency of the Ministry of Economic Cooperation and Development (BMZ), the KfW IPEX-Bank provides export financing.

In addition, private sector development in developing and transition countries is mostly covered by the DEG, another subsidy of the KfW Banking Group. Though these three institutions are formally separated, all of them belong to the KfW Banking Group. Apart from the KfW Development Bank, the BMZ is the key player.

Although the German Financial Cooperation is officially not tied to goods and services procured from German companies, the last Minister for Economic Cooperation and Development (2009-2013), Dirk Niebel, in particular aimed at improving the relationship between German business and development cooperation and specifically their contribution to poverty reduction via economic growth and private sector development.

The strong(er) promotion of foreign trade in order to foster the involvement of Germany's business sector within the official German development cooperation indicates that there are closer linkages between export promotion, foreign trade and development cooperation than officially stated by the German government and/or its key actors.

In fact, several business associations (BDI, VBI and DIHK) have lobbied for an increased cooperation between German business and German development policy within the last years. In their position papers, they clearly address that German business takes an interest in generating foreign business opportunities within development cooperation.

To sum up, at various points in time, business representatives have recommended to the government and corresponding ministries that German business should be involved – early on – in the selection of partner countries and priority sectors; further in the formulation of country strategy papers as well as in identifying new development cooperation projects. This suggests that there are closer relationships between German business and development cooperation than interview stakeholders and other officials state in public.

The German Financial Cooperation provides various financial instruments for government or government-related enterprises in developing countries or emerging markets: Programs and projects are either purely financed from federal budget funds (non-repayable grants and/or loans at very advantageous standard conditions) or from a mixture of federal budget funds and loans raised at the capital market. These Development Loans include Composite Financing, Reduced-Interest Loans and Mixed Financing. In addition, loans at near-market conditions from capital market funds, so-called Promotional Loans, are offered.

12.7.1. Developmental Orientation

The main task of the German Financial Cooperation is to support partner countries in the financing of projects or programs which have relevance for their development. The key sectors of KfW Development Bank's activities are environmental and climate protection and the promotion of financial, social and economic infrastructure.

In general, projects and programs financed with FC funds are embedded in country strategy papers, sector programs and other relevant documents of the partner countries and corresponding policies of German development cooperation.

The developmental soundness of projects or programs is first and foremost analyzed along the logframe matrix and corresponding indicators: Macroeconomic, socio-economic and socio-cultural impacts (e.g. possibility of conflict between different (ethnic) groups), gender aspects and environmental and social compatibility; economic aspects, operational and commercial risks, the target group's attitude towards the project.

Ex-ante evaluations, monitoring activities (including field visits) and final inspection reports are done regularly by the KfW Development Bank or by assigned external consultants. Since 2007 only a representative sample of individual projects has been submitted for ex-post evaluation.

The BMZ and the KfW Development Bank both stress the importance of ownership by the partner country. De facto no single FC-proposal is financed without an injection of own resources by the partner country. Additionally, recipients are responsible for the tendering and the contract management. The involvement of the KfW Development Bank depends to a large extent on the capabilities of the given country. Never-

theless, the bank is involved very closely in the implementation of projects and programs financed with FC funds and has important final decision-making powers.

The bank is continuously trying to make efforts to improve its transparency. Nevertheless, so far only very basic information on development criteria used to analyze the development relevance of a corresponding project has been provided to the public. Different stakeholders repeatedly refer to the confidentiality of internal guidelines and manuals. Although the KfW Development Bank has launched a transparency portal, which fully became operational at the beginning of 2014, no detailed information about financing conditions, e.g. the level of concessionality or the source of market funds is available³²⁵.

Technical assistance components from the German Development Agency (GIZ) are often part of the projects or programs financed with FC funds. In this context the German civil society strongly criticizes that GIZ and the KfW Development Bank have not been merged as proposed in the OECD/DAC peer review in 2005 and 2010 (Reuke/Grohse 2013: 5-6).

Being strongly focused on export financing, German NGOs are not that much of a watchdog of development finance activities of the officially untied German Financial Cooperation. Thus, the BMZ, including the KfW Development Bank as implementing agency, do not have a strong non-governmental opposition; their reporting duties are mainly those to the parliament and to the federal court of auditors.

12.7.2. Rationale of ODA Reporting

Financial cooperation instruments such as reduced-interest loans and/or promotional loans are mainly provided for emerging markets. Critical stakeholders indicate that by this export promotion is given the overarching priority and not poverty reduction. Furthermore, LDCs will be marginalized in terms of fewer funds which are provided by the German Financial Cooperation (Reuke/Grohse 2013: 2).

Further, the German civil society indicates that the use of different forms of mixed financing loans has been steadily increasing. Reduced-interest loans are very popular; here federal budget funds are used to reduce the interest rate of a loan provided by the KfW Development Bank with funds raised at the capital market. These loans are eligible to be counted as ODA which has been comprehensively criticized on quite a few occasions (Terre des Hommes 2012: 6).

Critical voices (e.g. Richard Manning, former DAC chairman) have repeatedly pointed out over the last years that current reporting practices of Germany and other major DAC donor countries eroded the ODA-concept. This criticism particularly refers to large volumes of loans being counted as ODA although they did not meet any reason-

³²⁵ KfW Entwicklungsbank, Transparency Portal: <http://transparenz.kfw-entwicklungsbank.de/en/index.html?>

able definition of being “concessional in character”, which is the basis of the OECD’s definition of aid (Fritz 2013: 25-26).

On the other hand, it is being questioned in how far the definition of ODA is adequate because under low-interest conditions it largely depends on which meaning is assigned to “concessional in character” in order to decide whether a loan qualifies as ODA. In other words, a precise definition is absent which means that members are relatively free to report loans as ODA as long as they meet the grant element criterion (OECD/DAC 2013c: 2-5).

Germany has argued until now that Development (and Promotional) Loans are concessional in character because these loans (1) incorporate an effort by the German government either by means of an explicit subsidy element (grant) or an implicit form of a guarantee; (2) are attested development relevance and provide benefits to the recipients because these loans have softer terms; (3) do not earn any profits for Germany as the beneficial owner of KfW Development Bank as any benefits are passed on to the recipient country (Interview C10)³²⁶.

The issue of how to establish “concessional in character” has been discussed several times in the DAC, but has recently gained even more importance because of its different interpretation among DAC members. Thus, Germany has also been asked by the DAC “late in 2012 to identify which loans included in their ODA reporting represented marked-raised funds being on-lent on harder terms, i.e. without a subsidy” (OECD/DAC 2013c: 4).

A stakeholder explains that final data on 2012 flows had been released in December 2013 but no report has been published about the performance of DAC members until now. In addition, this person mentions that a report for the DAC Working Party on Development Finance Statistics (WP-STAT) will be reviewed and discussed by DAC members in June 2014³²⁷.

12.7.3. (Un)Tied German Financial Cooperation?

Germany has undertaken efforts to untie its FC Funds during the last years. Apart from Technical Cooperation, which is still partly tied to goods and services from Germany, the BMZ being in charge of the German development policy officially communicates that the German Financial Cooperation is completely untied (Interview C2; OECD 2012: 4).

Several stakeholders confirm that the German financial cooperation is principally not tied to goods and services from Germany. In addition, an interview partner states that compared to the 1960ies and 1970ies tied aid has simply no significant relevance anymore. This person adds that nowadays construction work in big infrastructure

³²⁶ OECD/DAC: <http://www.oecd.org/dac/stats/concessional-note.htm>

³²⁷ E-Mail correspondence OECD/DAC

projects is awarded to local companies, companies from neighbor countries or consortia, e.g. led by Chinese companies (Interview C2, C1).

In addition, the same stakeholder underpins that all German exports amount more or less to EUR 1100 billion per year. In comparison to this number, the FC federal budget funds are about EUR 1.5 billion and, approximately, an additional EUR 3 billion which are raised on the capital markets by the KfW per year³²⁸. Due to this, the person being interviewed draws the conclusion that the FC funds are about 1.4 permille of Germany's foreign trade, which demonstrates the irrelevance of FC funds for German exports (Interview C1).

In fact, these figures demonstrate that, compared to Germany's foreign trade, the country's financial cooperation is negligible in terms of the financial volume. Nevertheless, there are several points which have to be questioned when considering the relevance of (un-)tying within Germany's financial cooperation:

On average, about 60 % of all project deliverables, which have to be tendered internationally, are awarded to German companies within the German Financial Cooperation (Seebens 2012). Here several stakeholders point to the international competitiveness as the main reason for this high volume and add that a lot of project components, especially consultancy and advisory activities, need comprehensive know-how and sufficient experience (Interview C1, C4).

However, Germany has created a range of services to encourage companies to make use of the opportunities for development policy engagement.

Due to the guidelines of the German bilateral financial and technical cooperation, the German business sector must be informed as early as possible about projects financed with FC funds (KfW Entwicklungsbank 2007b: 19-20). Thus, the information about so-called "KfW-tenders" is published by the GTAI, the German economic development agency, which corresponds to the Ministry of Economics and Technology (BMWi) and provides foreign trade information to German-based businesses seeking to expand in international markets, as early as possible (Interview C1)³²⁹.

In addition, the former minister Niebel (2009-2013) e.g. established a new Service Point for the Private Sector within the BMZ in order to provide advice for German companies interested in investing in developing and emerging countries. Further, the BMZ started sending so-called EZ-scouts to industry associations and chambers of industry and commerce in order to advise their member companies about the services available to support development-related investment by the German private sector (BMZ 2013a: 17).

³²⁸ KfW Entwicklungsbank, Transparency Portal: <http://transparenz.kfw-entwicklungsbank.de/mittelherkunft/index.html>

³²⁹ GTAI: <http://www.gtai.de/GTAI/Navigation/EN/Meta/about-us.html>

In the German Financial Cooperation partner countries intensively make use of the support and advisory services of consultants primarily in order to prepare, execute and operate specific projects. Although these consulting services are internationally tendered by the partner country or the corresponding project executing agencies, these services are often delivered by engineering consultants from Germany, other industrial countries or consortia from Great Britain, France or the USA (Interview C1).

As a result, the German Financial Cooperation may officially be untied to goods and services from Germany. Nevertheless, there are several mechanisms in place which facilitate the supply of goods and services from Germany or other industrial countries, because of informational and institutional advantages which have nothing to do with the competitive advantage of the German or European Economy in general.

In conclusion, the analysis of the developmental orientation of the German Financial Cooperation indicates that concessional financing and promotional loans have increasingly been used within the last years. This is partly a reflection of Germany's strategy to work with emerging economies (here key countries are China, India and Vietnam) and its development policy focusing on global public goods such as climate.

Though the German Financial Cooperation is institutionally separated from export financing, and development-related aspects are considered throughout the whole life cycle of a given project, more transparency is urgently needed in order to prevent that projects will be even more framed by economic views, export promotion and foreign trade interests.



13. The Netherlands

For a long time, the Netherlands has always been one of the front-runners in terms of development cooperation in relation to other OECD/DAC members.

The country's outstanding credibility and well-deserved reputation was generally grounded in responding positively and creatively to major challenges and setting trends for new approaches. Further, the Netherlands has the reputation of being an early campaigner for international aid agreements and a country that advocates the need for coherent development policies and donor coordination (Spitz/Muskens/van Ewijk 2013: 6).

13.1. Country Facts and Figures

The very successful history of development cooperation is well documented by statistics: Since 1975, the Netherlands is among the few DAC members to have surpassed the UN target of allocating 0.7 % of GNI for ODA (Official Development Assistance). According to preliminary OECD figures, the country was the 4th largest government donor in 2012, spending USD 5.5 billion on ODA (OECD/DAC 2011d: 11-15).

Even though ODA has continuously decreased since 2008, it was still above the UN target of 0.7 % of GNI in 2012 (0.71 percent). In 2013, ODA shares were estimated to drop to 0.59 % of GNI, which would leave Dutch ODA far below the 0.7 % target for the first time since 1975. In addition, indicative budgets for the coming years show further reductions (Dutch MfA 2013a)³³⁰.

"The decision to cut the aid budget and abandon the 0.7 percent target might seem to outsiders to be a surprising move" (Spitz/Muskens/van Ewijk 2013: 6). As a consequence of these budget cuts, the Dutch development policy has been undergoing far-reaching reforms since 2010 at the latest.

13.1.1. Key Objectives of Dutch Development Policy

Already in the year 2010, the Dutch Scientific Council for Government Policies (WRR), an independent think tank of the Dutch government, advocated a major change in Dutch development policy: thematic focus on fewer countries; a stronger alignment of development focus with Dutch expertise and interests; a shift from social to economic development (Spitz/Muskens/van Ewijk 2013: 13).

³³⁰ Information Portal SEEK Development: <http://donortracker.org/donor-profiles/netherlands>

These recommendations were partly implemented by the State-Secretary of Development Cooperation, Ben Knapen from the Christian Democratic Appeal (CDA), who was part of the Dutch government (2010-2012), headed by Prime Minister Mark Rutte from the People's Party for Freedom and Democracy (VVD)³³¹.

In 2011, Knapen decreased the number of partner countries from 33 to 15 countries, ten of them in Sub-Saharan Africa³³². Further, bilateral projects and embassies have been dismantled in former partner countries (Spitz/Muskens/van Ewijk 2013: 33). In general, Dutch self-interest and economic-diplomacy returned as a centrepiece of development policy during Knapen's period: focus-countries and themes have been synchronized more strongly with Dutch commercial interests and expertise (ibid.: 13).

Another part of the reformed bilateral development policy is the narrowed thematic focus, which has been framed to four spearhead areas. The priority areas of the Dutch development cooperation are women's rights and sexual and reproductive health and rights (SRHR), water, food security as well as security and the rule of law³³³.

All these major changes were agreed upon in the coalition agreement of October 2010, but have remained unchanged in the second Rutte cabinet, formed by the VVD and the PvdA, which was installed in autumn 2012:³³⁴

"Based on the policy program of the first Rutte Government, the government sees its mission as being to promote the security and well-being of the Netherlands and the Dutch people, and to that end it will focus on international stability and security, energy and raw material security, the international legal order (including human rights) and the commercial and economic interests of the Netherlands and Dutch businesses."³³⁵

It should be added that Dutch industry and business sectors have continuously been involved in development cooperation in the past. However, their extent has always been dependent on government constellations, the influence of representative stakeholders as well as the international discourse (Hoebink/Schulpen 1998: 39-40).

Although the Dutch industry and business are not really considered in the Private Sector Development concepts (PSD), which have gained more and more influence since the mid 1990ies, mainly their lobbying contributed to the establishment of PSD as a main pillar of Dutch development cooperation (Gütermann 2011: 71-72).

331 Government of the Netherlands: <http://www.government.nl/issues/forming-a-new-government/news/2010/10/14/rosenthal-and-knapen-new-government-members-at-foreign-affairs.html>

332 Government of the Netherlands: <http://www.government.nl/issues/development-cooperation/partners-in-development>

333 Government of the Netherlands: <http://www.government.nl/issues/development-cooperation/the-development-policy-of-the-netherlands>

334 Government of the Netherlands: <http://www.government.nl/government/coalition-agreement>

335 Dutch Ministry of Foreign Affairs: <http://www.government.nl/ministries/bz/about-the-ministry>

13.1.2. A New Agenda for Aid, Trade and Investment

Considering the current development policy in the Netherlands, which is guided by the strategic policy document “A world to gain: A New Agenda for Aid, Trade and Investment.”, a greater emphasis will clearly be placed on an economic view of development and the advantages of bilateral aid in terms of trading opportunities for Dutch businesses in the coming years (Dutch MfA 2013b).

The Ministry of Foreign Affairs is strongly targeted by these comprehensive reforms. The Dutch government established a new cabinet-level post of a Minister for Foreign Trade and Development Cooperation, currently held by Lillianne Ploumen from the Labor Party (PvdA). Thereby, the Dutch government has aligned development policy strongly with foreign trade³³⁶.

The realignment between those two policy areas is further reflected by the Dutch Good Growth Fund (DGGF), a revolving fund of EUR 700 million financed from the development cooperation budget in the years 2014-2016. This fund was established in close collaboration with the business community, in particular with investment companies, and will support investments in developing countries, especially by small and medium-sized enterprises.³³⁷

Several other bilateral instruments that aim at advancing local development also provide opportunities for Dutch business to deploy activities in developing countries (Spitz/Muskens/van Ewijk 2013: 33-34). One of them is ORIO, a grant facility for public infrastructure projects, which will be under close scrutiny in the following.

13.2. Profile of Programs

It is important to note that the Dutch bilateral development cooperation currently does not provide any kind of “soft loans”. However, there are government funds, which provide mechanisms to combine public development finance with private finance.

One of them is ORIO meaning “Development Relevant Infrastructure Incentive”, the Facility for Infrastructure Development, which provides long-term financing for public infrastructure projects³³⁸.

ORIO is officially an untied facility and was established in 2009 as a part of a wider reform of the Netherlands’ ‘Development Relevant Export Transactions program’ (in Dutch: ORET), which had been tied to goods and services from Dutch companies³³⁹.

³³⁶ Government of the Netherlands: <http://www.government.nl/government/members-of-cabinet/lillianne-ploumen/cv>

³³⁷ Government of the Netherlands: <http://www.government.nl/issues/development-cooperation>

³³⁸ Agency NL: <http://english.agentschapnl.nl/subsidies-programmes/facility-infrastructure-development-orio>

³³⁹ Agency NL: <http://www.oret.nl/>

Another offshoot of the ORET-program is the Infrastructure Development Fund (IDF) formally known as the LDC Infrastructure Fund until October 2009. IDF provides grants, loans and equity for private sector infrastructure projects, e.g. in the form of associated financing³⁴⁰.

Further, the so-called Dutch Good Growth Fund (DGGF) will start providing concessional loans and guarantees for Dutch companies in July 2014 in order to facilitate market entry in developing and emerging markets (Dutch MfA 2013c: 11-13).

13.2.1. Historical Overview

In the history of Dutch development cooperation, the Netherlands always had several motives for providing development aid. Using parts of its aid-budget to support Dutch business has until now always been a continuum.

The Development Relevant Export Transactions program has been the most important program in which Dutch business has been supported during the last three decades. Apart from serving development interests, one of the main objectives of this program has explicitly been the promotion of Dutch exports (Berenschot/Seor/Ecolas 2006: 12-17).

The ORET-program was launched in 1983 as a combination of programs administered jointly by the Ministry of Economic Affairs and the Ministry of Foreign Affairs providing finance for public infrastructure projects in developing countries in the form of soft loans and aiming to support development-related export transactions by Dutch companies (IOB/NCSTE 2006: 46).

The first predecessor of the ORET-program already dates back to the year 1979, when the Mixed Credit Program was launched by the Minister for Development Cooperation, De Koning in cooperation with the Ministry of Economic Affairs for export transactions that were related to the development in the recipient country. Mixed credits for export transactions combined concessional loans or grants and commercial loans (IOB 1999: 11).

In 1987, the Mixed Credit Program was replaced by a program for Less Concessional Loans (LCLs), "*[...] which not only provided concessional loans for exports of capital goods but also included service contracts that were linked to civil engineering projects or institution building in developing countries*" and was operative between 1987 and 1991 (IOB 1999: 12).

The ORET-program was an LCL program until this loan-based financing was replaced by the award of grants to cover parts of the transaction costs by the year 1991 and renamed into 'Development Relevant Export Transactions'. ODA grants were often

³⁴⁰ FMO, Netherlands Development Bank: <http://www.fmo.nl/infrastructurefund>

combined with officially guaranteed export credits in the form of Associated Financing (OECD 2008c: 14).

An interview partner states that projects within the ORET-program, which have often been combined with commercial loans, have not only included a grant for the recipient country but also a subsidy for Dutch companies (Interview D5).

The 1990ies evaluation of the Mixed Credit Program, which was done by the Policy and Operations Evaluation Department (IOV, now IOB) of the Ministry of Foreign Affairs, *inter alia* "concluded that export relevance had overshadowed the development relevance of the program: too few safeguards were built into the program to allow for international competitive bidding and ex ante assessment of development effects. As such, fair prices would not always be guaranteed and export relevance could easily prevail over development relevance" (IOB 1999: 13).

The findings of the IOV/IOB evaluation and the "Helsinki Package" triggered some changes with regard to mixed credits. Although the ORET-program broadly retained the same design, ORET excluded commercially viable projects and did not provide any more concessional loans but full grants (Elbers 2002: 1).

It is not a coincidence that the shift from loans to grants was proposed in the period of Jan Pronk, Minister for Development Cooperation between 1989 and 1998. Pronk wanted to stop giving loans financed out of public funds and to restrict the Dutch development assistance to grants only. According to him, public debt of developing countries had grown out of proportions in the 1980ies so that debt refinancing took place out of development budgets which led to decreasing funds to be spent on social issues and direct poverty reduction (Interview D1).

Because of its dual character the ORET-program and its predecessors have always been controversial programs and subject to much criticism from various members of Parliament, Ministers for Development Cooperation, academics and pressure groups in the Netherlands (Elbers 2002: 1).

As a consequence, the ORET-program has been adapted and reformed several times in order to be relevant and timely, and also to be in accordance with international agreements. In comparison to the LCL program, ORET e.g. started to apply detailed appraisal procedures to ensure a larger developmental relevance of the export transactions (Elbers 2002: 19).

Table 16: History of Selected Dutch Government Funds

	History of Government Funds	The Netherlands
1979	Mixed Credits Program	1979-1987
1983	ORET-program	Soft Loans (LCL) for development-related export transactions
1987	Low Concessional Loans (LCL) Program	Successor of Mixed Credit Scheme (1987-1991)
1991	ORET-program	Tied grant facility, combination of grants with commercial loans for development relevant public infrastructure projects
1993	MILIEV-Program	Additional to ORET; focusing on environmental projects
1998	ORET/MILIEV grant program	Merger of ORET & MILIEV; procurement tied
2002	LDC Infrastructure Fund	Untied Fund providing loans, equity, grants and credit guarantees for in order to stimulate private infrastructure investments
2005	ORET/MILIEV program renewed	Tied pillar, untied pillar for LDCs
2005	ORET Water Facility	Tied pillar, untied pillar for LDCs
2006	LDC Infrastructure Fund	New public endowment; focus on social sectors (health, education, water, sanitation, electricity, energy)
2009	Infrastructure Development Facility ORIO	Grant facility for public infrastructure projects; de iure untied, de facto tied aid facility
2009	Infrastructure Development Fund IDF	Revolving Fund providing grants, loans, equity in order to catalyze private and commercially viable infrastructure investments
2012	ORIO	Reform (objectives, procedures)
2014	Dutch Good Growth Fund (DGGF)	Revolving Fund providing loans, grants, guarantees; strong focus on SMEs, procurement tied pillar

Source: Own Elaboration

In 1993, the MILIEV-program (Program for Environment and Economic Self-sufficiency) was introduced in addition to ORET in order to partially provide financing for projects aiming at environmental improvement in developing countries. The MILIEV-program was comparable to ORET providing ODA grants combined with officially guaranteed export credits. The ORET- and MILIEV-program were merged in 1998 because it had been decided that the separation had little surplus (IOB 1999: 20).

Although the influence of Dutch business deteriorated in the 1990ies – quite contrary to the success VNO-NCW being the Dutch employers' organization had during the 1970ies and 1980ies –, the discussion regarding the involvement of Dutch business in development of cooperation continued because their interest could hardly be side-stepped (Elbers 2002: 17-21).

At the end of the 1990ies, an evaluation report of the ORET/MILIEV program (1994-1999) was provided by IOV/IOB. Though the report was fairly positive, critical remarks considered e.g. sustainable job creation as an unsuitable criterion for assessing the developmental relevance of a project; further IOB considered monitoring and evaluation procedures as completely inadequate (IOB 1999: XXVI-XXVIII).

In addition, IOB stated that the economic benefits from tying the program to goods and services from Dutch companies should not be overstated (IOB 1999: XXIII). This conclusion was remarkable because since the 1970ies onwards the Dutch development cooperation has been strongly tied to goods and services from the Netherlands (Elbers 2002: 17).

Although the evaluation report of the IOV/IOB highlighted some critical points and some minor changes were implemented soon in the way ORET/MILIEV-projects were monitored and evaluated, opponents were disappointed, in particular compared to the very critical evaluation of the ORET-predecessor, the Mixed Credit Program (Elbers 2002: 24).

In 2000, Dutch policy on private sector development took shape in the memorandum "In Business against poverty". This document emphasized the importance of private sector development with regard to pro-poor growth in developing countries. The memorandum stressed the importance of good infrastructure for the development of the private sector and the need to address problems related to attracting (foreign) capital for investments (IOB 2009: 29).

In 2001, the ORET/MILIEV program was transferred from the Private Sector Department of the Ministry for Development Cooperation to the Netherlands Development Finance Company (FMO) as a result of trying to improve the coherence and flexibility of the trade promotion instruments of the Dutch government (Elbers 2002: 20).

In concrete terms, the Netherlands Investment Bank for Developing Countries (NIO Bank), a subsidiary of the FMO was authorized to administer the program in consulta-

tion with the Ministry of Economic Affairs. In general, the Ministry for Foreign Affairs together with the Ministry of Economic Affairs was responsible to control the ORET/MILIEV program (Berenschot/Seor/Ecolas 2006: 6).

At the same time, the debate about untying aid gained momentum at national and international level. As a result of the OECD agreement about untying in spring 2001, the Least Developed Countries (LDCs) were excluded from ORET/MILIEV. The Dutch government decided to establish a new fund in order to stimulate infrastructure investment in the LDCs (IOB 2009: 30).

The set-up of the LDC Infrastructure Fund, which was established in 2002, implied an important policy change impacting Dutch enterprises: instead of subsidizing exports, the fund would finance or facilitate investments by providing loans, equity, grants and credit guarantees: "It was to have a larger 'risk appetite' and provide financing to infrastructure projects that were considered too risky for other funds." (IOB 2009: 7, 33).

Because the Fund developed considerably slower than anticipated and the subsidy period expired by the end of 2005, a revision as well as a new subsidy decision was necessary. Thus, in 2006, the government decided to extend the subsidy period until 2013 with a focus on social sectors (including water, health and education) and facilitated the financing of non-commercial elements of sponsored projects (IOB 2009: 34).

In 2005, the ORET/MILIEV-program was renewed. The application of specific regulations to MILIEV was discontinued, and the name was simplified to ORET (Berenschot/Seor/Ecolas 2006: 12). Additionally, the ORET-program was augmented with an untied variant in order to serve the LDCs. Furthermore, a water facility was established and made available for all ORET countries (OECD/DAC 2005: 2).

The reformulation of the ORET/MILIEV-program included a shift in the objectives from promoting employment in the recipient country to promoting sustainable economic development and the business climate (Berenschot/Seor/Ecolas 2006: 12-13).

A crucial element was that the Dutch government did not decide on the allocation of the budget per country, nor did it decide on the contract partners anymore but was responsible to assess, monitor and safeguard the quality and sustainability of a project while providing a grant to the recipient country. In addition, the recipient government was officially responsible for the acquisition of projects, the procurement and the contracting process (OECD/DAC 2005: 3).

The ORET/MILIEV-program (1999-2004) was evaluated by an external consortium on behalf of the Ministry of Foreign Affairs in 2005/06. The evaluation highlighted that although objectives and regulations of the program were adopted several times, the thrust of the program – contributing to physical and social infrastructure in developing

countries and supporting exports from Dutch origin – remained basically unchanged (Berenschot/Seor/Ecolas 2006: 20, 63).

Moreover, the evaluation concluded that a more strategic use of the program including the refinement of appraisal procedures would be necessary because little attention had been paid to a proposal's (potential) contribution to the program objectives. Further, to recipient countries, ORET was not the most practical financing modality since the grant covered only part of the costs, and therefore a second financing source was always required (Berenschot/Seor/Ecolas 2006: 64).

With regard to Dutch exporters, ORET satisfied only those who already had been optimally established in the corresponding foreign market. Thus, the argument that ORET supports Dutch companies in order to facilitate the entry into new markets did not hold in the end. Furthermore, the evaluation report criticized the lack of a sound monitoring and evaluation system on effectiveness and impact (during the envisaged lifetime) of projects (Berenschot/Seor/Ecolas 2006: 66-68).

The evaluation did not consider the renewal of the ORET/MILIEV program in 2005. The number of ORET applications submitted and the number of approved applications rose sharply between 2005 and 2006. Consequently, Bert Koenders, the Minister for Development Cooperation (2007-2010), decided not to make any new funds for financing new ORET applications available (ORET.nl 2007: 3).

Moreover, since 2007 a consortium of PricewaterhouseCoopers and Ecorys (the former Netherlands Economic Institute – NEI), called Oret.nl, has been authorized to administer the ORET-program including its phasing-out in consultation with the Ministry of Economic Affairs (ORET.nl 2006: 1).

The findings of the evaluation of 2005/06 were partly taken up in the establishment of the Facility for Infrastructure Development named ORIO in 2009; a grant scheme providing funds for the development of public infrastructure in developing countries. In general, the basis for ORIO was laid in the cabinet of Balkenende IV, which had decided to replace ORET with a more demand-driven, more development-relevant program as the ORET-program performed less well on development effects, including poverty reduction (Dutch MfA 2009: 23).

In 2009, the LDC Infrastructure Fund was evaluated by IOB. The evaluation report concluded that the fund fills a gap in the financing of private and commercial infrastructure projects in LDCs. Nevertheless, the report pointed out that it would appear difficult to find suitable projects that strengthen infrastructure being essentially a public good through private projects. Furthermore, the report indicated the importance of considering start-up problems and the time needed for the realization of projects (IOB 2009: 7-11).

These findings served as a basis for the design and establishment of the Infrastructure Development Fund (IDF) providing grants, loans and equity for private and commercial

infrastructure projects in 2009. In particular, the design of the Facility for Infrastructure Development (ORIO) considered the time needed for the development of project proposals by providing a Development Phase (NL Agency/MfA 2013a: 8-9).

ORIO officially being an untied infrastructure facility never had much support by the Dutch business although the government involving Dutch business developed the grant facility. Ever since the report about the strategic use of export financing instruments was published in 2012, it became clear that the Dutch industry did not really want to give up the tied ORET-program. In this strategic paper it was argued that it was a serious loss for the Dutch business sector that there was no tied aid financing for exports in the Netherlands, in particular in a time in which concessional financing from countries like China, especially in Africa, had increased enormously (Werkgroep Exportfinanciering 2012: 7).

Important ideas from this report were taken up by the Ministry of Economic Affairs, Agriculture and Innovation in the first Rutte government, which had officially stepped down. In the development orientation that is touted by the current Minister for Development Cooperation and Foreign Trade, Lilianne Ploumen (being part of the second Rutte cabinet) aid and trade go together very harmoniously³⁴¹. In spring 2013, a new revolving fund for aid, trade and investment (DGGF) was announced. Hence, *inter alia* Dutch companies will be able to apply for export financing for development relevant projects (Dutch MfA 2013b: 7-8).

The DGGF was mainly developed by the Ministry of Foreign Affairs in consultation with the Ministries of Economic Affairs and Finance, the private sector (here in particular investment companies were consulted) and civil society organizations. According to the Ministry of Foreign Affairs, the to-be-created DGGF is the adequate form of funding in order to implement the "new cohesive approach to trade and development cooperation" (Dutch MfA 2013b: 44-45).

Details about the new Dutch Good Growth Fund (DGGF) were debated in hearings in parliament in spring and autumn 2013. The DGGF is faced with a lot of criticism from Dutch civil society as the fund is broadly designed to combine aid and trade; and to a great part will issue export and financing activities to Dutch and local businesses for activities in developing countries and thus raises questions about its developmental relevance as well as tied aid (Action Aid/Both Ends/Somo 2013: 2-3).

13.2.2. Legal Background

The Dutch development cooperation is not defined by law, but underpinned by the coalition agreement that covers each legislature period (VVD-PvdA 2012)³⁴².

³⁴¹ Dutch Magazine for Development: <http://www.vicerversaonline.nl/2013/05/31916/>

³⁴² Government of The Netherlands: <http://www.government.nl/government/coalition-agreement/the-netherlands-in-the-world>

The development budget gives guidance and strategy for the Dutch development cooperation in terms of money. This budget was part of the overall budget of the Ministry of Foreign Affairs until 2013. In 2014, for the first time, the Ministry has two budgets: besides the foreign affairs budget, there is a program budget for foreign trade and development cooperation. This budget ensures that aid and trade will be more closely linked in future³⁴³.

A memorandum that provides more detailed information for the current budget year and indicative budgets for the following years of the legislature period in general complements the budget. A third document summarizes all ODA provided by the different ministries (HGIS)³⁴⁴. Further, the Ministry of Foreign Affairs provides information to parliament by answering questions on the annual budget (Mess 2012: 128).

In addition, there are administrative rules, manuals and various policy documents, e.g. the current development policy document “A World to Gain: A New Agenda for Aid, Trade and Investment” that guide the Ministry of Foreign Affairs and their executing agencies, e.g. FMO or NL Agency.

13.2.3. Institutional Environment

Several actors are involved in the Dutch bilateral development finance cooperation. In this set-up, the Ministry of Foreign Affairs and the Ministry of Economics, which has been established as a super-Ministry for Economic Affairs, Agriculture and Innovation between 2010 and 2012, are institutional key players³⁴⁵.

FMO, the Dutch development bank, and NL Agency are implementing agencies of the Dutch government; they carry out policy and subsidy programs. In this framework, Atradius Dutch State Business offers insurance and export guarantee products.

In the recipient country, the central government is a key actor. Apart from the central authority which usually is the Ministry of Finance the competent authority, a line ministry or regional or local authority, is mainly part of the institutional set-up (Interview D5).

Depending on the fund or facility, infrastructure companies and other financiers (commercial bank, regional development bank, etc.) are involved once the implementation of a given project starts. In general, various consultants form part throughout the whole lifecycle of a given project (Interview D5).

³⁴³ Government of the Netherlands: <http://www.government.nl/news/2013/09/17/ministry-of-foreign-affairs-faces-far-reaching-budget-cuts.html>

³⁴⁴ Dutch Ministry of Foreign Affairs: <http://www.government.nl/ministries/bz/policy-and-budget/homogeneous-budget-for-international-cooperation>

³⁴⁵ Government of the Netherlands: <http://www.government.nl/issues/forming-a-new-government/news/2010/10/14/rutte-government-sworn-in.html>

Ministry of Foreign Affairs

The Dutch development cooperation is an integral part of the foreign policy implemented by the Ministry of Foreign Affairs (MfA). The Ministry is headed by the Minister of Foreign Affairs, currently held by Frans Timmermans (PvdA)³⁴⁶.

The Netherlands continuously provided a Minister (1965-2010) or a State Secretary for Development Cooperation (2010-2012) which was part of the Ministry of Foreign Affairs. In order to reinforce the relationship between foreign trade and development cooperation the Dutch government established a new cabinet-level post of a Minister for Foreign Trade and Development Cooperation. Thus, the Minister Lilianne Ploumen (PvdA) who oversees the Directorate General for International Cooperation (DGIS) has assisted Timmermans since November 2012³⁴⁷.

Previously, the Netherlands also had two government members at Foreign Affairs: one Minister being in charge of overall foreign policy and the other Minister responsible for development cooperation and European affairs.³⁴⁸ Back then, foreign trade and export promotion were mainly part of the Ministry of Economics (Interview D2).

The MfA is officially in charge of the implementation of the Dutch development cooperation. More specifically, the Ministry is responsible for the decision-making concerning aid activities and the disbursement of aid funds.

The Ministry does not carry out projects or programs, but finances activities of partner organizations and recipient governments. It is not itself involved in the implementation; bilateral government funds are implemented by executing agencies, e.g. FMO or NL Agency; the Ministry solely maintains links with implementing ministries on an administrative level.

Dutch embassies and consulates-general are closely involved in the implementation of bilateral development cooperation funds. They select and implement development projects and also help to formulate a general approach.³⁴⁹ Further, these so-called 'Diplomatic Missions' also have specific knowledge about foreign markets, which let Uri Rosenthal, former Minister of Foreign Affairs (2010-2012), to engage embassies more strongly in export promotion and foreign trade related activities (Interview D2).

An interviewee mentioned that the former minister did not see embassies in classical diplomacy terms, but rather as an additional instrument in order to promote Dutch exports. According to this person, the present Minister Timmermans slightly withdrew

³⁴⁶ Dutch Ministry of Foreign Affairs: <http://www.government.nl/ministries/bz/about-the-ministry>

³⁴⁷ Information Portal SEEK Development,: <http://donortracker.org/donor-profiles/netherlands/actors-decision-making>

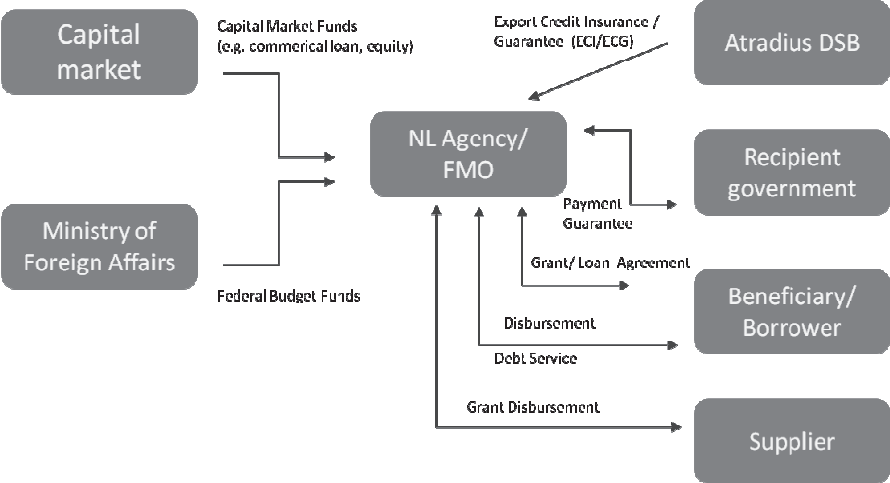
³⁴⁸ Government of the Netherlands: <http://www.government.nl/news/2010/10/14/rosenthal-and-knapen-new-government-members-at-foreign-affairs.html>

³⁴⁹ Government of the Netherlands: <http://www.government.nl/issues/embassies-consulates-and-other-representations/missions-of-the-kingdom-of-the-netherlands-abroad>

from this vision, nevertheless Dutch embassies were always aiding Dutch exports and Dutch enterprises when problems occurred or information was needed (Interview D2).

The following figure illustrates the institutional set-up of the Dutch Development Finance Scheme including its main actors and their linkages with each other.

Figure 13.1: Institutional Set-up



Source: Own Elaboration

FMO – Entrepreneurial Development Bank

Being part of the Netherlands Development Cooperation, FMO is the Dutch bilateral development bank. The bank finances companies, projects and financial institutions from developing and emerging markets and thus, supports “sustainable” private sector growth in these countries³⁵⁰.

FMO was founded in 1970 and is a public-private partnership; 51 % of its shares are held by the Dutch State, the other 49 % are held by commercial banks, trade unions and other private representatives. FMO has a solid capital base (AAA rating from Standard & Poor’s) which allows it to invest in higher risk markets; both with funds raised on the capital markets or on behalf of the Dutch government³⁵¹.

In FMO’s focus are sectors in which Dutch development cooperation is able to provide knowledge and to contribute to sustainable and long-lasting projects: financial institutions, energy and agribusiness, food and water³⁵².

³⁵⁰ FMO, Netherlands Development Bank: homepage, <http://www.fmo.nl/about-us>

³⁵¹ Ibid.

³⁵² FMO, Netherlands Development Bank: <http://www.fmo.nl/about-us/profile>

Carrying out Private Sector Development concepts from the Dutch Ministry of Foreign Affairs, the development bank provides different services and products (e.g. equity, loans and guarantees; capital market transactions; mezzanine capital) for developing countries which often do not have any access to adequate financial services³⁵³.

FMO also implements FOM, a fund to stimulate Dutch companies to invest in emerging markets, and several government funds³⁵⁴. One of these facilities is the Infrastructure Development Fund (IDF) providing long-term financing for public infrastructure projects in low-income countries³⁵⁵.

Ministry of Economic Affairs

The Ministry of Economic Affairs and the Ministry of Agriculture, Nature and Food Quality were merged into the new Ministry of Economic Affairs, Agriculture and Innovation between 2010 and 2012.³⁵⁶

Since autumn 2012, the ministry has again been renamed Ministry of Economic Affairs. Nevertheless, agriculture, livestock, energy, sustainable growth and innovation and business are important dossiers of the ministry³⁵⁷.

Foreign Economic Relations are an important part of the ministry's activities. One of the main pillars of the ministry's strategy is to support Dutch business abroad through economic diplomacy and, for example, assistance via embassies and consulates³⁵⁸.

In terms of development policy, the Ministry of Economic Affairs has gained more influence during the last years than it had e.g. in the 1990ies when Jan Pronk was head of the Ministry for Development Cooperation (Interview D2, D1). When the first Rutte government installed the Ministry of Economics as a super-ministry, the influence got clearly visible.

*NL Agency*³⁵⁹

The NL Agency acts upon a mandate of the Dutch government and is mainly responsible for promoting the international presence of Dutch companies in foreign markets and for supporting private sector development in emerging markets³⁶⁰.

The organization, which is working closely with the Dutch Diplomatic Missions and Netherlands Business Support Offices, provides information and advice regarding

353 FMO, Netherlands Development Bank: <http://www.fmo.nl/about-us/profile>

354 FMO, Netherlands Development Bank: <http://www.fmo.nl/fom>

355 FMO, Netherlands Development Bank: <http://www.fmo.nl/idf>

356 Government of the Netherlands: <http://www.government.nl/issues/forming-a-new-government/news/2010/10/14/rutte-government-sworn-in.html>

357 Dutch Ministry of Economic Affairs: <http://www.government.nl/ministries/ez>

358 Dutch Ministry of Economic Affairs: <http://www.government.nl/ministries/ez/strategy>

359 Important Note: In January 2014, NL Agency and the National Service for the Implementation of Regulations were merged into the Netherlands Enterprise Agency

360 Information Portal of Agency NL: <http://www.hollandtrade.com/organization/about.asp>

financing, networking and regulatory matters for businesses, knowledge institutions and government bodies³⁶¹.

In particular, it provides Dutch companies with information and services in order to face opportunities in various foreign markets. Additionally, financial support is provided for Dutch activities contributing to sustainable private sector development in emerging markets³⁶². Further, NL Agency provides detailed information regarding the Dutch economy³⁶³.

The NL Agency was established and became operational on 1st January 2010. It is a merger of three former agencies all under the Ministry of Economic Affairs – the Netherlands Agency for Sustainability and Innovation (SenterNovem), the Agency for International Business and Cooperation (EVD), and the Netherlands Patent Office (OctrooiCentrum Nederland)³⁶⁴.

Being an agency of the Dutch Ministry of Economic Affairs, NL Agency carries out policy and subsidy programs which focus on sustainability, innovation, international business and cooperation³⁶⁵. The Agency inter alia implements ORIO, the Facility for Infrastructure Development.

Atradius Dutch State Business

Dutch exporters of capital goods or international projects are offered a wide range of insurance and guarantee products by Atradius Dutch State Business (Atradius DSB) when doing business abroad³⁶⁶.

Atradius DSB is a subsidiary of Atradius, which is a private and international company working at an international level. Atradius DSB is mandated to provide export credit services on behalf of and for account of the Dutch state; thus, Atradius DSB is one of the implementing agencies of the Dutch government (Interview D9).

“Credit insurance on behalf of and for account of the state usually involves export transactions with credit periods or a completion time in excess of twelve months. They always involve the supply of capital goods such as machinery, ships or greenhouses.”³⁶⁷

An interview partner states that ‘Atradius DSB’ once was part of the Ministry of Economic Affairs and a semi-public organization until the “Nederlandsche Credietverzekering Maatschappij” was privatized in the 1980ies (Interview D9).

³⁶¹ Consortium of Dutch Companies in the Food Sector:

<http://www.foodtechholland.nl/index.php/participants/public-stakeholders/nl-agency-nl-evd-internationaal>

³⁶² Agency NL: <http://english.agentschapnl.nl/subsidies-programmes/psi>

³⁶³ Official Portal of the Government of the Netherlands: <http://www.hollandtradeandinvest.com>

³⁶⁴ Voluntary Network of European Energy Agencies: http://www.enr-network.org/NL_Agency.html

³⁶⁵ Agency NL: <http://english.agentschapnl.nl/home/about-nl-agency>

³⁶⁶ Point of Single Contact for the Netherlands: <http://www.answersforbusiness.nl/subsidy/export-credit-insurance>

³⁶⁷ Atradius DSB: <http://www.atradiusdutchstatebusiness.nl/dsben//index.html>

Nowadays, the Ministry of Finance (MoF) in terms of general policy guidelines commissions Atradius DSB. Therefore, the ministry has key responsibility and a special unit being in charge of export credit policies; they supervise the main Atradius DSB activities (Interview D9).

Corresponding Corporate Social Responsibility Issues were dealt with at the BEB Department (DG BEB – “Foreign Economic Relations”) within the Ministry of Economic Affairs until autumn 2012. Under the current government, the DG BEB was moved to the Ministry of Foreign Affairs; thus since November 2012 Minister Ploumen, being responsible for Foreign Trade, has been in charge thereof (Interview D9).

13.2.4. Government Funds

Apart from being concessional or a mechanism to blend grants, ORIO, IDF and DGGF have in common that they are government funds and form part of the development cooperation budget. They are intertwined with Dutch foreign trade, private sector development and the debate about (un-) tying, which will be analyzed more thoroughly in the following.

13.2.4.1. Facility for Infrastructure Development (ORIO)

ORIO is a Dutch government facility supporting governments in developing countries in their efforts to create major infrastructure in partnership with the international business community. In this way, ORIO mainly aims at stimulating human development as well as private sector development in developing countries³⁶⁸.

Additionally, ORIO aims at stimulating the involvement of international business in order to benefit from the private sector’s expertise³⁶⁹. An interviewed stakeholder explains that companies are important drivers in such public infrastructure projects (Interview D7).

Until 2012 ORIO had slightly different objectives and focused on financing public infrastructure projects with a sustainable impact on economic growth and private sector development, thereby paying particular attention to promoting SMEs and the poor (pro-poor growth) (NL Agency/MfA 2011: 12-13).

ORIO has started in 2009 as successor of the ORET-program and was developed as a joint concept by the ministries of Foreign and Economic Affairs involving VNO-NCW, the Dutch employers’ organization, and Verkapex (Capital Exporters’ Association) (ViceVersa n.d.: 2).

³⁶⁸ Agency NL: <http://english.agentschapnl.nl/subsidies-programmes/facility-infrastructure-development-orio>

³⁶⁹ Agency NL: http://english.agentschapnl.nl/sites/default/files/2013/12/orio-engels_1.ppt

ORIO is funded by the Ministry of Foreign Affairs and implemented by NL Agency. Central governments of about fifty developing countries can apply for an ORIO grant for their infrastructure development projects³⁷⁰.

The grants are classified as Official Development Assistance (ODA), as defined in the DAC Guiding Principles of the OECD. In accordance with the OECD-DAC agreement on untying aid grants are awarded as untied aid. These grants are not subsidies as defined in General Administrative Law Act (NL Agency/MfA 2013a: 3).

ORIO does only grant a certain percentage of the project costs; the facility does not provide funding for the complete project costs. In order to stimulate 'ownership' of the recipients, it is their responsibility to arrange the financing of the non-ORIO part of the project costs. This part may be financed by the government budget, commercial loans or other donors (NL Agency/MfA 2013b: 13).

According to an interview partner, recipients often lack the capacity to arrange part of the funding of a project. Thus, NL Agency supports recipient countries to find a form of financing which does fit their needs. Further, this person states that grants supplied by ORIO are very often blended with commercial loans which are provided by Dutch commercial banks (Interview D7).

The grant which is provided by ORIO may differ for the development phase of a public infrastructure project from the ORIO contribution for the implementation and maintenance phase. The list of eligible countries including the grant percentage is decided and reviewed semi-annually by the Ministry of Foreign Affairs and is based on the partner countries of the Dutch development cooperation in combination with some selected LDCs as well as emerging markets³⁷¹.

In order to prevent individual countries from receiving disproportionate amounts, the total maximum ORIO funding for a single country is limited to 25 % of the ORIO budget available for the corresponding year³⁷².

Typical public infrastructure projects eligible for ORIO funding are within the sectors water, environment, energy, transport and logistics, ICT, education and health care and civil works (NL Agency/MfA 2013b: 3).

One of the formal requirements of any ORIO project is that it must be commercially non-viable. The commercial viability of projects is assessed using the OECD 'Ex Ante Guidance for Tied Aid'. As energy projects tend to be commercially viable, these kinds of projects are not allowed to be commercially viable within 12 years, even if sustainable energy projects are handed in for an ORIO grant.

³⁷⁰ Agency NL: <http://english.agentschapnl.nl/subsidies-programmes/orio-background-information>

³⁷¹ Agency NL: <http://english.agentschapnl.nl/subsidies-programmes/orio/faq>

³⁷² Agency NL: [http://english.agentschapnl.nl/sites/default/files/2013/12/EN %20factsheet %202013.pdf](http://english.agentschapnl.nl/sites/default/files/2013/12/EN%20factsheet%202013.pdf)

If ORIO grants are combined with commercial loans to arrange funding for a public infrastructure project, then most of these transactions will be supplemented by export credit insurance³⁷³. An interview partner states that recipient countries have to comply with the country policies of Atradius DSB in order to obtain such insurance (Interview D9).

In addition, the recipient government has to provide an unconditional guarantee for repayment of the commercial loan in order to cover the export credit insurance³⁷⁴.

13.2.4.2. Infrastructure Development Fund (IDF)

The IDF fund provides long-term financing for private and commercially viable infrastructure investments that are relevant for the socio-economic development in developing countries. Being a revolving fund which provides risk capital, IDF is able to finance riskier projects than e.g. ORIO. In this sense, IDF is complementary to existing funds and/or facilities (Interview D5).

FMO is commissioned by the Ministry of Foreign Affairs to administer the Infrastructure Development Fund. The bank does not only draw upon IDF funds, but also garners interest from other financiers, e.g. acts as a gateway for additional private funds. Managing IDF on behalf of the Dutch government allows FMO to engage in projects that would otherwise be too risky to be prudently taken on by FMO's own capital (FMO Evaluation Unit 2013: 18). Types of funding include e.g. loans, equity, mezzanine and/or associated financing (Interview D5).

IDF provides financing for long-term projects (tenors of up to 20 years) for large infrastructure projects in areas such as power, agribusiness, water, transport, and environment. Loans are being provided of up to EUR 15.5 million; minority shares in equity investment of up to EUR 7.75 million as well as investments in international or multi-lateral funds in order to facilitate defined infrastructure projects. IDF also provides grants, e.g. to take on funding that governments are unable to provide, or to cover one-off investments integral to project realization but not to profitability³⁷⁵.

Funds are eligible for projects that positively impact the socio-economic development and/or lead to improvements in the corresponding areas. Furthermore, projects must meet FMO's standard criteria. Apart from financial-economic performance, projects are scrutinized in areas such as corporate governance, environmental impact and social policies and practices in order to ensure the sustainability of the investment³⁷⁶.

Projects typically have to be in line with the country's Poverty Reduction Strategy Papers (PRSPs); further projects must comply with local law and international guide-

³⁷³ Atradius DSB: www.atradiusdutchstatebusiness.nl/dsben/overheidsregelingen/ontwikkelingsrelevante_infrastructuur_ontwikkeling/index.html

³⁷⁴ Ibid.

³⁷⁵ FMO, Netherlands Development Bank: <http://www.fmo.nl/infrastructurefund>

³⁷⁶ Ibid.

lines, among others the World Bank Group's EHS Guidelines and IFC Performance Standards (FMO 2012: 1-2).

FMO also reviews investment plans, market analyses, due diligence studies, expected returns and the commitment level of management and co-financiers because IDF investments are based upon commercial terms and conditions (FMO 2012: 1-2).

The Infrastructure Development Fund was known as the LDC Infrastructure Fund until 2009 and is an offshoot of the ORET-program; currently it is invested in diversified assets with over EUR 230 million.³⁷⁷ The IDF fund is one of four governmental funds managed by FMO that reflect the Dutch government's priorities in private sector development³⁷⁸.

13.2.4.3. Dutch Good Growth Fund (DGGF)

Initiated by the Dutch government, the Dutch Good Growth Fund (DGGF) will commence in July 2014. The DGGF is an important cornerstone in the development policy of the current Dutch government, which aims at building a bridge between efforts to support private-sector development and efforts to promote trade and investment (Dutch MfA 2013c: 1-2).

The main goal of the fund is to step up development-related investments in and trade with low- and middle-income countries, through intermediaries and to Dutch SMEs as well as to larger enterprises. The DGGF will provide financial support in the form of loans, guarantees and equity investments. Besides investment capital, there will also be funding for technical assistance (Dutch MfA 2013c: 1-2).

The Ministry of Foreign Affairs will be politically responsible for the DGGF, whereas different parties will be responsible for the implementation. Three pillars through which the objectives of the fund are implemented structure the DGGF. In terms of concessional financing and tied aid, the third pillar is of great relevance.

Pillar 1: The first of the fund's tasks is focused on promoting development-related direct investment of Dutch companies in low and middle-income countries. Therefore the fund will provide guarantees on loans and direct finance for loans or participations for Dutch SMEs which otherwise cannot be financed due to their high risk profiles. Being managed by NL Agency, EUR 175 million investment capital will be provided between 2014 and 2017 plus an extra EUR 18 million for technical support (Dutch MfA 2013c: 8-9; Action Aid/Both Ends/Somo 2013: 6).

Pillar 2: The second task aims at promoting the financing of SMEs in low- and middle-income countries. These will not be direct investments but will use new or existing investment funds, e.g. private investors and financial intermediaries. The fund's contribution in this track will not provide more than a minority share which could come along

³⁷⁷ FMO, Netherlands Development Bank: <http://www.fmo.nl/infrastructurefund>

³⁷⁸ FMO, Netherlands Development Bank: <http://www.fmo.nl/idf>

in equity investments, first loss protection, guarantees and/or loans. Apart from the investment capital of EUR 175 million about EUR 26 million will be available for technical assistance between 2014 and 2017. The implementing partner for this pillar has not been decided upon yet (Dutch MfA 2013c: 9-11; Action Aid/Both Ends/Somo 2013: 6).

Pillar 3: The fund's third task is focused on stimulating finance for Dutch SMEs wishing to export in low and middle-income countries. This will involve exports of capital goods and services that ensure that better products can be made abroad, better services provided or production methods made more efficient. Therefore this part will focus on export transactions of up to EUR 15 million that are currently not covered by the market or regular governmental export credit insurance because of their high risks. Thus, additional ECI will be provided as well as guarantees for trade transactions. Atradius DSB will manage this part of the DGGF jointly with the Ministry of Finance (Dutch MfA 2013c: 12-13; Action Aid/Both Ends/Somo 2013: 6).

The DGGF will be a revolving fund, providing a budget at an amount of EUR 700 million. The projected annual expenditure will be as follows:

Table 17: DGGF Annual Expenditure (2014-2017)

Year	2014	2015	2016	2017	Total
Investment capital	50	100	250	300	700

Source: Dutch MfA 2013c: 4

An amount of EUR 175 million will be provided to each of the three parts. The remaining EUR 225 million will be kept separately in order to divide it on the basis of an interim evaluation at the end of 2015 (Dutch MfA 2013c: 4; Interview D6). Apart from the investment capital, additional EUR 75 million will be available for technical assistance which will not be financed from the fund, but from the regular private sector development budget (Action Aid/Both Ends/Somo 2013: 5-6).

All projects financed with DGGF funds must contribute to the development of low and middle-income countries. Thus, proposals will be assessed in order to determine whether and to what extent they contribute to (1) employment in low and middle-income countries; (2) the production capacity of local industry and (3) sustainable transfer of knowledge, skills and technology. Further, there will be a focus on businesses in fragile states, young entrepreneurs and female entrepreneurs (Dutch MfA 2013c: 5-6).

Activities have to (1) comply with the legislation of the country in question; (2) refrain from contriving arrangements designed to lower their profits or reduce tax in recipient countries and (3) comply with international rules concerning strategic goods, human

rights, etc. Furthermore, a single set of standards will be used to assess applications (IFC Performance Standards) (Dutch MfA 2013c: 6-7).

13.3. Scheme Performance

The Development Relevant Export Transactions program (ORET) was the predecessor of ORIO, the Facility for Infrastructure Development and one of the most important programs in which Dutch business has been supported in the last three decades. Thus, in the following not only data about ORIO shall be provided but also some figures about the ORET-program.

13.3.1. ORET Budget and Expenditures

According to the authors of the ORET/MILIEV evaluation 1999-2004, the ORET-program actually started in 1992. Prior to 1992 the program was in fact still a Low Concessional Loans (LCLs) program providing EUR 99.5 million for loans in 1991. In 1992 the budget of ORET was about EUR 38.7 million, which rose to EUR 142.9 million in 1998 due to the merger of ORET and MILIEV (Berenschot/Seor/Ecolas 2006: 19).

In 2002 the budget was reduced due to the exclusion of the LDCs from the program, for which the new LDC Infrastructure Fund was established. Since 2002 the budget of ORET has been about EUR 104 million per year (Berenschot/Seor/Ecolas 2006: 19).

The following table illustrates the total ORET/MILIEV program budgets and expenditures worldwide, between 1992 and 2005.

Table 18: Total ORET/MILIEV Program Budgets and Expenditures Worldwide (1992-2005)

Year	1992	1993	1994	1995	1996	1997	1998
Budget (EUR million)	38.7	63.2	68.2	72.9	74.9	84	142.9
Expenditures (EUR million)	8.6	22.1	27	37.2	75.6	99.7	96.7

Year	1999	2000	2001	2002	2003	2004	2005
Budget (EUR million)	149.8	149.8	136	104	104	104	104
Expenditures (EUR million)	95.9	95.1	79	63	74.7	82.7*	87.9*

Source: Berenschot/Seor/Ecolas 2006: 19

The expenditures from the ORET/MILIEV-program have fluctuated over the years. Until 1996 the program did not spend its entire annual budget. The same phenomena have already occurred within the Mixed Credit Program available at the end of the 1970ies. Annual expenditures exceeded the annual budget in 1997, thus the program was closed for a certain time (Hoebink 1998: 189; Berenschot/Seor/Ecolas 2006: 19).

In 2005, the budget available was about EUR 100 million offered within the tied ORET-program, the untied facility for LDCs (a maximum of 30 of the whole amount was reserved for the untied program) and the water facility (OECD/DAC 2005: 2).

In 2007 the budget was set to EUR 119 million. In August 2007, the period within which applications could be made for ORET grants was closed because applications made approximated three times the budget available (ORET.nl 2007: 1).

13.3.2. ORET Grant Scheme

The ORET-program offered within the first years a (minimum) grant percentage of 40 %. In addition, the costs of financing of the commercial loan were often subsidized up to a maximum of 5 % of the transaction costs, making the total grant percentage 45 % (Berenschot/Seor/Ecolas 2006: 19).

Table 19: ORET/MILIEV Official Grant Percentages (1992-2005)

Year	1992	1993	1994	1995	1996	1997	1998
Grant as % of total transaction	40 or 55+5	40 or 55+5	40 or 55+5	40 or 55+5	45 or 60+10	45 or 60+10	35 or 50

Year	1999	2000	2001	2002	2003	2004	2005
Grant as % of total transaction	35 or 50	35 or 50	35 or 50	35	35	35	35 or 50

Source: Berenschot/Seor/Ecolas 2006: 19

In 1993, as the MILIEV-program was launched, the grant percentage was 40 % of the transaction amount plus the costs of the credit (with a maximum of additional 5 %) and thus, quite similar to ORET. Certain projects got a higher percentage, e.g. if the environment component was only part of the transaction, it was decided to subsidize this part with 100. Overall, the grant percentages have been changed over time. Nevertheless, the ORET/MILIEV grant has equalled 35 % of the total value of the transaction, and 50 % for LDCs since 1998 (Berenschot/Seor/Ecolas 2006: 19).

13.3.3. LDC Infrastructure Fund

The Ministry of Foreign Affairs had expected that the disbursements within the LDC Infrastructure Fund would grow in four equal parts of approximately EUR 45 million

per annum. This was not realistic because the Fund started slowly within the first years; a more flexible approach increased the approved, contracted and disbursed amounts by the year 2005. The Ministry of Foreign Affairs had disbursed about EUR 139.7 million of its total commitment of EUR 181.5 million by the end of 2007 (IOB 2009: 37-38).

Table 20: LDC Infrastructure Fund, Investments (in Number and Value), 2002-2008

Investments	2002	2003	2004	2005	2006	2007	2008
Number of approved investment*	3	3	3	11	5	5	6
Contracted	0	6	2	9	10	7	5
Amount approved (EUR million)	33.2	31.1	20.4	117.8	70.8	61.9	69.8
Amount contracted (EUR million)	0	22.0	19.1	51.9	97.5	49.3	55.1
Amount disbursed (EUR million)	0	22.0	28.3	40.9	73.3	41.4	43.0
Disbursements by the Ministry (EUR million)	22.4	27.3	6.2	10.9	54.9	18.0	23.2

Source: IOB 2009: 38

Note: * New projects/first disbursements, not including grants (for approval)

The LDC Infrastructure Fund mainly provided long-term financing for infrastructure projects (tenors of up to 20 years) through (1) loans up to 10 % (or EUR 20 million) of the total fund size; (2) equity investments up to lesser of 10 % of the total fund size (or EUR 20 million) or 20 % of the total transaction size or (3) grants for e.g. non-commercial elements of projects that are financed by FMO or the development/feasibility stage of identified projects (IOB 2009: 38).

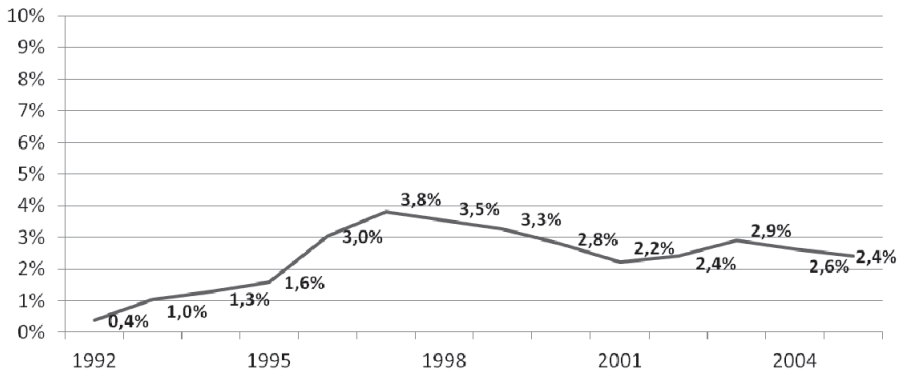
According to the authors of the evaluation of the LDC Infrastructure Fund, eleven projects had been financed with equity capital by the end of 2007; investments that had an average size of EUR 6.5 million including a number of smaller participations and two investments of approximately EUR 20 million. The Fund provided finance in the form of loans (16 loans with an average size of EUR 11.1 million. Furthermore, the Fund provided 27 grants with an average size of EUR 260,000 excluding two grants of more than EUR 1 million between 2003 and 2007 (IOB 2009: 38).

In general, the Fund has been open to several sectors in order to provide finance for social and economic infrastructure but in practice financial support has been concentrated in three sectors: energy production & distribution, immobile infrastructure and telecommunications. Major recipients were Tanzania, Mozambique, Bangladesh, Benin and Togo (IOB 2009: 40).

13.3.4. Share of ORET/MILIEV of Total ODA

The share of ORET/MILIEV including the disbursements of the LDC Infrastructure Fund (2002-2005) of total ODA varied between 0.4 and 3.8 % in the period 1992-2005. The following figure illustrates its highest peak in the years 1996-1999.

Figure 13.2: Share of ORET/MILIEV/LDC Infrastructure Fund of Total ODA (1992-2005)



Source: Berenschot/Seor/Ecolas 2006: 19; IOB 2009: 38; OECD/DAC statistics

13.3.5. ORIO Grant Scheme

ORIO started out as a program providing grants in the total amount of EUR 140 million in 2009. According to an interviewed person, this amount was later increased to EUR 180 million by ministerial decision in order to meet the great demand for projects (Interview D5).

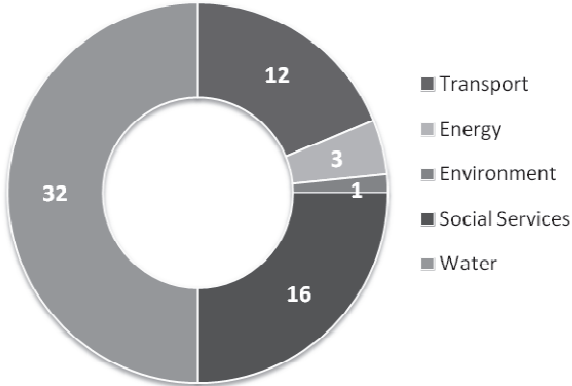
Thus, the total annual budget for ORIO was around EUR 180 million in the year 2012. Nevertheless, applications that had been accepted for appraisal exceeded the available budget which led to a waiting-list, opened by ORIO. In 2013, the available budget for projects financed with ORIO grants was again approximately EUR 180 million³⁷⁹.

One up to two Calls for Proposals had been published each year between 2009 and 2012. Altogether about 179 projects proposals were assessed against the eligibility criteria, of which 66 projects were selected for a grant. Two projects were withdrawn after selection, thus ORIO had 62 ongoing projects in spring 2013. Around 40 projects entered the Development Phase; the Grant Arrangement for another 16 projects will be signed by ORIO. In the year 2013, about six projects entered the Implementation Phase and the Operation & Maintenance Phase (NL Agency/MfA 2013c).

³⁷⁹ Agency NL: <http://english.rvo.nl/subsidies-programmes/facility-infrastructure-development-orio>

The total project budget of granted projects including the non-grant part of each project was around EUR 2.1 billion by the end of 2013; total grants sum up to EUR 740 million if all ongoing projects were implemented. The maximum grant percentage is 35 %, 50 % for LDCs and 80 % for fragile states. The list of countries eligible for a grant, indicating the status and the maximum grant percentages is set out in the annex. The most popular sectors are the water sector, social services and transport (NL Agency/MfA 2013c).

Figure 13.3: ORIO Projects per Sector (2009-2012)



Source: NL Agency/MfA 2013c

According to a review regarding ORIO, published in autumn 2013, 28 of the selected projects are from LDCs, another 38 projects from MDCs. Moreover, 43 out of the 66 projects are located in Africa, followed by Asia (10 of 66 projects). Most projects are from Ghana, Vietnam, South Africa, Mozambique and Tanzania. The review highlights that a total of five projects have been stopped or withdrawn (Carnegie Consult 2013: 5).

13.4. Implementation of Programs

Being the key successor of the ORET-program, the following part of the Dutch country report is strongly focused on the Grant Facility for Infrastructure Development ORIO. Although the Infrastructure Development Fund IDF is also an offshoot of the ORET-program but focusing more strongly on private and commercial infrastructure activities in LDCs, this fund is not considered in the following.

For further information how FMO selects, monitors and evaluates projects, please view the ÖFSE-study about the comparative analysis of selected bilateral development finance institutions in Europe from Gössinger/Raza (2011:23-38).

The Dutch Good Growth Fund will be launched in July 2014, thus information about main procedures, criteria and decision-making is not yet available.

13.4.1. Project Eligibility and Application

The governments of around 50 recipient countries may submit applications for ORIO projects. Applications can be submitted when the Call for Proposals is open. A standard ORIO project has three phases: (1) Development phase, (2) Implementation phase and (3) Operations & Maintenance phase (NL Agency/MfA 2013b: 3).

Before submitting an application form, NL Agency (NL EFD International) provides an intake form for interested parties who want to assess whether their project idea qualifies for an ORIO grant. This form is not considered as an official application but shall provide constructive feedback on project ideas.³⁸⁰

The intake form already asks for concrete project information, e.g. the project's effects on human development and private sector development and/or how the non-ORIO portion of the budget will be financed (NL Agency/MfA 2013d: 2-3).

The official project application includes a so-called project description, in which the applicant is asked to describe all elements of the project proposal in order to assess the project for ORIO financing. Apart from contact information, first questions have to be answered about the project budget and the project history. Information about the project history includes e.g. whether support programs or donor funding have been used to develop the project; whether the application concerns a former ORET application or an ORET project follow-up or whether the project has any other linkages to NL Agency or FMO programs (NL Agency/MfA 2013d: 2-3).

Furthermore, formal substantive information is required about the commercial non-visibility of the corresponding project according to the OECD's Ex Ante Guidance for Tied Aid and the procurement modalities that will be used by the recipient must comply with international and the recipient country's legislation. The description of the project has to include information about the stakeholders, as well as information about the end users that are affected and/or involved. In addition, information about the economic, legal and institutional structure has to be provided; e.g. how the project fits into national, local and/or sector plans and strategies (NL Agency/MfA 2013d: 4-6).

As a consequence of the evaluation findings of the LDC Infrastructure Fund in 2009, ORIO does not only provide grants for the Implementation Phase and the Operation & Maintenance Phase, but also for the Development Phase, in which proposals are

³⁸⁰ Agency NL: <http://english.rvo.nl/subsidies-programmes/do-i-qualify-orio>

developed. In contrast, applicants for the predecessor of ORIO, the ORET-program had to submit sound business and project plans at the time of applying for a grant (Interview D5).

The applicant has to clearly state for which phases of the project funding is asked for. If ORIO does not provide 100 % financing of the project it has to be specified how the other parts will be financed. The Development Phase generally includes feasibility studies, social and environmental impact assessment, preliminary project design, financial planning, project plan, project management, and monitoring & evaluation (NL Agency/MfA 2013d: 7-8).

Concrete project descriptions have to include information about the input & output, the effectiveness of the project (outcome), the project impact on human development and on private sector development, and have to be submitted for the Implementation Phase and Operation & Maintenance Phase. In order to assess the sustainability of a project, the applicant also has to provide information about the financial sustainability, suitability of the technology being used, social & environmental risks, involvement of end users and the project organization and structure (NL Agency/MfA 2013d: 9-16).

Ownership of the recipient country is key when it comes to developing and implementing new projects funded with government funds like ORIO. Nevertheless, an interviewed stakeholder points out that Dutch companies are important 'drivers' for the development of new projects as well as consultancies who assist the grant recipient throughout the whole project cycle (Interview D7).

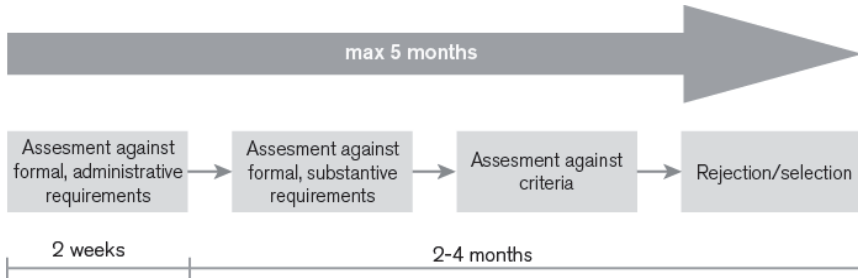
13.4.1.1. Project Appraisal Process and Decision-Making

All project applications are dealt with on a 'first-come, first-served' basis and are assessed against the formal, administrative requirements by NL Agency. The most relevant are the following:

(1) Applications must be submitted by the central government authority of a country on the ORIO country list applicable to the relevant application period; (2) Applications must be received by NL Agency during the application period; (3) Eligible project costs must be at least EUR 2 million and no more than EUR 60 million; (4) Project applications must deal with the entire life cycle and must comply with the OECD definition of a project (NL Agency/MfA 2013b: 10, 14).

Applications that do not fulfil the most relevant formal, administrative requirements are not considered further; in other cases, the applicant has the option of revising the application or providing additional information.

Figure 13.4: Application Assessment Timeline



Source: NL Agency/MfA 2013b: 12

The following formal, substantive requirements are assessed: in order to receive an ORIO grant the corresponding project should not be commercially viable according to the OECD Ex ante Guidance for Tied Aid. Furthermore, goods, works and services for the project must be purchased in a transparent and efficient manner and must comply with international procurement practices provided by the OECD and/or ILO as well as with the recipient country's legislation (NL Agency/MfA 2013b: 12-13).

Applications that have already fulfilled the necessary formal, administrative requirements are then assessed against the formal, substantive requirements. Furthermore, a meeting is held in which a questionnaire is discussed between the applicant and the ORIO-Team (NL Agency/MfA 2013b: 12-13).

All information from both the application and the questionnaire is used to assess the application on the basis of five OECD/DAC criteria: (1) relevance, (2) effectiveness, (3) impact, (4) efficiency, and (5) sustainability. Each criterion is then either scored 'satisfactory' or 'unsatisfactory'. In order to be eligible for an ORIO grant, the score must be satisfactory for each individual criterion (NL Agency/MfA 2013b: 15; 17-27).

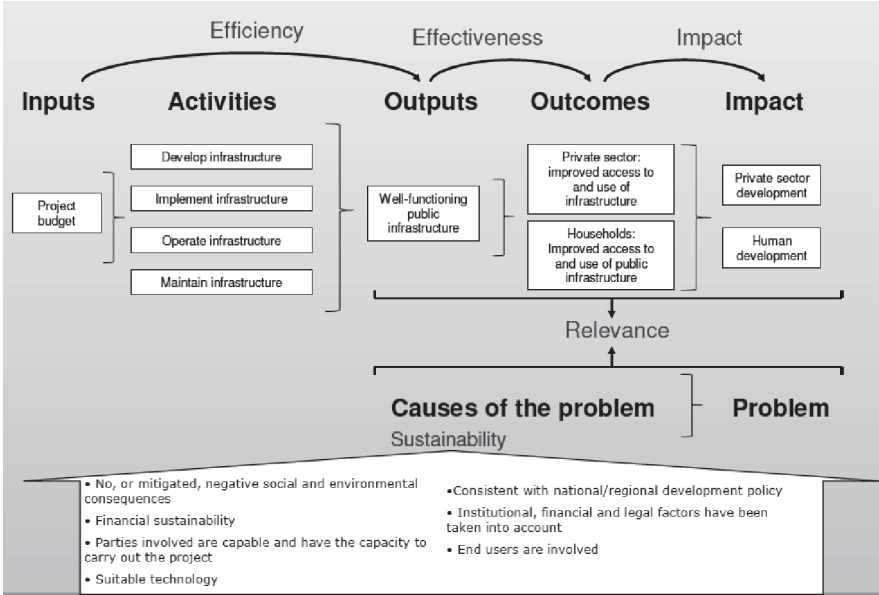
During this assessment procedure NL Agency takes advice from the ORIO Advisory Committee (AC) named ACORIO, whose membership and procedures are decided by the Ministry of Foreign Affairs. This advisory board includes five stakeholders; among them are experts in the field of banking, science, contract law and engineering consultancy services (Interview D7).

The AC assesses twice, once before entering the Development Phase; here applications are assessed against formal requirements and the OECD/DAC principles. Before a given project enters the Implementation and Operations & Maintenance Phase, the AC once more re-assesses more thoroughly the respective project. Further, an interviewee explains that ACORIO advises on the basis of consensus (Interview D5).

If an application is accepted for assessment and found to meet all the formal requirements including the OECD/DAC criteria, then the project will be selected for a grant for the Development Phase as long as enough budget is available. Depending on the

country, ORIO finances between 50 and 100 % of these costs. (NL Agency/MfA 2013b: 3,13).

Figure 13.5: Project Result Chain Linked to Criteria



Source: NL Agency/MfA 2013b: 16

The Grant Arrangement must be signed by the applicant and then returned to NL Agency. The arrangement comes into effect the day after it has been signed. NL Agency also could ask the Dutch Ambassador in the recipient country to sign the documents. Thereafter the corresponding embassy will organize the signing and initialing with the applicant. The first advance payment may be made (maximum of 15 % of the total grant of the Development Phase). In addition, the NL Agency may ask the applicant to come up with a guarantee of the contractor in order to provide financial security (NL Agency/MfA 2013b: 29).

The Development Phase includes conducting all necessary studies for implementing the project. Here NL Agency, the applicant, the competent authority and any private parties involved jointly work out the details including a round table in order to discuss specific matters that have emerged during the assessment, providing further information about the process, content and the project plan being the end result (NL Agency/MfA 2013b: 28).

The round table discussion will in particular address issues like the possible impact and risks that must be investigated, the project's social and environmental effects and

institutional matters. Here ORIO will make use of the IFC Performance Standards, the OECD Guidelines for Multinational Enterprises and ILO conventions in order to consider matters like working conditions, community engagement, land issues, management of natural resources, pollution, waste management and supply chain management (NL Agency/MfA 2013b: 28).

The contracting out of work will also be discussed at this stage, in particular what tendering process will be followed, what type of contract is to be used and who will do that. In addition, a monitoring and evaluation plan has to be drawn up for each project (NL Agency/MfA 2013b: 29).

The applicant and the competent authority are responsible for the project during the whole process. Several interview partners pointed out that both their commitment and ownership are essentially important for the success of the project (Interview D7, D5).

Apart from a feasibility study, technical studies, a procurement plan, economic and financial studies result in a project plan, which must contain all necessary information for the decision on implementing the corresponding project. This project plan is then evaluated and includes that NL Agency will assess the need for and usefulness of the activities which have been set out in the input & output plan and whether they are in line with market prices (NL Agency/MfA 2013b: 3).

The Grant Arrangement may include go and/or no-go moments for those parts that are crucial to the feasibility of a project that NL Agency wants to have clarity before proceeding to make further advance payments.

NL Agency may ask the applicant to provide further information at any time during the assessment. For this reason, the applicant has to make direct contacts with relevant parties involved, e.g. consultants, financiers, credit insurers and suppliers (NL Agency/MfA 2013b: 31).

Further, NL Agency may also ask for advice from external experts, other relevant parties who are active in the corresponding sector, e.g. development banks, other bilateral donors and/or the Dutch embassy in the recipient country, which has an important advisory role (NL Agency/MfA 2013b: 31).

The Development Phase finally results in a detailed Project Plan, including all studies, letters and other matters agreed in the round table and described in the Input & Output Plan. The complete Project Plan is then reassessed against formal requirements as set out earlier:

In concrete, the Project Plan is assessed to determine whether the project is still relevant, efficient, effective and sustainable and has a significant impact on human development and private sector development. In addition, more emphasis is put on the formal requirements regarding the commercial non-viability and the procurement procedure (NL Agency/MfA 2013b: 31-33).

If the project meets the formal requirements, 'scores satisfactory' on the criteria and does not depart substantially from the key indicators agreed upon at the start of the Development Phase, it will be eligible for a grant for subsequent phases and the Grant Arrangement for the implementation and Operation & Maintenance Phase will be signed (NL Agency/MfA 2013b: 3).

An interviewee states that from 179 project proposals which have been assessed on the eligibility criteria about 66 projects have been selected for a grant in the Development Phase. Further, this person points out that too much time is needed to develop projects because 3-5 years pass by in order to bring ideas from development to implementation. Because of these difficulties only a handful of projects were in the Implementation Phase in fall 2013 providing e.g. medical equipment or generators (Interview D7).

13.4.1.2. Project Implementation, Tendering and Contract Management

If financing agreements have been made and submitted by the Central Government authority or the corresponding authority in order to arrange the financing that is needed on top of the intended ORIO grant to implement the project, then the grant is disbursed by NL Agency (NL Agency/MfA 2013b: 36).

ORIO finances between 35 and 80 % of the costs for the Implementation and Operation & Maintenance Phases (for up to a maximum of ten years), depending on the country (NL Agency/MfA 2013b: 3).

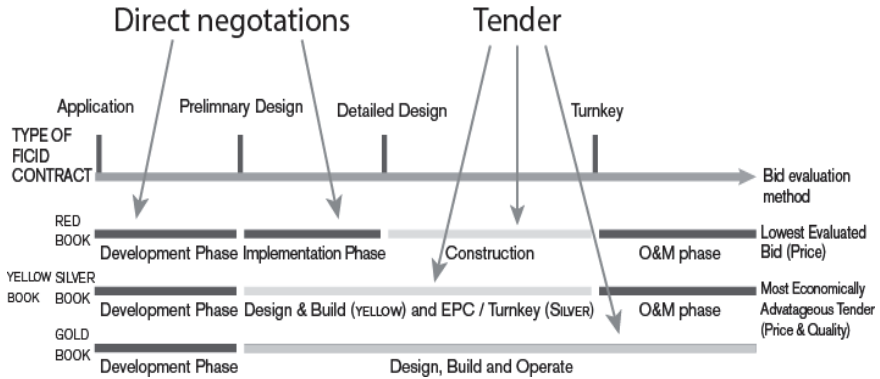
Once a project has been selected for the Implementation Phase, the detailed design is done in consultation with NL Agency, also in order to set up the basis for the tender. The procurement procedures may differ; they depend on the type of contract (NL Agency/MfA 2013b: 38).

Although the recipient country's government or the corresponding authority is responsible for the tendering and the contract management, NL Agency reviews the process for the procurement in order to ensure that the procurement of goods, works and services comply with international and the recipient's procurement legislation and practices (NL Agency/MfA 2013b: 38).

Contrary to the fostering of the recipient country's ownership, the applicant e.g. has to submit the complete draft set of prequalification or tender documents to NL Agency for review prior to an invitation to prequalify or tender. Further, a detailed prequalification or tender evaluation report must be submitted to NL Agency for review prior to finalizing a prequalification list or awarding a contract. Moreover, the applicant has to submit the draft of the final contract including any amendments to NL Agency for review (NL Agency/MfA 2013b: 38).

The figure below illustrates the key steps of the procurement process:

Figure 13.6: Procurement Process



Source: NL Agency/MfA 2013b: 38

The figure illustrates that e.g. feasibility studies, social and environmental impact assessments or preliminary project designs are awarded in direct negotiations. Here various consultancies (e.g. engineering, project design & management) are typically considered. Depending on the procurement legislation in the recipient country, the contract for the detailed design may be awarded via direct negotiations to the same contractor that was responsible for the preliminary design (NL Agency/MfA 2013b: 38).

The tender procedure for the construction may be International Competitive Bidding (ICB), Limited International Bidding or National Competitive Bidding. According to an interview partner, ORIO has a strong preference for ICB tenders (Interview D11). If a component is negotiated directly, the local procurement clauses, the OECD Good Procurement Practices for Official Development Assistance as well as the ORIO procurement rules have to be considered (NL Agency/MfA 2013e: 8-9).

An interview partner points out the difficulties which are associated with International Competitive Bidding. According to him, a lot of companies do not participate in such bidding procedures because they do not have the necessary resources and/or do not see any chance to be awarded with the delivery of goods and/or services. In addition, this person highlights that procurement costs are very difficult to estimate because of the recipient country's procurement legislation which has to be considered within ORIO (Interview D7).

As only a handful of projects are in the tendering phase for the construction, the award of contracts within ORIO has been particularly attractive to project developers, engineering firms and consultants, which have been involved in the development of identified projects. Because of informational and institutional advantages, Dutch consultancies have great advantages to be awarded a contract. Thus, although being

officially an untied grant facility, ORIO is de facto procurement tied to goods and services from Dutch companies.

Once the contract has been awarded, the approved implementation plan can be carried out. This plan considers reporting duties by the applicant to NL Agency and includes how and by whom the implementation will be supervised. In many cases, monitoring and evaluation is outsourced to an independent engineer or employer's representative, who will report to the competent authority and NL Agency (and any other financiers) (NL Agency/MfA 2013b: 36).

The appointment of this consultant has to be submitted to NL Agency for a statement of no objection like all other contracts being awarded by the applicant.

13.4.1.3. Payment Terms, Guarantee and Operations and Maintenance Phase

The payment schedule as described in the Grant Arrangement will be adjusted after the allocation of the tender in order to align ORIO grant payments pro rata with payments of other project financiers. The grant payments do not go to the applicant, they will be made directly to the suppliers of works, goods or services after the awarding of the contracts has been done (NL Agency/MfA 2013b: 37).

After the final instalment of the corresponding infrastructure project, the Operation & Maintenance Phase commences. In general, ORIO pays its grants for a period of no more than the first ten years of the Operation and Maintenance Phase (NL Agency/MfA 2013b: 37).

Although both phases are described in one Grant Arrangement, they may be tendered or outsourced separately; this depends on the project circumstances and the preference and capacity of the involved experts (NL Agency/MfA 2013b: 37).

In order to make successive grant payments a management and maintenance plan has to be drawn up including periodic checks, at least on an annual basis. An independent engineer or employer's representative usually assesses the management performance (NL Agency/MfA 2013b: 37).

As stated above, the non-grant part of an ORIO funded project must be financed with other funds. ORIO grants are in many cases associated with commercial loans, for which export credit insurance (ECI) is available quite regularly. These ECIs are provided by Atradius Dutch State Business on the basis of their country policies. The recipient government usually has to cover the export credit insurance with an unconditional guarantee for the repayment of the commercial loan.³⁸¹

³⁸¹ Atradius DSB:
http://www.atradiusdutchstatebusiness.nl/dsben/overheidsregelingen/ontwikkelingsrelevante_infrastructuur_ontwikkeling/index.html

According to Atradius DSB, the maximum transaction amount is limited to EUR 15 million; grant is excluded here. The limit per country is EUR 50 million including a maximum repayment period of 10 years. ORIO funds public infrastructure projects, thus they must meet the concessional requirements as agreed by OECD countries to promote sustainable lending practices.

13.5. Monitoring and Evaluation

In order to facilitate the smooth implementation of projects NL Agency periodically undertakes field visits to speak to all stakeholders involved and to ensure the progress of projects. If available, the Embassy of the Netherlands may also assist in monitoring activities (Interview D5).

In general, the project implementation plan considers reporting duties by the Applicant to NL Agency and includes how and by whom the implementation will be supervised. In many cases, monitoring and evaluation is outsourced to an independent engineer or consultant, who will report to the competent authority and NL Agency (and any other financiers) (NL Agency/MfA 2013b: 36).

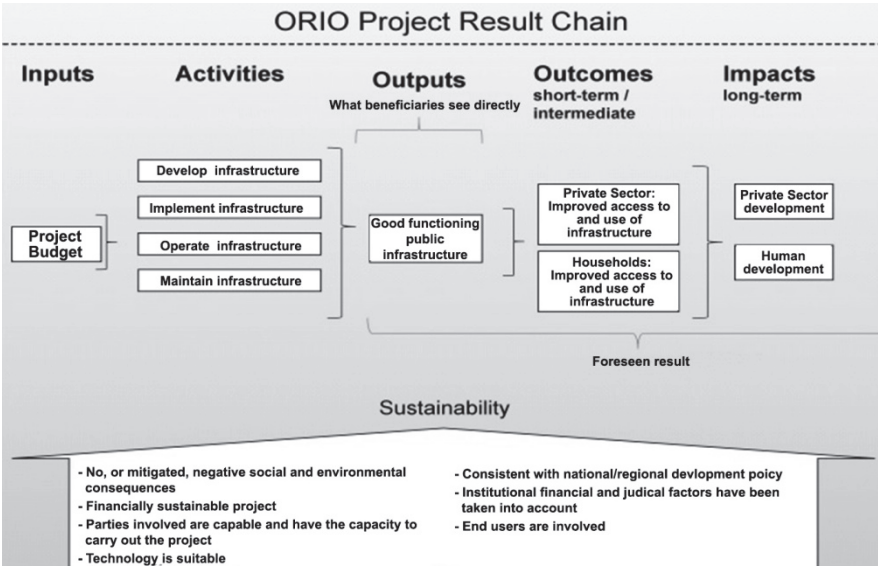
13.5.1. Monitoring and Evaluation Plan

The list of indicators to be monitored during the project is usually drafted by the applicant with support of the ORIO project consultant. The monitoring and evaluation plan considers indicators according to the project result chain including data about output (realized infrastructure), outcome (access and use of the infrastructure), impact (optional) and sustainability (financial, social and environmental and maintenance) (NL Agency/MfA 2013d).

This monitoring information has to be provided by the applicant at least once a year during the Implementation and the Operations & Maintenance Phase in addition to progress reports which have to be submitted at least every six months.

The following figure illustrates the logical steps leading from project inputs to the short- and long-term effects that projects intend to achieve:

Figure 13.7: Project Result Chain Focusing on Short- and Long-Term Effects of Projects



Source: NL Agency/MfA 2013b: 23

In the Development Phase, these progress reports have to include the current status of all deliverables and all financial conditions as described in the input & output plan as well as organizational or institutional issues. These matters consider major national or regional changes in the project context or changes concerning e.g. the applicant, and/or the involved consultants (NL Agency/MfA 2013g).

13.5.2. Impact Evaluations

About 10 to 15 % of all ORIO projects are subject to an independent impact evaluation. These projects should cover most sectors and countries, which form part of the ORIO program (NL Agency/MfA 2013f).

Ex ante evaluations are done by NL Agency in order to attribute the results of a given project. In this case, the selected projects will start with a baseline study before the beginning of the implementation phase. Further, other intended and/or unintended effects of the project are taken into account by providing a control group. In general, the impact evaluations use a mix of qualitative and quantitative (statistical and econometric) methods.

Apart from impact evaluations, an independent evaluation party verifies all other projects on the outcome level. In general, the applicant should cooperate in project eval-

uations, e.g. must regularly report data on output and outcome during the Operation & Maintenance Phase (NL Agency/MfA 2013f).

According to an interview partner, the Policy and Operations Evaluation Department (IOB) of the Ministry of Foreign Affairs (MfA) has drawn up the monitoring & evaluation system for ORIO. Thus, all monitoring and evaluation data on project level will be used by IOB for periodic evaluations at program level (Interview D5).

Program evaluations are generally provided by IOB, whereas project evaluations are awarded externally by NL Agency. FMO, the Dutch development bank has its own evaluation unit, which provides evaluations at project as well as at program-level (Interview D4).

ORIO was reviewed in fall 2013 and will be reformed upon these recommendations provided by this review. An interview partner mentioned that this reform could mean that ORIO will provide in the future a combination of loans and grants and/or could be streamlined with other funds (PSI, DGGF) (Interview D7).

The ORET-program, whose phasing-out was in 2013, will be externally evaluated according to the latest policy rules from 2006/07 (Interview D5). In the case of external evaluations, very often consultancies (e.g. Carnegie) or consortia of consultants and research institutions have been awarded in the past.

13.6. Transparency and Accountability

The Dutch Development Finance system generally includes FMO, the Dutch development bank and NL Agency being a department of the Ministry of Economic Affairs as main implementing agencies of Dutch funds and facilities.

An interview partner points out that NL Agency reports to the Ministry of Foreign Affairs on program level about ORIO. At the project level there is day-to-day contact between the ministry, NL Agency as well as other involved actors, e.g. Dutch embassies or other financiers (Interview D5).

Most funds are disbursed by the Ministry of Foreign Affairs, which has reporting duties to the parliament through the regular budgetary cycle. FMO and NL Agency, both in turn have to report to the MfA on a regular basis (Gütermann 2011: 192-195).

13.6.1. Role of the Parliament

In parliament (Tweede Kamer der Staten-Generaal), the Parliamentary Committee for Foreign Affairs deals with development cooperation issues. The Committee mainly scrutinizes the government's development policy and budget allocation through oral and written consultations. Further, it has the right to introduce motions and can amend

government bills. In addition, the Committee has the lead in the discussion of the budget of the Ministry of Foreign Affairs³⁸².

Interestingly, the newly established Dutch Good Growth Fund (DGGF) was controversially discussed in parliament twice in 2013. Different stakeholders, *inter alia* development experts from universities and non-governmental organizations were involved in these debates. In the second debate in November, the opposition was acquiesced EUR 50 million by earmarking to poverty reduction, which reduced the Fund's total budget from EUR 750 to 700 million.³⁸³

The Senate's (Erste Kamer der Staten-Generaal) main duty is to pass or reject bills; thus it does not play an important role in development policy as it has no right to amend bills.³⁸⁴

Moreover, financial accountability is provided by independent consultancies, e.g. PricewaterhouseCoopers has been awarded by the Ministry of Foreign Affairs to administer the phasing out of the ORET-program (2007/2013) (Interview D5).

13.6.2. Civil Society

Dutch civil society organizations are actively engaged in development cooperation and direct various advocacy activities towards the main actors. These activities do not only include the government and its relevant ministries – the Ministry of Foreign Affairs and/or the Ministry of Economic Affairs – in their role as the protagonists in policy formulation but also consider other stakeholders like the Dutch development bank FMO or Atradius DSB as implementing agencies of development relevant projects.

In October 2013, the Dutch government made it clear that the co-financing system in its present form will not be continued after 2014 (Spitz/Muskens/van Ewijk 2013: 33). Annual funding for civil society organizations will sharply decrease to EUR 219 million in 2015 compared to EUR 453 million in 2013. Most of this money will be streamlined to fewer Dutch development organizations. Further, more funds will be channelled via an accountability fund to finance CSOs in developing countries³⁸⁵.

Dutch civil society organizations heavily criticized these budget cuts as well as the general budget cuts in development cooperation. In addition, they lobbied against the Dutch Good Growth Fund mainly because of its strong focus on private sector development and the fund's procurement tied component (Action Aid/Both Ends/Somo 2013: 2-3).

³⁸² Information Portal SEEK Development: <http://donortracker.org/donor-profiles/netherlands/actors-decision-making>

³⁸³ Dutch Magazine for Development: <http://www.viceversaonline.nl/2013/11/ploumen-krijgt-oppositie-nog-niet-warm-voor-dggf/>

³⁸⁴ Government of the Netherlands: <http://www.government.nl/issues/parliament/senate-and-house-of-representatives>

³⁸⁵ Information Portal SEEK Development: <http://donortracker.org/donor-profiles/netherlands/actors-decision-making>

Both Ends, a Dutch NGO also published a very critical report about the Dutch export credit insurance agency Atradius DSB, in which the screening procedure of projects was assessed as insufficient and not transparent (Both Ends 2013). An interview partner points out that regular monitoring is urgently needed but would be difficult to undertake in practice due to limited resources (Interview D9). As the procurement tied pillar of the Dutch Good Growth Fund will be implemented by Atradius DSB, transparency and accountability are even more topical now (Dutch MfA 2013c).

The influence of the Dutch business sector is demonstrated by the fact that its representatives have been advocating for the introduction of concessional financing in order to be competitive with other European companies, which have access to mixed credits (Werkgroep Exportfinanciering 2012: 38-45). As a result of these lobbying activities, the Dutch Good Growth Fund, which was mainly developed jointly with investment companies in 2013, has considered the Dutch business' interests by providing concessional loans for Dutch SMEs wishing to export in low and middle-income countries (Dutch MfA 2013c: 12-13).

In addition, this pillar of the DGGF is procurement tied to Dutch goods and services, which is sharply criticized by Dutch NGOs. Interestingly, the Dutch business representatives have never denied that they did not really want to give up the tied ORET-program, which was officially untied with its successor ORIO in 2009 (Werkgroep Exportfinanciering 2012: 7). Although VNO-NCW (the largest Dutch employer's organization) and Verkapex (Capital Exporters' Association) were involved in the design of ORIO, the government finally wanted to comply with the international discourse in untying aid (Interview D6).

Nevertheless, the Dutch business sector, namely VNO-NCW has strong ties to the government (e.g. Ministry of Economic Affairs), and in particular in the field of trade and aid. Unsurprisingly, the Dutch business sector already played a catalyzing and leveraging role in the past (1960ies-1980ies) and demanded for instruments (e.g. mixed credits, ORET-program) which should generally help to promote the Dutch economy via the promotion of exports.

13.6.3. Transparency

In order to increase insight into the implementation and effects of Dutch foreign policy, the Policy and Operations Evaluation Department (IOV/IOB) of the Ministry of Foreign Affairs (MfA) was established in 1977. IOB's mandate was extended from project and more comprehensive evaluations to cover the entire foreign policy of the Dutch government in 1996³⁸⁶.

IOB is an independent body, which also advises on the planning and implementation of evaluations that are within the responsibility of the ministry. IOB's evaluations pro-

³⁸⁶ IOB, Policy and Operations Evaluation Department of the MFA: <http://www.iob-evaluatie.nl/node/667>

vide targeted feedback and thereby enable the ministry to derive lessons for future policies. Furthermore, the ministry justifies to parliament its policies and the allocation of resources on the basis of these evaluations.³⁸⁷

An interviewed person confirms that IOB in general does a good job and thus, other stakeholders, e.g. universities, trade unions or other civil society actors have not done that much research and/or monitoring about mixed financing or tied aid in the past (Interview D2). In addition, it is important to note that the evaluations done by IOB are publicly available.

As IOB has its focus on impact evaluations, project evaluations are done by external agencies. NL Agency e.g. has contracts with several evaluation companies that monitor all ORIO-projects. Nevertheless, no civil society actors are involved at project-level (Interview D5).

The Dutch key implementing agencies FMO and NL Agency are rather reluctant to provide information at the level of concrete projects. Although e.g. FMO is not obliged to involve civil society stakeholder groups, the bank takes the view that it is important to make efforts to consider corresponding requests (Gütermann 2011: 192-193).

Civil society organizations still demand more transparency. Although various stakeholders have been consulted in the policy formulation phase of the Dutch Good Growth Fund, CSOs call for more stakeholder involvement in the realization of the fund. They point out that transparency and accountability are necessary, both on the project level and the decision-making level (Action Aid/Both Ends/Somo 2013: 3).

Furthermore, they would like to take the implementation of the DGGF as a starting point for a critical discussion about the goals, activities and impacts of bilateral development cooperation, in particular about the role of the private sector.

13.7. Conclusion and Outlook

The Netherlands are a strongly export orientated country in which both foreign trade and development policy have always been important and intertwined policy fields. Their approach has also been described as a combination of 'the Merchant and the Clergyman', indicating that the Netherlands has a long colonial heritage, in-between trade and missionary zeal.

In the history of Dutch development cooperation, the Netherlands always had several motives for providing development aid. Using parts of its aid-budget to support Dutch business has until now always been a continuum. Therefore, the Netherlands have been providing mixed credits and/or low concessional loans for export transactions that were related to the development in the recipient country.

³⁸⁷ Dutch Ministry of Foreign Affairs: <http://www.government.nl/ministries/bz/policy-and-budget/evaluation-of-foreign-policy-spending>

The establishment of the ORET-program mainly stopped these activities and provided grants instead of concessional financing from 1991 to 2007. This procurement tied program offered financing through a combination of ODA grants and officially guaranteed export credits. Although the Netherlands started reporting new commitments for ODA only for grants and not for loans in 1991, the resulting financing arrangement is similar to mixed credits or associated financing (Interview D5; OECD 2008c: 14).

It is not a coincidence that the shift from loans to grants was proposed in the period of Jan Pronk, Minister for Development Cooperation between 1989 and 1998, who wanted to stop giving loans financed out of public funds and to restrict the Dutch development assistance to grants only. According to him, public debt of developing countries had grown out of proportions in the 1980ies so that debt refinancing took place out of development budgets which led to decreasing funds to be spent on social issues and direct poverty reduction (Interview D1).

Today, the Dutch Development Finance system is broadly drawn up by (revolving) funds and grant facilities. Most of these funds are commissioned by the Ministry of Foreign Affairs and implemented by FMO, the Dutch development bank. The officially not procurement tied grant facility ORIO, the successor of the ORET-program is implemented by NL Agency, a department of the Ministry of Economic Affairs, and has been focused on financing public infrastructure projects by providing grants mostly in combination with commercial loans since 2009.

The latest Dutch Development Policy document "A world to gain: A New Agenda for Aid, Trade and Investment" clearly points out that a greater emphasis will be placed on the economic view of development and the advantages of bilateral aid in terms of trading opportunities for Dutch businesses. The Ministry of Foreign Affairs is strongly targeted by these reforms because the Netherlands, which have traditionally provided a Minister for Development Cooperation, established a new cabinet-level post of a Minister for Foreign Trade and Development Cooperation in order to reinforce these two policy fields.

The establishment of the Dutch Good Growth Fund (DGGF), which will commence operations in July 2014, *inter alia* aims at stimulating finance for Dutch SMEs wishing to export to low and middle-income countries by providing loans, official export insurance as well as guarantees. The design of this procurement tied pillar indicates that the Dutch development policy is about to abandon the OECD-DAC agreement on untied aid (Action Aid/Both Ends/Somo 2013: 2-3).

The Dutch development cooperation has always had an outstanding credibility which was generally grounded in its responding positively to major challenges and in setting new trends. Thus, the Netherlands has also strongly committed itself to untie its development assistance within the last decade; in particular within the ORET-program they also have been providing an untied facility for LDCs from 2001/2 onwards.

Although the grant facility ORIO has officially been an untied program since 2009, Dutch companies have great informational and institutional advantages to be awarded a contract. As only a handful of projects are in the tendering phase for the construction, the award of contracts within ORIO has been particularly attractive to Dutch project developers, engineering firms and consultants, which have been involved in the development of identified projects (Carnegie Consult 2013: 7).

The fact that Dutch engineering consultancies often develop projects may finally lead to Dutch companies which will be awarded a contract after winning the International Competitive Bidding because the project including the tender documents could have been specified to the supply of Dutch companies' goods and services. In addition, final approval is given by ORIO asking for a statement of no objection before a company is being awarded by the project applicant.

ORIO generally emphasizes the ownership of the recipient country. Nevertheless, the idea of demand-driven projects is detracted by numerous checks and balances ORIO asks for during the whole life cycle of a given project. The grant payments e.g. do not go to the applicant of the given project, but are made directly to the suppliers of works, goods or services after the contract awarding (Interview D7). In addition, identified projects are very often developed by (mostly Dutch) companies and consultants. Obviously, frequently not recipient countries but private corporate actors are in the 'driver's seat' (Carnegie Consult 2013: 4).

The untied design of ORIO is not very appealing to an important part of Dutch business, in particular to suppliers of infrastructure. There are simply not enough companies participating in international tenders because of the resources needed for participation and the uncertainty of being awarded a contract (Interview D7).

A reform of ORIO was recommended in a review of the given program in fall 2013. One of the key recommendations is to streamline ORIO with other instruments, e.g. the Dutch Good Growth Fund and to align the interests with regard to development relevance with Dutch business and export financing. Further recommendations to reform ORIO e.g. include soft loans or direct loans as options (Carnegie Consult 2013: 8).

The recommendations of this review commissioned by the Ministry of Foreign Affairs and conducted by a consultancy suggest that the influence of the Dutch industry has not been reduced. Their lobbying had already been present within the ORET-program (1991-2007) and its predecessors (1979-1991). The establishment of the Dutch Good Growth Fund was also heavily accompanied by lobbying from the Dutch corporate sector:

In 2012, Dutch business representatives published a report about innovative export finance instruments. In this report, they state that the Ministry of Foreign Affairs was busy working on new instruments involving business development in the last years.

They highlight that the ministry considered their commercial interests in the installment of new funds like the Infrastructure Development Fund and the Access to Energy Fund (Werkgroep Exportfinanciering 2012: 42).

Nevertheless, they clearly advocate the introduction of an effective and innovative instrument of concessional financing so that Dutch business will be able to compete with companies from other European countries, in which mixed credits are available. They argue that concessional loans particularly facilitate the financing of commercially non-viable infrastructure projects in civil engineering, which for the Dutch would be of particular relevance in the water sector (Werkgroep Exportfinanciering 2012: 38-45).

The Dutch civil society does not only heavily voice criticism about the recent general budget cuts in development cooperation but also argues that the demand for the new Dutch Good Growth Fund and its focus on private sector development have not been analyzed thoroughly enough. Furthermore, the low transparency in the export credit insurance scheme (ECI) is criticized. As grants are often combined with commercial loans, for which the Dutch government provides ECI, civil society actors emphasize the urgent need for more transparency and accountability of sponsored projects (Interview D9).

Apart from human development, Dutch funds and facilities ultimately focus on contributing to private sector development and on stimulating the international business climate via infrastructure projects. Several NGOs have pointed out that development relevance should include more than enhancing employment, production capacity and foreign trade. Among them, strong doubts prevail whether businesses in developing countries and/or Dutch businesses should mainly be targeted as beneficiaries of bilateral aid (Action Aid/Both Ends/Somo 2013: 2-3).

Thus, Minister Ploumen's new portfolio which combines foreign trade and development cooperation makes transparency about the beneficiaries and the development relevance of the projects even more crucial in future. In sum, Dutch policy has changed dramatically and seems again to be oriented towards export finance.

...

PART IV

Comparative Analysis of Case Studies and Conclusions



14. Comparative Assessment of Case Study Countries

In Part III of this study soft loan programs (and one grant facility respectively) of four selected OECD donors have been analyzed with regard to their development orientation. While tied soft loan programs had been in place in all of the four case study countries up to the late 1980ies/early 1990ies, the programs and their successors respectively moved into different directions in the past 23 years since the adoption of the tied aid disciplines under the Helsinki Package of the Arrangement on Officially Supported Export Credits.

Two of the programs examined, the Austrian soft loan program and Denmark's Danida Business Finance essentially build on the provisions laid down in the Helsinki Package of the Arrangement. They are both largely tied to procurement from national companies and soften the terms of a commercial loan, mainly by providing interest rate subsidies. In contrast, Germany's Financial Cooperation is de jure untied and is thus not subject to Arrangement terms. Similarly, the Dutch ORIO program, per definition a grant facility, which is predominantly blended by commercial loan financing, is officially not tied to procurement from the Netherlands and is not bound to act upon the provisions laid down in the Arrangement. Due to their de jure untied nature and their grant form, respectively, these two programs are covered by neither the rules on project and country eligibility nor the notification obligations.

The assessment of the institutional embedding of Austrian soft loans, Danida Business Finance, the German Financial Cooperation and the Dutch ORIO program, the distribution of political responsibilities and the parameters of the programs' implementation suggest a marked heterogeneity and reveal considerable differences in the development orientation of the analyzed instruments. A comparative analysis of the four programs along the dimensions listed below shall serve to scrutinize the development orientation of soft loan financing in Austria, Denmark, Germany and the Netherlands.

14.1. Comparative Analysis of the Case Study Results: a Tabular Presentation

The following table summarizes the main findings of the case study analyses and serves to compare the respective programs along 14 key dimensions. Subsequently, this will allow to draw comparative conclusions on the development orientation of soft loan financing in Austria, Denmark, Germany and the Netherlands.

Dimension – Program Characteristics			
Austria	Denmark	Germany	The Netherlands ³⁸⁸
<p>The Austrian soft loan program provides loans for public recipients which are procurement tied to Austrian goods and services. Local costs and third country procurement is limited to 50 % of the contract value.</p> <p>ODA eligible grants to an export credit (AF grants) comprise of interest rate support and reduction of the premium. Additional grants are currently not being issued. The concessionality level of individual transactions is generally just above the requirements of the Arrangement on Officially Supported Export Credits.</p>	<p>Denmark's mixed credit program is labeled Danida Business Finance. Danida Business Finance provides both tied and untied mixed credits, the latter, however, only come into play if the restricted national bidding applied in the tied variant is not sufficiently competitive. In its default option the program is thus tied to procurement of goods and services from Danish companies (content requirements are no longer applied).</p> <p>Essentially a Danish mixed credit is similar to a regular export credit – the major difference being that Danida ensures concessionality of the commercial loan. Danida's support comprises a projected amount for technical assistance and a subsidy which consists of three main components, namely interest rate support, export credit premium and a bank margin. Should the total sum of these components not suffice to achieve the concessionality requirements of the Arrangement of 35 and 50 % respectively, Danida furthermore allocates a cash grant in order to reduce the principal loan amount.</p>	<p>The Financial Cooperation (FC) is part of Germany's official Development Cooperation. FC's main task is to support partner countries in the financing of projects or programs which have relevance for their development.</p> <p>The German Financial Cooperation provides various financial instruments for government or government-related enterprises in developing countries or emerging markets:</p> <p>Programs and projects are either purely financed from federal budget funds (non-repayable grants and/or loans at very advantageous standard conditions) or from a mixture of federal budget funds and loans raised at the capital market. These Development loans include Composite Financing, Low-Interest loans and Mixed Financing. In addition, loans at near-market conditions from pure capital market funds, so-called promotional loans, are offered.</p> <p>Contrary to the Technical Assistance, the Financial Cooperation is officially completely untied.</p>	<p>The Dutch Development Cooperation provides various government funds and facilities aiming to foster human development, private sector development and the involvement of international business.</p> <p>The Facility for Infrastructure Development (ORIO) is an untied grant facility that is "blended" by commercial loans, recipient's government funds or other donors' funds.</p> <p>The Infrastructure Development Fund (IDF) provides long-term financing for private and commercially viable infrastructure investments, e.g. in the form of associated financing.</p> <p>The Dutch Good Growth Fund (DGGF) which will start in July 2014, is a revolving fund providing loans, guarantees and equity investments.</p> <p>One of the three tracks of the DGGF is focused on stimulating finance for Dutch business wishing to export in low and middle-income countries by providing exports of capital goods and services.</p> <p>ORIO and IDF are officially untied programs since 2009 and are off-shots of the former ORET program. However, ORIO grants are de facto procurement tied to Dutch goods and services.</p>

³⁸⁸ Comparability with the other soft loan programs is limited by the fact that ORIO is officially a grant facility

Dimension – Importance of the Program in the Development Policy Field			
Austria	Denmark	Germany	The Netherlands
<p>The volume of AF grants varies and amounted between 2.2 % and 6.8 % of total bilateral ODA over the past years (2009-2011). The Austrian soft loan program is not part of official Austrian development cooperation but in the responsibility of the Ministry of Finance.</p>	<p>With an annual budget of roughly EUR 40 million, Danida Business Finance is a comparatively small program (1-2 % of annual total bilateral ODA). Yet, mixed credits have for decades been an integral part of Danida's development cooperation instruments. Together with Danida's Partnership program they constitute the core activities of Danida's engagement with the private sector which is increasingly considered an indispensable partner in development endeavors.</p>	<p>The Financial Cooperation is a highly important part of the German Development Cooperation. Apart from Technical Assistance (GIZ), FC instruments are the main pillar of bilateral cooperation.</p> <p>In 2012, in total EUR 4.9 billion funds were provided, which accounts for about 38 % of total bilateral ODA. From this total sum, about EUR 1.6 billion are federal budget funds, delivered as grants or low-interest loans. The other EUR 3.3 billion are KfW funds which were raised at the capital markets. The share of Federal Budget Funds in total ODA – data is available from 2007 onwards – has only varied slightly; from 13.3 % in 2007 to 16.3 % in 2012.</p>	<p>The government funds of the official Dutch development cooperation are an important instrument in order to finance development related projects/ programs/investments.</p> <p>In terms of money, ORIO provided EUR 90 million. in the year 2013.</p> <p>IDF is a diversified revolving fund with over EUR 230 million assets in various infrastructure projects.</p> <p>The DGGF has a total investment capital of EUR 700 million, investing EUR 100 million in 2014 and 2015.</p> <p>In quantitative terms, these government funds are a comparatively small part of annual total bilateral ODA (2-4 %).</p>

Dimension – Institutional Environment			
Austria	Denmark	Germany	The Netherlands
<p>The Ministry of Finance is politically responsible for the soft loan program and policy design.</p> <p>The implementing entity is the Austrian ECA, OeKB, which is owned by Austrian commercial banks. The legal basis of the program is the Export Promotion Act (AusFPG) and the Export Finance Promotion Act (AFFG). Additionally the Development Cooperation Act (EZA-G) presents a legal basis. In practice, policy coherence stipulated by the EZA-G is weakly implemented.</p> <p>Furthermore, bilateral agreements for soft loan financing are signed by some recipient countries.</p>	<p>The Ministry of Foreign Affairs/Danida is both political-ly responsible for the Danish mixed credit program and in charge of program administration/implementation. The Danish export credit agency, Eksport Kredit Fonden, issues the guarantee in a mixed credit arrangement, but is not directly involved in project selection and approval.</p> <p>The background, purpose and procedures of Denmark’s mixed credit program are laid down in Act No. 64 of 7 February 2013 (Folketinget).</p>	<p>The Federal Ministry for Economic Cooperation and Development (BMZ) drives German development policy and financing. The KfW Entwicklungsbank (Development Bank), which works on behalf of the German federal government, is the executing agency of the BMZ and responsible for project appraisals and implementing projects under Financial Cooperation.</p> <p>Germany’s Development Policy is not defined by law, but underpinned by the coalition agreement that covers each legislative period and the budget procedure. In addition, there are administrative rules and different policy documents that guide the BMZ, and the KfW Development Bank as executing agency.</p> <p>Intergovernmental agreements are signed by recipient countries and Germany and are the basis for further cooperation.</p> <p>Moreover, the federal government, represented by the Ministry of Finance guarantees for untied financial loans in the form of federal guarantees and sureties covering the risk of non-payment.</p>	<p>The Ministry of Foreign Affairs is politically responsible for the government funds ORIO, IDF and DGGF.</p> <p>The implementing agencies are FMO (Dutch Development Bank) and/or NL Agency. The latter is a division of the Ministry of Economic Affairs, which is another institutional key player.</p> <p>The Dutch ECA, Atradius Dutch State Business, provides export credit insurance.</p> <p>The Dutch development cooperation is not defined by law, but underpinned by the coalition agreement that covers each legislature period.</p> <p>The government facilities/funds are designed by the Ministry of Foreign Affairs in cooperation with various stakeholders (e.g. ORIO was designed together with the Ministry of Economic Affairs and the Dutch employer’s organization VNO-NCW).</p> <p>FMO and NL Agency are commissioned by the Ministry for Foreign Affairs; Atradius DSB is commissioned by the Ministry of Finance.</p>

Dimension – Objectives of the Program

Austria	Denmark	Germany	The Netherlands
<p>According to the Austrian soft loan policy, the program aims at facilitating market entry of Austrian products and services as well as to assist Austrian exporters competing in international markets. Exporting firms are expected to positively impact the Austrian economy e.g. through technological spill overs. Additionally soft loan-financed projects should foster sustainable development in recipient countries.</p>	<p>In accordance with Denmark's overall development strategy (The Right to a Better Life) and in alignment with the Strategic Framework for Priority Area Growth and Employment as well as the Strategic Framework for Priority Area Natural Resources, Energy, and Climate Change, Danida Business Finance pursues the aim of providing financing for mainly large-scale infrastructure projects, thereby contributing to sustainable, green and inclusive growth and employment creation in the recipient country.</p> <p>By facilitating access to financing and engaging commercial partners, the program is, furthermore, expected to act as promoter of investments in infrastructure, in turn contributing to the creation of a better framework for economic growth and employment.</p>	<p>The German Financial Cooperation aims at supporting partner countries in the financing of large public infrastructure projects and programs that are relevant for their development and thus, based on country development and sector strategies and aligned with Germany's development policy including international agreements.</p> <p>In carrying out Financial Cooperation, Germany is engaged to strengthen the partner country's sense of ownership. In accordance with Germany's overarching development policy, the involvement of business actors and the focus on innovation, entrepreneurship and private sector development is clearly addressed.</p>	<p>The government funds ORIO and IDF aim at fostering human development and private sector development as well as stimulating the involvement of international business in order to benefit from the private sector's expertise.</p> <p>The DGGF puts its efforts in support of private-sector development and efforts to promote trade and investment</p> <p>The funds provide finance for projects/programs for public infrastructure (ORIO), for private/commercial infrastructure (IDF) and development-related investments in and trade with low- and middle-income countries (DGGF).</p>

Dimension – Country Eligibility Criteria			
Austria	Denmark	Germany	The Netherlands
<p>In principle soft loans can be provided for any tied aid eligibility country receiving an export guarantee from the Republic of Austria approved by the export guarantee committee (AusfFG Beirat). The Ministry of Finance publishes a list of target countries characterized by economic growth and potential markets for Austrian businesses.</p>	<p>Since 2012/2013 only Danida's priority countries are eligible for Danida Business Finance projects. Prior to this harmonization all developing countries fulfilling the Helsinki criteria could apply for and receive Danish mixed credit financing.</p>	<p>FC-Conditions are specified every beginning of the year by the Federal Ministry for Economic Cooperation and Development (BMZ) in coordination/consensus with the Federal Ministry of Finance (BMF), the Federal Ministry of Economics and Technology (BMWi) and the Federal Foreign Office (AA) with reference to the conditions set up by the World Bank.</p>	<p>The list of eligible countries including the ORIO-grant percentage is decided and reviewed semi-annually by the Ministry of Foreign Affairs and is based on the partner countries of the Dutch development cooperation in combination with some selected LDCs as well as emerging markets.</p>
Dimension – Sector and Project Eligibility Criteria			
Austria	Denmark	Germany	The Netherlands
<p>In addition to the Helsinki criteria, project eligibility is determined by three criteria: (1) market entry, (2) project's relevance in terms of economic policy in the donor country (including technological spill over effects), and (3) project's sustainability.</p>	<p>While explicit sector restrictions have not (yet) been defined, as of 2012/2013 projects applying for a Danish mixed credit are in addition to the project eligibility provisions of the Arrangement on Officially Supported Export Credits expected to be in line with Danida's Green Growth agenda. Clear-cut criteria for deciding whether a project falls within this agenda are missing.</p>	<p>German Financial Cooperation is based on the programming of the Official German Bilateral Cooperation; in particular on the country strategies of the BMZ and therein formulated priority sectors (no more than three) and on the partner country's development strategies.</p> <p>Once a project or a program is proposed, the KfW Development Bank issues a brief statement of opinion (feasibility; economic viability; social, cultural and ecological aspects; developmental orientation of a potential project, possible risks).</p> <p>These brief statements of opinion are the basis for the intergovernmental agreements, in which the understanding on the maximum amount that may be available by the Federal Government and on what terms and conditions is signed by both parties.</p>	<p>According to the formal requirements for an ORIO-grant projects must be commercially non-viable; which is assessed using the OECD 'Ex ante Guidance for Tied Aid'. The project costs must amount to at least between EUR 2 million and must not exceed EUR 60 million per application.</p> <p>Further, e.g. the procurement of goods and services for the project must comply with the recipient country's legislation and international procurement practices.</p> <p>The project has to (1) be relevant; (2) effective; (3) have an impact on human development and/or private sector development; (4) be efficient; (5) sustainable; (6) economically viable</p>

Dimension – Assessment of Expected Developmental Impact

Austria	Denmark	Germany	The Netherlands
<p>The core tool to assess the developmental impact is a questionnaire directed to the exporter. The instrument functions as a check-list and addresses the project's sustainability, social and environmental impact, as well as financial, technical and economic aspects. Answers consist of information provided by the exporter.</p> <p>The OeKB's procedure provides for a reduced questionnaire for de minimis projects.</p> <p>OeKB's 'Project and Environmental Analyses' department is in charge of project appraisal including the evaluation of the questionnaire. The department assesses the comprehensiveness of the information given but does not apply standardized instruments of evaluation or weigh the answers given.</p>	<p>Danida's procedures include an appraisal of the potential project which is to be conducted by external consultants. Based on their field trips/on-site visits, an appraisal report is produced which constitutes the basis for project approval by Danida's Grant Committees. The appraisal reports follow Danida's standard forms and are expected to provide an assessment of the project's compliance with Danida's overall objectives and strategies and shall demonstrate the expected developmental impact, including project monitoring and impact indicators.</p> <p>Furthermore, the appraisals should contain inter alia an Environmental Impact Assessment, an assessment of Working Environment and Rights at Work, an economic analysis and a chapter outlining risks and assumptions.</p> <p>Systematic quantitative project assessment tools are not mentioned.</p>	<p>On the basis of inter-governmental agreements and brief statements of opinions, the KfW Development Bank conducts on-site appraisals along internal and confidential guidelines which are similar to the audits done by the World Bank. The appraisal includes field trips and is generally done along the log frame matrix and corresponding indicators:</p> <ul style="list-style-type: none"> (a) the proof of necessity of the given project or program; e.g. in the form of a sectoral or regional analysis (b) the conceptualization, the design and technical characteristics including opportunities to cooperate with the private sector (c) relevant legal basis; organization, management and economic conditions of the project executing partner (d) total costs and the financing of these costs, human and material supplies as well as financial contributions of each single stakeholder (e) Macroeconomic, socio-economic and socio-cultural impacts, gender aspects and environmental and social compatibility; economic aspects, operational and commercial risks, the target group's attitude towards the project 	<p>ORIO's application procedure includes an intake form, in which detailed information about the effects on human development and private sector development has to be provided along the project results chain.</p> <p>In order to obtain an ORIO grant for the development phase, projects are assessed on the basis of five OECD/DAC criteria: relevance, effectiveness, impact, efficiency and sustainability.</p> <p>E.g. Sustainability considers (1) No, or mitigated, negative social or environmental consequences; (2) Financial sustainability; (3) Involved parties are capable and have the capacity to carry out the project; (4) Suitable technology; (5) Consistency with national/regional development policy; (6) Institutional, financial and legal factors have been taken into account and (7) End users are involved.</p>

Dimension – Project Approval			
Austria	Denmark	Germany	The Netherlands
<p>Soft loan financing has to be approved by the export financing committee (EFK). Its voting members, the Ministry of Finance, Ministry of Foreign Affairs, Ministry of Economic Affairs, the Austrian Chamber of Commerce, and the Chamber of Labor traditionally decide by consensus. This committee deciding on project eligibility for soft loan-financing is composed of representatives of selective organized political interests. EFK members are not selected on grounds of professional expertise. They are internally nominated by the respective organizations.</p>	<p>In a first step, project proposals are screened by the Head of Development Policy and Global Cooperation (project grants < DKK 35 million) or Danida's Programme Committee (project grants > DKK 35 million).</p> <p>In the attempt to streamline Danish mixed credit procedures, since 2013 Danida's Internal Grant Committee (project grants < DKK 35 million) and External Grant Committee (project grants > DKK 35 million) respectively are in charge of the subsequent approval of projects. Formally final approval is given by the Minister for Development Co-operation.</p> <p>Up to 2011 a specialized committee – the Committee for Mixed Credits – and in an interim-period (2012) the Board on International Development Cooperation were in charge of project approval.</p> <p>While in these former approval committees a great variety of stakeholders were represented, the now responsible Danida Grant Committees can rather be described as inward-bound, expert-driven committees, in which the wide spectrum of traditional political stakeholders is no longer involved.</p>	<p>Once the appraisal report is done and positively assessed by the KfW Development Bank, the country desks (Länderreferate) of the Federal Ministry of Economic Cooperation and Development (BMZ) normally approve the developmental criteria of the project appraisal as well as the proposal for funding. Here adaptations or changes regarding the developmental orientation of the project or the funding proposal could be called by the BMZ because the ministry gives the final approval for funding. The country desks' staff is public civil servants from the Ministry and thus, includes state-internal experts. No other (political) stakeholders are officially involved.</p>	<p>During this assessment procedure NL Agency takes advice from the ORIO Advisory Committee (AC) named ACORIO. This advisory board includes five stakeholders; among them are experts in the field of banking, science, contractors and engineering consultancy services. ACORIO in principle decides unanimously. Formally final approval is given by the Minister for Foreign Trade and Development Cooperation.</p>

Dimension – Stakeholder Involvement			
Austria	Denmark	Germany	The Netherlands
<p>The soft loan program does not provide for stakeholder consultations with the public or civil society. ADA's regional offices and WKÖ Foreign Trade Offices are not mandated to be involved in the assessment process of projects but inform and consult on request.</p> <p>Whether local NGOs are consulted is entirely at the discretion of the recipient.</p>	<p>In line with its standard procedures, Danida's project screening and approval process of mixed credit projects includes mandatory public consultations for project proposals > DKK 35 million (10 day consultation period).</p>	<p>Projects to be promoted with FC funds are devised jointly by the German government and the government of the partner country. Before these negotiations start or final approvals are given, the BMZ regularly invites civil society actors to stakeholder consultations in which individual partner countries are the subject for debate.</p>	<p>Dutch government funds do not provide for stakeholder consultations with the public or civil society on the level of concrete projects. Dutch embassies are strongly involved in consulting and informing the implementing agencies NL Agency or FMO. When new funds are about to be established, like the DGGF, then hearings take place in parliament.</p>

Dimension – Role of the Partner Country in the System

Austria	Denmark	Germany	The Netherlands
<p>The Austrian soft loan policy does not interfere with national procurement regulations of recipient countries.</p> <p>In order to frame bilateral financial relations and facilitate soft loan financing for projects by accelerating procedures in the recipient country the Austrian Ministry of Finance has concluded bilateral agreements with some recipient countries' governments.</p> <p>The Austrian soft loan policy includes a foreign content rule limiting local costs and third country procurement to 50 % of the contract value.</p>	<p>Official program descriptions highlight that Danida Business Instruments are expected to follow the principles of ownership, alignment, harmonization, results and mutual accountability. In short, the principles of the Paris Declaration shall be applied. In terms of recipient ownership it is expected that the project idea originates from the recipient country and is developed by the borrower/ buyer without major involvement from the side of Danida.</p> <p>Likewise, the tender process is under the responsibility of the authorities in the recipient country. Danida, however, provides assistance in the tender procedure by assigning an external consultant for technical assistance in the preparation of tender documents and the tender evaluation.</p> <p>Due to the fact that the main recipient countries today correspond to Danida partner countries, usually no specific intergovernmental agreements for mixed credit financing are signed with the partner country. However, sometimes framework agreements are concluded upon demand of the recipient country or in cases where there is a huge portfolio of projects and where pre-agreed conditions make it easier (and accelerate procedures). In sum, intergovernmental agreements on mixed credits are not a requirement to receive funding, but are occasionally concluded. Alternatively, mixed credit financing forms part of the Danida's country strategy which has to be endorsed by the responsible ministries in the partner country.</p>	<p>Ownership and Commitment of the partner country are pointed out as main principles in order to carry out German Financial Cooperation. Thus, in principle the recipients themselves propose projects and programs within the framework of bilateral negotiations and agreements. De facto no single FC-proposal is financed without an injection of own resources by the partner country. In addition, recipients are responsible for the tendering and the contract management. The involvement of the KfW Development Bank depends to a large extent on the capabilities of the given country. Nevertheless, key procedures are supervised by a consultant and drafts of tender documents or contracts have to be sent to the KfW for review and for a statement of no objection.</p>	<p>Ownership of the partner country is key when implementing projects funded with government funds like ORIO. The recipient country's government or competent authority is project owner and obliged to finance the non-grant part. Recipients regularly need assistance in financing this part of a project. In general, (Dutch) companies are important drivers in proposing new projects. Although the recipient country is responsible for the tendering including the contract management, NL Agency supervises main procedures via their embassies or hired consultant engineers and has to be consulted regularly for a statement of no objection in key decisions that have to be taken.</p>

Dimension – Project Monitoring			
Austria	Denmark	Germany	The Netherlands
<p>Exporters are obliged to propose a monitoring concept and monitor progress, in order to measure the project's sustainability. In case of de minimis projects a final report after project implementation or product delivery is required. Monitoring reports are not publicly available.</p>	<p>Danida assigns a monitoring consultant who is responsible for reviewing project-related progress from the tender process until commissioning and end of project. The main monitoring indicators guiding the consultant's reporting are set out in the appraisal report and the project document.</p>	<p>The KfW Development Bank monitors the progress of the measures financed with FC funds until the given project or program will be brought into service. The monitoring includes reviewing the progress of outstanding action and considers the latest development in the given sector; the impacts of the implemented actions; compliance with planning and financing; potential difficulties which have occurred during the implementation; potential modification of framework conditions and/or recommendations.</p>	<p>The Policy and Operations Evaluation Department of the Ministry of Foreign Affairs (IOB/IOV) has designed a monitoring & evaluation system for ORIO which has not been executed yet. Nevertheless, internal accountability is provided via reviews, semi annually and yearly reports about the progress of a corresponding project.</p>

Dimension – Project-Level Evaluation (ex-post)			
Austria	Denmark	Germany	The Netherlands
<p>The Soft loan procedure does not provide for systematic ex-post evaluation of the developmental impact of projects.</p> <p>Within the scope of a greater study aiming at evaluating the ecologic, social, and economic impact of Austria's export promotion in recipient countries ETA Umweltmanagement and ARBOS (2010) evaluated 5 individual soft loan-financed projects.</p>	<p>In addition to the reporting on project progress and impact indicators by the monitoring consultant, the buyer is required to report to Danida on key output indicators on an annual basis for five consecutive years starting one year after final taking over of the project. The outcome indicators for this ex-post evaluation are individually set in the project document and are as such presented for approval to Danida's Grant Committees.</p>	<p>Two up to five years after a project or program has been implemented or has become operational, the KfW Development Bank generally conducts evaluations of these measures and activities.</p> <p>This so-called ex-post evaluation is carried out in order to analyze whether the expected developmental impacts of a given project have actually been achieved and whether they have initiated a sustainable development process. Aspects being evaluated consider the whole project cycle, the environment, the partner and involved agencies as well as the target group.</p> <p>The evaluations are done by the Evaluation Department of the KfW Development Bank or by assigned external consultants.</p> <p>The Evaluation Department moved away from assessing every single project in 2007; since then a representative sample of individual projects is submitted for ex-post evaluation</p> <p>About two thirds of all evaluations are done by the KfW Development Bank; one third of the sample is conducted by external consultants.</p>	<p>Evaluations are carried out or outsourced by NL Agency in cooperation with the recipient country.</p>

Dimension – Program-Level Evaluation			
Austria	Denmark	Germany	The Netherlands
<p>Apart from ETA Umweltmanagement, ARBOS (2010), the Soft loan program has been evaluated by T. Uri et al. (2003) and K. Bayer, J. Stankovsky and T. Uri (1992). None of the listed studies has explicitly evaluated the developmental impact of soft loan-financed projects.</p>	<p>In 1998 and 2002 evaluations of the program were conducted by Danida's Evaluation Department. In 2004 a Meta-Evaluation of private and business sector development interventions touched upon the mixed credit program.</p>	<p>DEval intends to conduct an overarching evaluation of all FC Funds in 2015 (which has been planned for 2013 but then postponed to 2015).</p> <p>In this first evaluation about FC, instruments of financial cooperation leveraging capital market funds by German state funding will be evaluated.</p>	<p>A program review of ORIO was done in autumn 2013 by Carnegie Consulting commissioned by the Ministry of Foreign Affairs. ORIO will be reformed upon these policy recommendations. Further, ORIO is being evaluated by IOB in the year 2015.</p>

Dimension – Transparency and Accountability			
Austria	Denmark	Germany	The Netherlands
<p>The OeKB website publishes relevant information for exporters on soft loan terms and conditions, presenting the current soft loan policy. The bank does not publish information on individual soft loan-financed projects.</p> <p>The EFK, the committee approving projects, neither publishes statements on project decisions, nor minutes of meetings.</p> <p>The AusFG Beirat provides yearly reports to the Austrian parliament but soft loans are not addressed explicitly.</p> <p>The Austrian parliament has the option to ask questions. It makes use of its right but focuses its interest on commercial export credits.</p> <p>A public debate about the program per se or individual projects in the donor country is absent.</p>	<p>In recent years notable efforts have been made to increase the transparency of the Danish mixed credit program, for instance all projects can be found in the program and project database. Furthermore, both agendas (ex-ante) and minutes (ex-post) of Grant Committee meetings – the decision-making body on the project level – can be accessed on Danida’s transparency webpage.</p> <p>A considerable amount of information on the implementation of the program is publicly available. The quality of the available guidelines is slightly weakened by the fact that the updating of all documents in accordance with recent reorganizations and procedural changes is still outstanding.</p> <p>In order to comply with its reporting duties towards the Parliament, Danida produces a yearly report – Danida’s Annual Report – which provides detailed information on all activities in the field of Danish development policy in a given year. From 2007 onwards the “Report from the Danish Committee for Mixed Credits” was incorporated in Danida’s annual report. The structure and format of the annual reports have been changed with the 2011 report, which is “published” as interlinked webpage and no longer contains chapters on individual programs.</p> <p>Despite the comparatively high level of transparency and accessibility of information, the program as such just as individual projects financed under it remain largely outside the realms of public debate.</p>	<p>In order to be transparent, overall press information about FC projects is published online by the BMZ after the intergovernmental agreements are signed. Further, information is publicly available once the loan agreement of a concrete project has been signed.</p> <p>The KfW Development Bank recently made efforts to improve its transparency with the launch of an online transparency portal. The portal is complete since January 2014 and provides information about partner countries, sectors, sources of funding and evaluation results from 2007 onwards including a project database with details on projects signed since 2013. The portal is an important, but long overdue step. However, detailed development-related information, e.g. concrete financing conditions, is not publicly available. The BMZ has reporting duties to the parliament. In addition, the Federal Court of Auditors regularly audits the financial management of the Federal government, its ministries and executing agencies. Thus, the BMZ and the KfW Development Bank are quite regularly monitored. The Bank is also continuously supervised by the private auditing company PWC.</p> <p>The role of the German civil society is more strongly focused on the export credit transactions. Here, the KfW IPEX-Bank, one of the KfW Banking Group’s subsidiaries is regularly criticized.</p>	<p>NL Agency is obligated to report the Ministry of Foreign Affairs about the progress of corresponding ORIO projects. The Ministry has reporting duties to the parliament. Within the House of Representatives, the Committee for Foreign Affairs deals with development cooperation and thus, scrutinizes the government’s development policy in general, budget allocations as well as the concrete design of funds/facilities. Further, the parliament can amend governmental policies and has the right to introduce motions.</p>

14.2. Comparative Conclusions of the Case Studies

14.2.1. Program Characteristics

Conclusion 1: *The analyzed instruments, which are used to provide concessional financing, are heterogeneous. In particular, they differ in their official tying status. Two programs are officially tied to procurement of goods and services in the donor country, the remaining two are de jure untied.*

The official tying status is probably the most obvious difference between the four analyzed programs. The Austrian soft loan program and the Danish Danida Business Finance are largely tied pre-mixed and mixed credits, German Financial Cooperation and the Dutch ORIO fund, on the contrary, claim to be untied. So whereas the Austrian and the Danish programs are officially tied to procurement and have an explicit export promotion angle, the German Financial Cooperation and the Dutch ORIO portray themselves from the very on-set in a different light. From the perspective of international regulation – in particular the Arrangement on Officially Supported Export Credits – this difference has repercussions on concessionality requirements, country and project eligibility criteria, and transparency obligations (notification mechanisms). However, also within the categories of tied and untied programs, respectively, significant variations can be detected. While the Austrian soft loan program is de jure tied to procurement from Austrian companies and sets a domestic content rule of 50 %, the Danish mixed credit program is in its default option conditional upon procurement from Danish companies, but does not provide for any such threshold. Furthermore, presumably as a reaction to the untying debate which gained momentum in the early 2000s with the adoption of a DAC *Recommendation on Untying of Official Development Assistance to the LDCs*, an untied window for mixed credits to Danida's program countries and South Africa was introduced in 2002 (see Folketinget 2013). Notably, this option only materializes if national competitive bidding under the tied regime is not sufficiently competitive.

In contrast to the Austrian and the Danish programs, the Dutch and the German counterparts are de jure not tied to the procurement of goods and services from domestic companies. Yet, with regard to both programs suspicion has repeatedly been voiced that de facto tying practices are applied. Current OECD/DAC definitions of tying leave open certain possibilities of using subtle forms of tying and/or of providing domestic companies with competitive and informational advantages in the bidding process. In the Netherlands, there is reason to assume that although the grant facility ORIO has officially been an untied program since 2009, grants are de facto procurement tied to Dutch goods and services. However, it has to be noted that as of now only tenders for the Development Phase, not the Implementation Phase, had been held. The fact that in the new Dutch Good Growth Fund a tied pillar will be included further illustrates this ambiguity towards the untying debate. In Germany the untied

nature of German Financial Cooperation (unlike its Technical Cooperation) is an important characteristic in the official discourse. Yet, roughly 60 % of all project deliverables, which have to be tendered internationally, are awarded to German companies within the German Financial Cooperation. Whether this high ratio can be attributed solely to the international competitiveness of German exporting companies has repeatedly been questioned. Informal practices providing German companies with informational advantages or tailor-made calls for tenders might distort competition. In this respect, project development activities (often conducted by German technical advisors) are likely to assume a decisive role.

Comparing the four programs it becomes, thus, apparent that also the mechanisms used for contract award vary across the case study countries. Although recommended by the DAC Good Procurement Practices for Official Development Assistance (1986), not all programs necessarily apply international or at least national competitive bidding to identify the most competitive bid. While the German Financial Cooperation is de jure untied and is based on International Competitive Bidding, direct contract award is conceivable in the Austrian programme. The Danish program largely relies on National Competitive Bidding (with the exception of a few untied projects) and in the Netherlands mostly ICB is applied.

Conclusion 2: *In all case study countries but the Netherlands, associated/mixed financing is provided. Two among the three countries which offer associated/mixed financing are bound by the Arrangement on Officially Supported Export Credits (Helsinki Package).*

The Arrangement's terms on minimum concessionality levels, country and project eligibility constitute the framework of reference of the **Austrian soft loan program**. Accordingly, for lower middle-income countries a concessionality level of 35 % of the contract amount has to be provided. Soft loan financing for Least Developed Countries (LDCs) requires a higher budgetary effort in order to meet the minimum concessionality level of 50 %. The program currently offers financing in the form of pre-mixed credits. These credits are considered budget-friendly loans that are achieved by combining low interest rates as well as long repayment and grace periods. The terms and conditions of soft loans do not vary by sector or project characteristics. Currently the program offers loans with a zero interest rate and a 21-year credit period including a five year grace period. Soft loan financed projects comprise products such as medical devices, firefighting vehicles, bridges etc. It is questionable whether all products financed have a life cycle of 21 years.

Similarly to the Austrian program, **Denmark's mixed credits** build on the Helsinki architecture in the design of terms and requirements for program support. Within this framework, Danida Business Finance offers interest-free or low-interest loans, typically with a maturity of ten years and issued exclusively in either USD or EUR. The borrower/buyer is obliged to repay the loan principal (less any cash grants) in equal, semi-

annual installments, normally starting six months after the start of operation and certification of the project, i.e. when the project has been installed, tested and handed over to the buyer (Danida 2013d). Furthermore, the commitment and management fees to the Danish lending bank are to be covered by the borrower (Danish MfA/Danida 2011a). The financial support granted by Danida consists of three main components, namely interest rate support, export credit premium and a bank margin. Unlike in Austria, one additional mechanism is in place in the Danish system: Should the total sum of these components not suffice to achieve the concessionality requirements of the Arrangement, Danida allocates an outright grant in order to reduce the principal loan amount. With the current very low interest rates, this cash grant is usually needed, even for countries in which a 35 % concessionality level is required (Danida 2013d; Interview B1). As a result of the combination of the prevailing low interest rates and the predominance of lower income countries as program beneficiaries (requiring the higher concessionality level of 50 %), the leverage of the instrument deteriorates (Interview B1). As in the Austrian system, sector specific variations in the concessionality level are not provided for.

In **Germany**, the **Financial Cooperation** provides various financial instruments for government or government-related enterprises in developing countries or emerging markets. With the exception of the so-called "mixed financing loans", these instruments are de jure untied and thus not subject to the Arrangement. Programs and projects are either purely financed from federal budget funds (non-repayable grants and/or loans at very advantageous standard conditions) or from a mixture of federal budget funds and loans raised on the capital market. These "development loans" include composite financing, low-interest loans and mixed financing. In addition, loans at near-market terms, so-called promotional loans, are offered. The precise financing terms and conditions of the German Financial Cooperation are determined every beginning of the year by the Federal Ministry for Economic Cooperation and Development (BMZ) in coordination with the Federal Ministry of Finance (BMF), the Federal Ministry of Economics and Technology (BMWi) and the Federal Foreign Office (AA) with reference to the conditions set up by the World Bank. The Financial Cooperation appears hence more flexible in its financing terms than the Austrian and Danish equivalents. Notably, in the German Financial Cooperation the loan conditions vary in accordance with the sector, the type of project and its commercial viability.

The **Dutch bilateral development cooperation** constitutes a peculiar case in that it currently does not offer soft loan financing. While up to the early 1990ies a tied mixed credit program had been in place, today several government funds provide for mechanisms to combine public development finance with private resources. One of these is the so-called Development Relevant Infrastructure Incentive (ORIO), which provides

long-term financing for public infrastructure projects³⁸⁹. ORIO was established in 2009 as a de jure untied grant facility and succeeded the “Development Relevant Export Transactions program” (in Dutch: ORET). The latter had been tied to goods and services from Dutch companies³⁹⁰. This move from a tied to an untied program represented a paradigm shift and was not without controversy. In particular, the Dutch industry voiced concern with regard to negative repercussions and potential losses of competitiveness of Dutch companies on international markets. With ORIO grants different project phases can be financed. A distinction is made between an ORIO contribution in the so-called Development Phase and an ORIO contribution in the subsequent Implementation and Maintenance Phase. Notably, an ORIO grant does not provide financing for the full project/contract amount. The non-grant part of an ORIO financed project must be financed with other funds. In many cases, ORIO grants are associated with commercial loans, for which export credit insurance (ECI) is regularly provided by Atradius Dutch State Business on the basis of its country policies. Strikingly, the resulting financing form appears to be similar to the soft loan instruments in place in the three other case study countries. Furthermore, Dutch development finance is under reconstruction again and a new fund is currently set up. As from July 2014 the so-called Dutch Good Growth Fund (DGGF) will provide tied soft loans for Dutch companies in order to assist them in their efforts to expand into the markets of developing and emerging markets.

Conclusion 3: *All programs postulate the additionality of invested resources as well as the leverage effect of combining public and commercial funds.*

One of the main aspects subtly inscribed in all of the programs, which is also used for legitimizing the injection of grant money into a loan, is the leverage component of the resulting financing packages as well as the additionality of the invested resources. Thereby, similarly to the case of “blending mechanisms” the strengths of instruments of mixed and associated financing are interpreted in the context of constrained resources for financing development. However, under prevailing capital market conditions with very low interest rates, the tied soft loan programs (Austria and Denmark) encounter genuine difficulties in meeting the concessionality thresholds that are required by the Arrangement. As a result, the instrument loses one of its most appealing characteristics: its leverage effect. Moreover, taking up the Busan call for partnership with the private sector, across the case study countries, the *business community* is described as an indispensable partner in development, although partly as a result of the global financial crisis, private funding for development has been stagnating during the last years.

³⁸⁹ <http://english.agentschapnl.nl/subsidies-programmes/facility-infrastructure-development-orio>

³⁹⁰ <http://www.oret.nl/>

14.2.2. Importance of the Program in the Field of Development Cooperation

Conclusion 4: *The importance and share in volume of the respective concessional finance programs with respect to the overall ODA of a given country varies considerably, with classical tied aid programs lying between 1-6 % of total ODA. By extensively using blending mechanisms, untied concessional finance has however increased substantially in the case of Germany.*

The volume of associated financing grants varies and amounted between 2.2 and 6.8 % of **Austria's** total bilateral ODA over the past years (2009-2011). The yearly volume of associated financing grants reported to the DAC in the period 2001-2011 fluctuated. Nevertheless a slight upward trend can be observed as from 2005 onwards. For the upcoming years high volumes are expected because an exceptionally high number of projects (67 projects applications) with an overall project volume of EUR 455 million was approved by the EFK in 2012 as a consequence of the closing opportunity to fund projects in graduating countries, in particular in China.

With an annual budget of roughly EUR 40 million, **Danida Business Finance** is in comparison a relatively small program (1-2 % of annual total bilateral ODA). Yet, mixed credits have for decades been an integral part of Danida's development cooperation instruments. Together with Danida's Partnership Program, they constitute the core activities of Danida's engagement with the private sector which is increasingly considered an indispensable partner in development endeavors. While in terms of commitments reported, volumes peaked in 2004 with a tied amount of USD 160 million³⁹¹, in terms of the number of project approvals the years 2002 and 2007 figured as record years (DBF Database, provided on 10/10/2013). As from 2009 onwards a downward trend in the number of annual project approvals can be noticed, which reached its all-time low with zero projects approved in 2012. Whether this development is indicative of future trends remains to be seen. The slight budget cuts predicted by the budgetary outlook for 2013-2017, in any case, give rise to the assumption that either the number of projects or the volume of projects will have to drop in the years to come – the first scenario of which seems more likely.

In the Netherlands, the share of ORET/MILIEV – i.e. of the program preceding the ORIO program – including the disbursements of the LDC Infrastructure Fund (2002-2005) of Total ODA varies between 0.4 and 3.8 % in the period 1992-2005. ORIO started out as a program providing grants in the total amount of EUR 140 million in 2009. According to an interviewed person, this amount was later increased to EUR 180 million by ministerial decision in order to meet the great demand for projects (Interview D5). Thus, the total annual budget for ORIO was around EUR 180 million in

³⁹¹ Calculated on the basis of commitments reported to the DAC Creditor Reporting System

the year 2012. Nevertheless, applications that had been accepted for appraisal exceeded the available budget which led to a waiting-list, opened by ORIO. In 2013, the available budget for projects financed with ORIO grants was again approximately EUR 180 million.

With a share of more than 30 % of total ODA in 2010-2012, the by far biggest share of concessional financing instruments on overall ODA is observable in Germany. Although the share of the Financial Cooperation on total ODA shows fluctuations in the period 2003-2012, a general increase (with a preliminary peak in 2012) in committed resources can be identified. It needs to be borne in mind, however, that these numbers also include the funds raised by KfW on the capital markets. The share of Federal Budget Funds to total ODA – data is available from 2007 onwards – has only varied slightly; from 13.3 % in 2007 to 16.3 % in 2012. The volume of standard loans has decreased in favor of development loans and promotional loans within the last years. Federal budget funds have sharply increased since 2009 whereas total budget funds, which go into development loans, have substantially varied at a rather low level. In comparison, the high volume of total KfW funds raised at the capital markets has dramatically increased the leverage of development loans. While the leverage ratio (total KfW funds to total budget funds) was 7:1 in 2009, the analysis suggests that the leverage nearly doubled to 13:1 in 2012.

14.2.3. Institutional Setting

Conclusion 5: *The institutional settings in which the programs operate vary considerably among the case study countries. Both the political responsibilities as well as the responsibilities for program administration are distributed differently among the relevant actors, which are mainly the ministry in charge of development cooperation, the aid agency, the Ministry of Finance and the Export Credit Agency.*

While these actors all appear to have a stake in the respective soft loan programs (and the analyzed grant facility), the distribution of power among them varies across the researched countries. Remarkably, in all case study countries with the exception of Austria the political responsibility for the strategic orientation of the programs falls within the competence of the ministry in charge of development cooperation. Although influenced by the institutional history of each country, the extent to which the concessional financing programs are embedded into the prescriptive framework of development policy will in the following paragraphs be considered as an indicator of the development orientation of the programs.

In **Austria** the Ministry of Finance is politically responsible for the soft loan policy, defines its strategic pillars and sets the parameters of program implementation. The ministry in charge of Austria's development cooperation – the Ministry of Foreign Affairs – has no formal competences in the design of the soft loan policy. The implementing entity is the Austrian export credit agency, Österreichische Kontrollbank AG

(OeKB), which is acting on an export promotion mandate and on behalf of the Republic (Ministry of Finance). The imperative for export promotion is further underpinned by the legal basis of the soft loan program, the Export Promotion Act and the Export Finance Promotion Act. The Federal Development Cooperation Act, on the contrary, is not explicitly considered as a legal basis of the program. In light of the principle of policy coherence for development, the embedding of the Austrian soft loan policy into overall development policy and cooperation appears to be insufficient.

Contrary to the Austrian case, in **Denmark** the Ministry of Foreign Affairs/Danida is both politically responsible for the mixed credit program and in charge of program administration and implementation. The Danish export credit agency, Eksport Kredit Fonden (EKF), issues the guarantee in a mixed credit arrangement, but is – unlike in the Austrian system – not directly involved in project selection and approval. The current administrative structure of the Danish mixed credit scheme has been in place since 2012/2013, when the re-organization and integration of the former Secretariat for Mixed Credits into the Green Growth Department as well as the alignment of procedures with overall Danida guidelines and practices became effective.

Likewise, in **Germany** the ministry in charge of development cooperation – the Federal Ministry for Economic Cooperation and Development (BMZ) – is responsible for the programmatic and strategic aspects of all activities under the Financial Cooperation. The KfW Entwicklungsbank (Development Bank), which as a state-owned bank acts on behalf of the federal government, is the executing agency of the BMZ and is charged with auditing proposals and implementing projects under Financial Cooperation.

Also, in **the Netherlands** the Ministry of Foreign Affairs is politically responsible for the government funds ORIO, IDF and DGGF. Responsibilities for administration and implementation of ORIO have, however, been transferred to the Ministry of Economic Affairs, more precisely the NL Agency. Moreover, in the committee in charge of project approval the Ministry of Foreign Affairs only has observer status. The Dutch ECA, Atradius, is involved to the extent that the non-grant part – mostly a commercial loan – is likely to receive export credit insurance (ECI).

14.2.4. Objectives of the Programs

Conclusion 6: *The researched programs all pursue multiple goals located somewhere on the spectrum between development of the recipient country and export promotion/business support for the donor country. As a result, the programs can be characterized as hybrid instruments influenced by both export promotion and development cooperation. Yet, due to the heterogeneity of the elementary characteristics of the instruments (i.e. tied/untied) and the different institutional structures in place, the weight given to the respective goals varies between countries.*

While in the Austrian program export promotion goals are evident, the German Financial Cooperation and the Dutch ORIO fund are de jure untied and put emphasis on economic development objectives rather than export promotion. Denmark's Danida Business Finance, which is pooled with other business instruments under the umbrella "Business Cooperation", can be located somewhere in-between.

The **Austrian soft loan program** is probably the closest to the export promotion pole of the above described spectrum. This is ingrained in the goal-setting (and the institutional setting) of the program which aims at facilitating market entry of Austrian products and services, thereby strengthening the competitive position of Austrian exporters. In addition, soft loan financed projects should foster sustainable development in recipient countries. From the perspective of development policy, this hybridity of the instrument and its multiple objectives raises questions with regard to the ODA eligibility of the resulting flows, the injected grant to be precise. This concerns in particular the "motivational test" which requires ODA resources to have the *"promotion of the economic development and welfare of developing countries as [their] main objective"* (OECD/DAC 2008).

Just as the Austrian program, **Danida Business Finance** pursues the aim of providing financing for infrastructure projects. In its beginnings the goals of export promotion seemed to dominate the projects funded with a Danish mixed credit. Steadily, however, the integration of the scheme into Danida's structures and overall strategies reinforced the development orientation and allowed development aspects to gain ground throughout the entire project cycle (Danish MfA/Danida 2002: 8; Interview B1). In accordance with Denmark's overall development strategy, Danida Business Finance today pursues the aim of providing financing for mainly large-scale infrastructure projects and thereby contributes to sustainable, green and inclusive growth and employment creation in the recipient country. Although (mostly) a tied aid program as well, in the Danish mixed credit program export promotion goals are less pronounced and are, unlike in the Austrian counterpart, not stated among the main objectives. The most explicit (and one of the few) references to Danish companies and export interest can be traced in the strategic framework for natural resources, energy and climate change, in which it is stated that *"[...] DANIDA Business Instruments have proven useful in supporting the agenda of meeting increasing demand from developing countries for trade and investments and, at the same time, supporting Danish companies' interest in gaining access to new markets"* (Danida 2013a: 29). Concomitantly, it is highlighted that Danida Business Finance – just as any other aid instrument – is expected to follow the principles of the Paris Declaration.

In a similar vein, the **German Financial Cooperation** aims at supporting partner countries in the financing of large public infrastructure projects. These are based on the country development and sector strategies of the recipient country. Thus, the officially stated goals suggest that in the German Financial Cooperation development policy

objectives are comparatively more pronounced. Furthermore, alignment with Germany's development policy including international agreements is sought. In accordance with Germany's overall development policy, the involvement of business actors and the focus on innovation, entrepreneurship and private sector development is clearly addressed in the German Development Policy.

The **Dutch program ORIO** aims at fostering human development and private sector development as well as at stimulating the involvement of international businesses in order to benefit from private sector expertise. In this endeavor it joins general efforts of the Dutch development cooperation and its focus on private sector activities as stipulated in the latest policy document "A World to Gain: A New Agenda for Aid, Trade and Investment". Furthermore, with the establishment of the Dutch Good Growth Fund export promotion goals will again become more prominent among the objectives of Dutch instruments.

14.2.5. Country Eligibility Criteria

***Conclusion 7:** Depending on the program objectives and institutional set-up, the four analyzed donor countries pursue different geographical/country strategies with their concessional financing programs. With the exception of the Austrian soft loan program, potential beneficiaries of the programs correspond with the respective partner/program countries of the official development cooperation.*

While in Denmark, Germany and the Netherlands eligible recipients are aligned with partner countries of the overall development cooperation, very limited overlaps with ADA program countries can be observed in the Austrian case. Depending on the tying status of the programs, furthermore, country restrictions according to the Arrangement's GNI thresholds are applied. Those programs which are not subject to the Arrangement (ORIO in the Netherlands and Germany's Financial Cooperation) adapt the financing terms in accordance with GNI thresholds or indebtedness of recipient countries. The ORIO contribution for the implementation phase, for instance, ranges from 35 to 80 % of the project volume (in the Implementation and Maintenance Phase).

While the Helsinki architecture provides the framework for the **Austrian soft loan program**, a narrow focus on a specific group of countries – richer lower middle income countries with presumably promising markets for Austrian companies – can be detected. Looking at the actual flows of subsidies to recipient countries reveals that the soft loan program has focused on few countries in the last decade, most notably China. Notably, hardly any overlaps with activities of the Austrian aid agency in program countries of development cooperation have occurred. This tendency is reinforced by the fact that due to the increased budgetary efforts required to meet the 50 % concessionality threshold, currently Austrian soft loans are not available for Least Developed Countries (Angola, Ethiopia, Lesotho, Mozambique, Senegal, Tanza-

nia, Uganda and Zambia). Nevertheless, the project preparation program is still available for those countries, which might be interpreted as a commitment towards continuing the soft loan program in these countries in the foreseeable future.

Similarly to the Austrian soft loan program, **Denmark's Danida Business Finance** builds on the provisions for country eligibility defined in the Helsinki Package. Unlike in the Austrian case, however, Danish mixed credits have increasingly been incorporated into regular Danida activities. Since 2012/2013 only Danida's priority countries are eligible for Danida Business Finance projects. Prior to this harmonization, all developing countries fulfilling the Helsinki criteria could apply for and receive Danish (tied) mixed credit financing. The untied window of Danish mixed credits was open to Danida program countries as well as South Africa. Concerning the empirical distribution among recipient countries, in the period 2000-2012, commitments for tied mixed credits for more than 20 countries have been reported by Danida to the DAC's Creditor Reporting System. Among these, *Mozambique*, *Sri Lanka China* and *Tanzania* can be identified as the four main beneficiaries of tied Danish mixed credits.

While the relevant programs in both **Germany** and **the Netherlands** are just as Danida Business Finance concentrated on partner and program countries of the official development cooperation, both the German Financial Cooperation and the Dutch ORIO facility are not subject to the GNI thresholds for country eligibility that are defined in the Arrangement. In **Germany** potential projects for financial cooperation are discussed as part of the regular negotiations with partner countries on intergovernmental agreements. They are, thus, from the very beginning integrated in Germany's overall approach towards and interventions in a partner country. In addition, the economic situation of the respective partner country and its debt burden are main criteria for financing projects and programs. Thus, the KfW Development Bank aims at tailoring its financing to the specific circumstances in partner countries³⁹². Equally in the **Dutch case**, the list of eligible countries including the ORIO-grant percentage, which is set and reviewed twice a year by the Ministry of Foreign Affairs, is based on the list of partner countries of the Dutch development cooperation. Currently, the governments of about 50 countries can apply for ORIO grants.

14.2.6. Sector and Project Eligibility Criteria

Conclusion 8: *In the majority of the programs examined (Austria, Denmark, the Netherlands) the commercial non-viability of projects is considered as a key criterion for eligibility. Exclusively the German Financial Cooperation does not explicitly list this criterion as a requirement, which is derived from the tied aid disciplines of the Helsinki Package. All of the programs assessed consider investments in large-scale*

³⁹² see <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/About-us/Unsere-F%C3%B6rderinstrumente/>

infrastructure projects as an indispensable contribution to development. It is their public good character that forms the basis for the presumed development contribution of soft loan financed projects.

As in the case of country eligibility, the **Austrian soft loan program** is guided by the Helsinki criteria for project eligibility (most importantly the financial and commercial non-viability). In addition, project eligibility is determined by the criteria market entry, relevance of the project for economic policy in the donor country (including technological spill-over effects), and the contribution of the project to sustainable development in the recipient country.

Due to their tied nature, **Danish mixed credits** are just as their Austrian equivalents bound by the commercial non-viability criterion. In Denmark, de minimis projects, however, are exempted from these disciplines and are allowed to generate positive cash-flows. Whether this interpretation of the de minimis rules is truly in the spirit of the Arrangement remains open for debate. Analysis in Chapter 5 of the discussion within the Participants Group on de minimis projects that form part of an associated financing package came to the conclusion that small projects should adhere to the same rules in terms of country and project eligibility and were merely exempted from the attached administrative burden.

Despite its grant form, the **Dutch ORIO program** also follows the commercial non-viability criterion of the Arrangement and basis the assessment thereof on the Ex-ante Guidance for Tied Aid. This can most likely be interpreted as a relic of ORIO's roots in the Dutch mixed credit program of the 1980ies. In order to be eligible for an ORIO grant, the project costs must be at least EUR 2 million and must not exceed EUR 60 million. In addition, in order for projects to be eligible, delivering companies have to declare acceptance of and compliance with both the OECD Guidelines for Multinational Enterprises and the ILO conventions.

Although the commercial non-viability of a project is not an eligibility criterion of **German Financial Cooperation** funds, the provided resources are, just as in the three other programs, mainly used to finance physical and social infrastructure projects, which tend to be characterized by market failures.

Conclusion 9: *The aspired alignment with sectoral strategies in the recipient country as well as with country strategies is formally stated in (the approval guidelines for) all programs. The latter is of particular relevance in the German Financial Cooperation. Apart from that, at the program level sectoral preferences are only spelled out in the Danish and the German programs.*

In the **Austrian case** no systematic mechanisms are in place, which ensure the alignment of soft loan projects with the country strategies of Austrian development cooperation or the coordination with sectoral efforts of other donors. Consequently, some projects may fall within the strategic sectors while others are entirely detached from

sectoral efforts of development cooperation. Even if overlaps exist, synergies appear to be used to an insufficient extent. An analysis of statistical data in the period between 2001 and 2011 illustrates that most soft loan financed projects were allocated in the sectors health, followed by transport and storage, education, water supply and sanitation, and government and civil society. Based on the assumption that the number of qualified Austrian companies in these individual sectors is small, the observed concentration suggests that a limited number of companies that are able to provide infrastructure for the health sector has benefited most from the soft loan program, with the health sector not being a priority sector of Austrian development cooperation.

In order to be eligible for support under **Danida Business Finance**, as of 2012/2013 prospective projects are in addition to the project eligibility provisions of the Arrangement expected to be in accordance with Danida's green growth agenda. Clear-cut criteria for deciding whether or not a project falls within this agenda are however missing. According to an analysis of DAC data (Creditor Reporting System) for the period 2000-2012, the three largest sectors receiving mixed credit commitments were *transport and storage*, *water supply and sanitation* and *energy*, followed by projects in *communications* as well as in *industry*. It remains to be seen if the recent focus put on climate friendly and clean technology will have substantial effects on the sectoral distribution of mixed credit commitments by Danida.

Just as in Austria, the **Dutch ORIO program** does not *a priori* define sector restrictions. However, the importance of alignment with sectoral strategies of the partner countries as well as with other activities of Dutch development cooperation is stressed. According to information on project approvals in the period 2009-2012, the three main sectors were water, social services (mainly health care) and transport.

The **German Financial Cooperation** follows the overall sectoral focus of German development cooperation which is stated in the Coalition Agreement defining the overall German development policy. Accordingly, prospective projects have to fall into the sectors of good governance, education and training, health, rural development, protection of the climate, the environment and natural resources or economic cooperation. Furthermore, prospective projects are expected to be in line with the three priority sectors that are defined individually for and in discussions with each partner country in Germany's country strategies. Empirically, the analysis of data provided by KfW showed that economic infrastructure (banking and financial services; energy generation and supply; transport and storage) as well as social infrastructure (e.g. water and sanitation; education; health) were the two main areas of intervention between 2007 and 2012.

14.2.7. Ex-ante Assessment of Expected Development Impact

Conclusion 10: *Implementing agencies across the case study countries do not follow a standardized methodology for project appraisal and ex-ante assessment of the developmental impact of potential projects. Depending on the institutional embedding of the programs, the selection criteria used and the weight attributed to development components and expected impacts differ widely. Furthermore, unlike in DFIs such as the Dutch FMO or the German DEG, systematic quantitative assessment tools are not common practice in the field of soft loan financing.*

In the majority of the programs examined (except for the German Financial Cooperation), the ex-ante assessment builds on the criteria and components recommended in the Ex ante Guidance for Tied Aid of the Arrangement. Elements such as economic, technical and financial aspects are covered and basic social and environmental analyses are included. However, the rigor with which these assessments are conducted varies substantially. In the **Austrian case**, for instance, the core tool for ex-ante assessing the developmental impact is a questionnaire which is to be answered by the exporter. Thus, the appraisal of the expected (developmental) impacts relies solely on the assessment provided by the exporting company. While the respective chapter of the questionnaire dedicated to the expected development impact was designed by the Ministry of Foreign Affairs and contains questions concerning the character of the project, the exporting company and tries to capture whether the project is part of a development strategy, the information gained by means of this questionnaire remains limited. Remarkably, neither an appraisal by external consultants nor the systematic consultation of representatives of the Ministry of Foreign Affairs/Austrian Development Agency in the recipient country are formally part of the approval procedure. The project and environmental analysis department of OeKB is in charge of assessing projects on the basis of the information provided in the questionnaire. The department decides whether the answers are comprehensive. Subsequently, a SWOT-analysis is performed by OeKB. Standardized instruments for the evaluation of applications, such as weighted rating instruments, however, are not applied.

Unlike in the Austrian program, **Danida** does not rely on information provided by the exporter when ex-ante assessing the development impact of a prospective project. The incorporation of Danida Business Finance into regular Danida procedures also affected the project selection and approval process. In order for mixed credit projects to live up to overall Danida activities and policy standards, the project appraisals include mandatory on-site visits by external consultants. These project appraisals, which can be considered the core quality check of the project proposal, include an assessment of the expected development impact. Taken together, development and aid quality related aspects are to be addressed explicitly in several chapters of the appraisal report (Working Rights, Economic Analysis, Justification for Danida Support, Monitoring Indicators) and are implicit to the chapters on environmental assessment

and risks/assumptions. Thus, development criteria are visibly incorporated in the appraisals. The appraisal templates tend to be repetitive with regard to certain aspects – employment generation and working rights are, for instance, mentioned in multiple sections of the reports and therefore inflate the weight attributed to development impact assessment. Similarly to Austrian procedures, the Grant Committee bases its decision-making on a qualitative assessment of the results presented in the appraisal report and takes into account (eventual) comments received in the public consultation. It appears that the Committee does not use any additional quantitative assessment tools for its appraisal.

Within the **German Financial Cooperation**, on the basis of inter-governmental agreements and brief statements of opinions, KfW audits each prospective project. Usually, these audits are based on field missions. In the resulting reports, which are similar to appraisal practices by the World Bank, proposed projects are discussed along the log frame matrix and focus on indicators such as macroeconomic, socio-economic and socio-cultural impacts (e.g. possibility of conflict between different (ethnic) groups), gender aspects and environmental and social compatibility; economic aspects, operational and commercial risks and the target group's attitude towards the project. Unfortunately, the comprehensive handbook for the appraisal of projects is held confidential. According to an interviewed expert the criteria for assessing the developmental orientation of projects were limited.

In the case of the **Dutch grant facility ORIO**, the application procedure is organized in several stages. In a first step, an intake form has to be submitted, in which the anticipated effects of the project on human development and private sector development need to be portrayed. In order to obtain an ORIO grant for the project development phase, projects are, moreover, assessed on the basis of five OECD/DAC criteria: relevance, effectiveness, impact, efficiency and sustainability. If an application is found to meet all the formal requirements including the OECD/DAC criteria, the project is awarded a grant for the development phase of the project as long as enough budget is available ('first come, first serve'). During this "Development Phase" necessary studies for implementing the project shall be conducted. Jointly NL Agency, the applicant, the competent authority and any private parties involved work out the details including a round table meeting in order to discuss specific matters that have emerged from the assessment, providing further information about the process and content, with the project plan being the end result of this process. As part of these round table meetings the potential developmental impact, social and environmental effects are discussed and possible risks are investigated. In doing so, ORIO draws on a set of established guidelines for project assessment, most notably the IFC Performance Standards. Apart from a feasibility study, technical studies, a procurement plan, economic and financial studies result in a project plan, which must contain all necessary information for the decision on implementing the corresponding project.

14.2.8. Project Approval

Conclusion 11: *Just as the application process, project approval procedures show substantial heterogeneity. Responsibilities for and procedures of project approval depend on the overall institutional setting in place in the respective case study country. Yet, one common feature can be observed: In all of the researched programs (de facto) approval is given by a committee. The composition of the latter, however, is country-specific.*

While in some countries (Austria and the Netherlands), specialized bodies are in charge of project screening and approval, regular procedures, which are applied to overall development cooperation projects/programs, are followed in others (Denmark, Germany). Accordingly, the composition of decision-making bodies (de facto project approval bodies) varies and can be categorized along the dimensions “*expert-driven*” vs. “*political representation*”. Strikingly, overall transparency and public availability of (project) information appear to be inversely proportional to the degree of stakeholder involvement in the actual project approval process. It seems that in Denmark and Germany, where funding decisions are largely made internally, increased transparency of the programs is strived for by making extensive information available to the wider public. On the contrary, in Austria various political stakeholders are involved in the project approval process. It appears, however, that the responsible committee and its members enjoy a high degree of autonomy and follow limited transparency provisions. This assumption can be illustrated by comparing the Austrian and the Dutch systems to the Danish and German approaches and will be further inquired in the dimension “transparency and accountability”.

In **Austria**, soft loan financing is approved by a specialized body, the so-called Export Financing Committee (EFK). Its voting members, the Ministry of Finance, Ministry of Foreign Affairs, Ministry of Economic Affairs, the Austrian Chamber of Commerce, and the Chamber of Labor traditionally decide by consensus. The Austrian Development Agency has observer status. This shall ensure the transfer of information to those in charge of the operational development cooperation. The inclusion of political interest groups reflects the selective representation of organized interests. Representatives of Non-Governmental Organizations (NGOs) or academia, who could provide relevant expertise, are not integrated in the EFK. Furthermore, EFK members are appointed by their respective institutions and are not necessarily selected on grounds of their specific expertise. Currently, the representative of the Ministry of Foreign Affairs is the only explicit development expert in the committee. This means that the opportunity for systematically exploiting the development cooperation expertise both on a project and program level is largely foregone. Yet, this committee not only decides on the (often very technical) criteria of eligibility of a project but also assesses its developmental orientation. Considering the composition of the committee there is reason to assume that the distribution of interests in the EFK does not favor developmental objectives.

This unbalanced distribution of interests among EFK members helps to explain why developmental aspects are not of a higher priority to the committee. The selective representation of interests and absence of professional development expertise in the EFK (with the exception of the Ministry of Foreign Affairs), as well as the centralized competence in the Ministry of Finance supports the conclusion that the development orientation of the program is limited and that policy coherence for development as stipulated by the Federal Development Cooperation Act is weakly implemented in practice.

Similarly to the Austrian case, in **the Netherlands** a specialized committee, the so-called advisory Committee ACORIO, is de facto in charge of project approval. The composition of the committee as well as its working methods and procedures are set by the Minister in charge of trade and development cooperation. This advisory board includes five external experts; among them are specialists in the field of banking, development research, contract law and engineering consultancy services. In this committee, the Ministry of Foreign Affairs, which is politically responsible for the ORIO program, only has observer status. This peculiar composition of the committee is likely to be due to specific political circumstances at the time of its formation.

In contrast, in **Denmark** procedures for mixed credit financing have steadily been aligned with Danida's general procedures. Since 2013, depending on the volume of the project grant Danida's Internal and External Grant Committee respectively is entrusted with the approval of projects. Formally final approval is given by the Minister for Development Co-operation. Up to 2011 a specialized committee comparable to the Austrian EFK – the Committee for Mixed Credits – and in an interim-period (2012) the Board on International Development Cooperation were in charge of project approval. Unlike these former approval committees, the now responsible Danida Grant Committees can be described as inward-bound, expert-driven committees, in which the wide spectrum of traditional political stakeholders is no longer represented. The External Grant Committee is chaired by the State Secretary for Development Policy or the Under-Secretary for Global Development and Cooperation (in case of absence of the former). In addition, two staff members at the level of Under-Secretary are part of the committee. While in the Internal Grant Committee only Danida staff is represented, the External Grant Committee also includes four external and independent members – mainly from academia – who are appointed by the Minister for Development Cooperation (as of February 2014 the Minister for Trade and Development Cooperation) for a period of three years (Danish MfA/Danida 2013c: 8).

In **Germany**, the country desks (Länderreferate) of the Federal Ministry of Economic Cooperation and Development (BMZ) assess if developmental components are sufficiently build into the project proposals and comprehensively covered by the appraisal. Eventually, the competent country desk gives final approval over the granted funding. Decision-making on project approval is, thus, essentially at the discretion of public

officials in the ministry. Unlike in Austria and the Netherlands, the inclusion of external stakeholders (i.e. important political interest groups) in the decision-making process is not provided for in the German system.

14.2.9. Stakeholder Involvement

Conclusion 12: *Forms of stakeholder involvement in the donor countries differ. In some countries a variety of stakeholders is represented in the project approval committees or advisory bodies, in others public consultations for specific projects are standard practice or even mandatory. On the project level institutionalized forms of stakeholder consultation are not included in all of the examined programs. Consultations with stakeholders in the narrow sense of the term, i.e. those directly affected by an anticipated intervention, are not formalized in the programs analyzed.*

While the involvement of political stakeholders is provided for in the decision-making process of EFK, the **Austrian soft loan program** does not include stakeholder consultations with the wider public or civil society organizations. Whether civil society in the recipient country and/or those directly affected are consulted is entirely at the discretion of the recipient country. Similarly, the **Dutch ORIO program** does not provide for stakeholder consultations with the public or civil society at the level of individual projects. ACORIO, the project approval committee, constitutes – unlike its Austrian equivalent – rather a body of experts than a forum for selective representation of stakeholders.

In **Denmark** the forms of involvement of stakeholders from the wider public have changed over the past years. On the level of project selection and approval, the incorporation of stakeholders has decreased since the new administrative structure has been put in place. While the integration of Danida Business Finance into the regular Danida procedures is presented as a step towards the de-fragmentation of the aid system, the reduced involvement of external stakeholders that came along with this integration appears to contradict the former³⁹³ Minister's attempt to strengthen the corporatist culture through transparency and new public consultation mechanisms. On a project level, one particular institutionalized consultation mechanism, however, remains in place for project grants above DKK 35 million. The mandatory public consultation process for large projects allows external stakeholders to express their views and concerns by commenting on the concept notes which Danida uploads to its transparency webpage 16 working days prior to the Grant Committee meeting. The comments received are subsequently discussed by the Danida Programme Commit-

³⁹³ In November 2013, Minister Friis Bach (Social Liberal Party) resigned from his post and was replaced by Rasmus Helveg Petersen (Social Liberal Party). In early February 2014 a cabinet reshuffle brought about changes on the Ministerial-level. Notably, a new cabinet-level post of a Minister for Trade and Development Cooperation was established and substituted the post of the Minister for Development Cooperation. Simultaneously, Mogens Jensen entered into office.

tee which is responsible for the preliminary screening of (large) projects. The summary and conclusions of the meeting, which are also to be found on Danida's transparency webpage, shall reflect anticipated modifications in further project planning and design that were made on the basis of comments received in consultations.

In **Germany**, projects under Financial Cooperation are devised jointly by the German government and the government of the partner country. Before these negotiations start or final approvals are given, the BMZ regularly invites civil society actors to stakeholder consultations, in which programs in individual partner countries are the subject of debate.

14.2.10. Role of Recipient Countries

Conclusion 13: *Ownership and commitment from the partner country are officially considered a crucial prerequisite for successful projects. Examining the intergovernmental frameworks for soft loan financing as well as the application and tender procedures gives reason to assume that the role attributed to recipient countries varies, but is in general of limited scope.*

At the High Level Meeting in Paris in 2005, DAC members declared that partner countries should “[...] exercise effective leadership over their development policies, and strategies and co-ordinate development actions” (OECD 2005-2008: 3). Accordingly, with the exemption of the Austrian program, which is more detached from the development policy discourse, the buzzword “ownership” ranges high on the rhetoric agenda of the respective programs in Denmark, Germany and the Netherlands.

With reference to the Paris Declaration, official program descriptions of Danida highlight, for instance, that Danida business instruments – including Danida Business Finance – are expected to follow the principles of the Paris Declaration, i.e. *inter alia* of ownership. In accordance with the principle of ownership, project ideas are expected to originate in the recipient country. Consequently, the latter is also in charge of submitting the application for a Danish mixed credit. Notably, at the time of application a feasibility study should have already been conducted by the project stakeholders in the partner country. The idea that these provisions contribute to stronger commitment from the recipient country and strengthen the ownership of the latter is in Germany, furthermore, reflected in the required injection of domestic resources (from the partner country). This mechanism is also apparent in the case of the Dutch ORIO fund. The recipient country's government or competent authority is the project owner and obliged to finance the non-grant part. Recipients regularly need assistance in financing this part of a project. Contrasting the ownership narrative presented by the donor, in general, (Dutch) companies are observed to be important drivers in the identification of new projects. Despite the self-proclaimed focus on projects, which originate in the recipient county and are ought to be demand-driven, exporting com-

panies assume a decisive role also in the Austrian and Danish program equivalents. In both cases the exporting companies (as well as consultants) are described as important actors in identifying and initiating projects. The Austrian system, in which the exporting company – not the recipient country – submits the application for soft loan financing appears in particular conducive to supplier-driven dynamics.

The role of recipient countries can also be traced in the process of contract award. In all of the programs examined, the organization of the tender procedures (if applied) falls within the competences of the recipient country. This split and transfer of competences is described as an indicator and evidence of lived ownership of the recipient countries. Nonetheless, the competent authorities of Denmark, the Netherlands and Germany are involved in several ways. This “control function” is ensured *inter alia* by providing consultancy from the preparation of the tender documents onwards to the monitoring and supervision of the tender procedure. In particular, the responsible authorities in these three donor countries have to give no-objection to the tender procedures. The Austrian soft loan policy emphasizes that the procurement for soft loan financed goods and services has to be in line with the regulation of the recipient country. This, in principle, creates space for ownership. Whether the recipient gets value for money depends, however, largely on his/her bargaining power and access to expertise to review the offer. Similarly, in the German Financial Cooperation program administrators argue that the involvement of the KfW Development Bank depends to a large extent on the capabilities of the recipient country. Irrespective thereof, the bank is very closely involved in the implementation of projects and programs financed with FC funds and more importantly, the bank has final decision-making powers.

The role of recipient countries in defining the terms of soft loan policies can be analyzed in the different forms of agreements that are in place between donor/exporting country and recipient government. Bilateral agreements specifically dedicated to soft loan financing are only concluded in some of the examined programs. Presumably due to the low level of integration into overall development policy, in Austria the conclusion of bilateral agreements for soft loan financing between the Austrian Ministry of Finance and the recipient country are standard practice, albeit not obligatory. Such specific agreements are not concluded in the German case. In the latter soft loan projects form part of the overall bilateral agreements concluded with partner countries of German bilateral cooperation. Also in the Netherlands the conclusion of bilateral agreements for ORIO grants is not standard practice. In Denmark specific agreements are only signed if explicitly requested by the recipient government.

14.2.11. Monitoring and Evaluation

Conclusion 14: *While some basic forms of project monitoring and (ex-post) evaluation mechanisms are standard practice in all of the programs analyzed, the degree of sophistication of these varies. Likewise, the underlying monitoring and impact indicators (to the extent publicly accessible) show different levels of detail.*

The **Austrian soft loan program** obliges the exporting company to meet basic monitoring standards. As part of the application, exporters are obliged to propose a monitoring concept with the help of which the sustainability of a project shall be measured throughout implementation. The specific definition of the sustainability of a project depends on the sector and project characteristics. Monitoring relies on data which is collected during the implementation of the projects, such as delivery of components, trainings held, as well as by the operation of the facility, e.g. degree of utilization. The reports are written by the exporter and submitted to OeKB, but are not made publicly available by the latter. In addition, the Austrian soft loan program does not provide for systematic ex-post evaluation of the developmental impact of projects. On a case by case basis projects are visited jointly with the exporter, mainly within the scope of business missions.

Also in Denmark, **Danida Business Finance** projects are, just as any other Danida activities, monitored throughout implementation. Unlike in the Austrian soft loan program, however, reporting is not the duty of the delivering company. In order to ensure reliability of the reported progress, Danida entrusts an external consultant with monitoring tasks, which last from the tender process onwards to the start of operation of the implemented project. Furthermore, when the project is handed over, he/she is assigned to verify whether the installation meets agreed quality standards (Interview B1, B2, B7). After expiration of the guarantee period the monitoring consultant visits the project site once again in order to examine if there have been any unresolved issues and if so, if they have been solved at this point (Interview B1). Also, in the case of Danida Business Finance evaluation guidelines are more comprehensive than in the Austrian counterpart. Additionally to project monitoring by an external consultant, the buyer is required to report to Danida on key output indicators on an annual basis for five consecutive years starting one year after final taking over of the project (Danish MfA/Secretariat for Mixed Credits n.s.). The outcome indicators for this *ex-post* evaluation are individually set in the project document and are as such presented for approval to Danida's Grant Committees (Interview B1).

The **KfW Development Bank** monitors the progress of the measures financed under the Financial Cooperation until the installment starts to operate. The monitoring includes reviewing the progress of outstanding action and considers: the latest development in the given sector; the impacts of the implemented actions, compliance with planning and financing, potential difficulties which have occurred during the imple-

mentation phase, potential modifications of framework conditions and/or recommendations. Furthermore, two to five years after the completion of implementation/commissioning, the KfW Development Bank conducts evaluations of these measures and activities. These ex-post evaluations consider the whole project cycle, the environment, the partner and involved agencies as well as the group of beneficiaries. It needs to be noted, however, that in 2007 the Evaluation Department moved away from assessing each and every project. Today, only a representative sample of individual projects is submitted for ex-post evaluation.

Also the **Dutch ORIO program** spells out monitoring requirements and duties of the applicant to NL Agency. The corresponding list of indicators is submitted by the applicant and drafted with the support of an ORIO project consultant. Usually, the monitoring and evaluation plan considers indicators according to the project result chain including data about output (realized infrastructure), outcome (access and use of the infrastructure), impact (optional) and sustainability (financial, social and environmental and maintenance) (NL Agency/MfA 2013d). This monitoring information has to be provided by the applicant at least once a year during the Implementation and the Operations & Maintenance Phase. The latter are thought to complement progress reports which have to be submitted at least every six months. Frequently, monitoring and evaluation is outsourced to an independent engineer or consultant who is assigned to report to the competent authority in the recipient country and NL Agency. As is the case with the evaluation practices under German Financial Cooperation, ex-post evaluation on the project-level is only conducted for a selective sample of ORIO-funded projects.

14.2.12. Transparency and Accountability

Conclusion 15: *Accountability of the four programs towards both the parliament and the wider public is ensured to different degrees in the case study countries. Although accountability provisions towards the parliament exist in all case study countries, generally parliamentary involvement with soft loan programs, let alone individual projects, appears rather low across the case study countries.*

The **Austrian** export guarantee committee (AusfFG Beirat) is obliged to submit an annual report to the Austrian parliament. As soft loans are conditional upon an export guarantee, the former are in principle also part of the activities of the committee. Soft loans as a specific topic are, however, hardly ever covered by the committee's reporting to the parliament. In addition, the parliament has the possibility to ask questions and to request information. It makes use of its right, but is in general more concerned with commercial export credits and less so with soft loan financed projects. An inquiry into the Austrian parliament's archive³⁹⁴ shows that the soft loan program has not been

³⁹⁴ Austrian parliament: <http://www.parlament.gv.at>

discussed by the parliament and that only little information on the program was requested by the parliament.

In **Denmark**, development policy as a part of the Ministry of Foreign Affairs is under the responsibility of the government. The parliament, however, has several control functions and a specialized standing committee, the Foreign Affairs Committee, discusses development policy related topics and might also frame soft loan policies. In order to comply with its reporting duties to the parliament, Danida produces a yearly report – Danida's Annual Report – which *inter alia* provides information on activities under the mixed credit program. The structure and format of the annual reports have been changed with the 2011 report. Today, this report is published as an interlinked Danida webpage and no longer contains chapters on individual programs.

Likewise, the **German BMZ** has reporting duties to the parliament. In addition, the Federal Court of Auditors regularly audits the financial management of the Federal government, its ministries and executing agencies. Thus, the BMZ and the KfW Development Bank are regularly monitored. The Bank is also continuously supervised by the private auditing company PricewaterHouseCoopers (PWC).

In **the Netherlands**, the implementing agency – NL Agency – is obliged to report to the Ministry of Foreign Affairs about the progress of ongoing ORIO projects. The Ministry, in turn, has reporting duties towards the Dutch parliament. Within the House of Representatives, the Committee for Foreign Affairs deals with development cooperation and thus, scrutinizes the government's development policy in general, budget allocations and inquires into the specific design of funds/facilities – ORIO included.

Conclusion 16: *The availability of project-specific information to the general public varies substantially across the programs analyzed. Transparency appears insufficient in most cases.*

A comparison of the Austrian and the Danish soft loan systems reveals the strongest deviations in the degree of transparency and public availability of information. For instance, whereas in Austria information on individual projects is not publicly available, Danida's transparency webpage provides key information on any project financed under Danida Business Finance.

Examining the work of EFK with regard to accountability shows that the **Austrian soft loan program** lacks transparency. The responsible authorities neither ex-ante nor ex-post publish information on the project approval process and the Austrian parliament does in general not request additional information. This suggests that the EFK and its members enjoy a high degree of autonomy and can hardly be held accountable for their decision-making by the national parliament or by the wider public. The social partners are included in the project approval process, but are obliged to respect confidentiality of project-specific content, which considerably limits their agency to use information. In short, the OeKB only publishes relevant information on the current

terms and conditions for soft loan financing and primarily focuses on their customers. Systematic information on individual projects is not publicly available. This severely limits possibilities to comment on individual projects or to challenge funding decisions made by the EFK.

Likewise, the Dutch key implementing agency – **NL Agency** – is rather reluctant when it comes to publishing information on specific projects. As in Austria, information on decision-making is not accessible to the public, neither in ex-ante nor ex-post formats. As a reaction, the Dutch civil society voiced criticism with regard to the insufficient level of transparency and criticized in particular the lack of transparency of the export credit insurance scheme (ECI). This is perceived to be even more problematic considering that ORIO grants are often combined with commercial credits, for which official export credit insurance is available.

In **Denmark**, on the contrary, notable efforts have been made to increase the transparency of the mixed credit program. For instance, all projects can be found in Danida's online program and project database. The database allows to track all bilateral and multilateral activities – including Danida Business Finance projects – which have been approved, are ongoing or were completed in a given year. Therein, all Danida activities are divided by country and sector. Moreover, the database provides the description of the project and its administration, information on volume and risk elements, and should also list monitoring and impact indicators. Notably, in the case of Danida Business Finance projects, these indicators are mostly missing. In a more compact format, the "Project Pipeline" for Danida Business Finance contains information on the volume and main objectives of a Danida Business Finance project. Furthermore, both agendas (ex-ante) and minutes (ex-post) of Grant Committee meetings – the decision-making body on the project level – are available on Danida's transparency webpage. The agenda documents uploaded prior to the meeting contain project documents in the case of Danida Business Finance and program strategies respectively. The minutes comprise the list of participants and short notes to all items discussed and provide information on the approval status of the latter (Danida 2013c). In addition, external stakeholders are invited to participate in public consultations (for large projects) as part of the screening and approval process.

As a reaction to repeated criticism voiced by German civil society actors, the **KfW Development Bank** is currently working on its transparency and accountability activities and attempts to align the latter with the standards set by the BMZ. For that purpose the bank launched a web portal in 2013 in order to present its engagements in partner countries, indicating the sources of funds it used, and how it used them. According to the website, the publication of evaluation reports is anticipated. Similarly to Danida's program and project database, KfW also intends to disclose facts and figures starting from 2007, broken down by country and sector until the end of 2013. Furthermore, the portal will be supplemented with a project database containing de-

tailed information on all projects agreed by contracts signed since January 2013. The webportal started to operate in January 2014. Detailed information on financing conditions, such as the level of concessionality or the source of market funds, is however not made publicly available.

Conclusion 17: *The NGO community in the four case study countries appears widely passive and not particularly involved in soft loan financing as well as related monitoring and advocacy work. Seemingly, their efforts are rather focused on the "traditional" export credit and business promotion activities.*

For example, in Germany the role of the civil society is more strongly focused on the export credit transactions. In this regard, the KfW IPEX-Bank, one of the KfW Banking Group's subsidiaries is regularly criticized for its activities. In Denmark, despite the comparatively high level of transparency and accessibility of information, also the mixed credit program as such just as individual projects financed under it remain largely outside the realm of public debate. A similar silence about the program per se or individual projects can also be observed in the Austrian case.

On the contrary, the anticipated changes in the Dutch system of development finance and in particular the *reintroduction of tying* in the new Dutch Good Growth Fund, have provoked multiple reactions from NGOs in the development policy field.



15. General Conclusions and Outlook

15.1. Conclusions – Between Institutional Heterogeneity, Hybridity and Development

The comparison of the Austrian soft loan program, Denmark's Danida Business Finance, the German Financial Cooperation and the Dutch ORIO facility with regard to the respective institutional set-up, strategic orientation and implementation patterns revealed a marked heterogeneity in the soft loan landscape. Albeit reunited in the quest for financing large infrastructure projects, the programs show considerable differences in almost all of the dimensions analyzed. Subsequently, the extent to which development safeguards are built into the policies and programs varies. This suggests that development policy aspects are anchored in the programs (and the resulting projects) to different degrees.

From the comparative analysis conducted above three general conclusions on the characteristics of the field of soft loan financing can be derived:

- (1) the pronounced institutional heterogeneity surrounding the various instruments,
- (2) the hybrid nature of the programs, and
- (3) the rather conventional understanding of development in which they are grounded.

(1) Institutional Heterogeneity of National Implementations

The intended impact of soft loan financed projects is homogeneous and consists of the provision of public infrastructure. Despite this shared feature, the field of soft loan financing is characterized by marked institutional heterogeneity. The heterogeneity of both the institutional structures as well as the specific design of the instruments appears to be one of the central traits of the sphere of soft loan financing. Accordingly, it has to be concluded that the harmonization of donor policies (and requirements and procedures) as stipulated in the Paris Declaration has remained limited, both in the design and in the implementation of soft loan policies.

Heterogeneity can firstly be traced in the financing modalities. These differ and encompass both tied and untied premixed credits, mixed credits, as well as grants in de facto association with loans. The most peculiar case in this comparison appears to be the Dutch program, which de jure only provides untied grants. These, however, are de facto associated with commercial loan financing (for which typically a guarantee by

the Dutch ECA is available). Described as a “programmatic shift” from loan-based forms of development finance to grant financing, this specific arrangement is likely to be the expression of political dynamics in the Netherlands in the late 1980ies/early 1990ies, which have apparently been motivated by the deep debt crises, many Least Developed Countries (LDCs) had experienced during that period.

Supposedly, the specific design of the national instruments is linked to the second salient feature: the heterogeneity in the distribution of responsibilities within the donor/exporting country. The analysis above has demonstrated that in the programs examined, a variety of actors from both the development policy field and the trade and export promotion domain assume a role in soft loan policies. Yet, the distribution of responsibilities and competences among them varies substantially. Remarkably, in all case study countries but Austria the political responsibility for the strategic orientation of the programs falls within the competence of the ministry in charge of development cooperation. Whereas in Denmark not only the political responsibilities, but also the responsibility for program administration and implementation is concentrated in the Ministry of Foreign Affairs/Danida (Green Growth Department), the German Federal Ministry for Economic Cooperation and Development (BMZ) delegates program implementation to the KfW development bank. The Dutch Ministry of Foreign Affairs entrusts NL Agency with the implementation of the ORIO fund, the former being a division of the Ministry of Economic Affairs. It appears likely that this heterogeneity on the level of institutions is due to specific power balances among relevant actors as well as a function of the “individual” program objectives.

Furthermore, any inquiry into the causes of this heterogeneity must turn to the international regulatory framework for answers. First of all, one might be expecting differences in the institutional set-up depending on whether or not a program falls within the scope of the Arrangement on Officially Supported Export Credits – the latter of which is limited to procurement-tied programs. Although the Arrangement defines minimum standards for project and country eligibility, concessionality requirements and transparency provision, it becomes apparent that also among Helsinki-type tied aid programs marked institutional differences are in place. When it comes to the institutional split of competences, harmonization among countries remains therefore low. This can be explained by the reluctance of the Arrangement to give guidance with regard to implementation structures. The Arrangement – as such the product of negotiations between sovereign states on a sensitive issue – leaves considerable room for maneuver to national actors and does not spell out any preference for which kind of national agency should be in charge of (tied) soft loan programs. This means that the implementing agency might or might not have a “development mandate” to fulfill. The variances in the implementation practices of the countries analyzed illustrate that this room for maneuver has been extensively used by the states subscribing to the Arrangement.

This study has shown that OECD member states provide several financing forms similar to traditional soft loans that do for different reasons, however, not fall into the scope of the Arrangement. Most notably this concerns the above described specific path chosen by the Netherlands via untied grant financing which is de facto associated with a commercial loan, but also the untied variants offered by Germany.

(2) Hybridity of the Instruments

Secondly, the hybridity of the instruments examined can be identified as a distinguishing feature shared by all of the analyzed soft loan programs as well as the grant facility. The term “hybridity” thereby refers to their position at the interface of official export promotion and development policy and evokes a certain ambiguity in their programmatic orientation. In particular, this characteristic is reflected in the multiplicity of goals stated in program descriptions and the resulting attempt to “kill two birds with one stone”. With tied soft loan programs, donors claim to support domestic enterprises in their export endeavors while simultaneously contributing to the development of recipient countries. Thus, the goals of export promotion and of development co-operation are assumed to be not only complementary, but also achievable with a single instrument. Yet, the specific hierarchy of the respective sets of goals, the project approval procedures as well as the financing terms might bring programs closer to either the trade/export promotion pole or to the development policy/cooperation pole. In particular in the case of untied programs, the export promotion goals might be less overt. De jure untying, however, does neither per se lead to a proportional increase in the development orientation the programs, nor is it necessarily motivated by aid effectiveness concerns. For instance, loans which are de jure untied and not subject to the Arrangement might be provided on significantly harder terms because they do not have to comply with the 35 and 50 % concessionality requirements, respectively, of the Arrangement. Moreover, conceptual ambiguities in the determination of the tying status of aid flows might lead via informal practices to a situation in which untied programs have similar effects in terms of the delivery of goods and services from the donor country as in formally tied ones.

Taking the historical evolution of today's soft loan financing into account, it appears reasonable to assume that a partial explanation for this hybridity can be traced to the historical roots of these instruments (or their predecessors). Their genealogy reaches back to the mercantilist foreign trade policies of the 1970ies and 1980ies. The analysis in Chapter 5 showed that in its beginnings, this hybrid instrument has been inextricably linked with export credits and its political orientation has, thus, been largely dominated by commercial objectives. As explored in Chapter 5 tightening of rules on traditional export credits paired with a severe debt crisis in the developing world, had placed tied aid credits at the heart of national export policies of many industrialized countries and made them become a “protectionist device” (DCD/DAC/FA(93)3). In

these circumstances, the original motivation behind giving tied soft loans was one of gaining competitive advantages for the donors' domestic enterprises. Development goals were thereby at best pursued as an add-on that should conceal the trade distorting effects of the practice. Since then, policies have evolved and the instruments have been adapted. Yet, the original purpose has not entirely vanished and is still perceptible – albeit to different extents – in the soft loan instruments of today. This status between export promotion and development policy makes tied soft loans subject to tensions stemming from the diverging interests of the actors involved. To varying degrees these tensions can still prevail in the soft loan field, i.e. in the discussions that have come up in several countries on the potential untying of their programs.

As has been examined with regard to institutional variations, the specific distribution of competences (and power) among relevant actors as well as the country-specific program objectives led to a substantial heterogeneity in the field of soft loan financing and to a varying importance attached to development goals. Nonetheless, by adopting a long-term perspective on the evolution of soft loan financing, a trend towards strengthening the development orientation of soft loan instruments over the last decades has to be noted.

As stated above, in its beginnings (tied) soft loan financing was unequivocally export-oriented and commercially motivated. Throughout the 1990ies and 2000s, development components increasingly – though to different extents – manifested themselves at least partially in the untying of the programs, in project appraisal and approval procedures, and in financing modalities. In Austria, for instance, soft loans were originally conceived as a tool for export promotion. Only through slowly negotiated steps development components were introduced into the procedure of soft loan financing, mainly via the introduction of the questionnaire which aims at assessing the developmental relevance of a prospective project. These changes were accompanied by the injection of a development objective into the goal-set and can be interpreted as a modest increase in the development orientation of the program.

In the OECD/DAC driven development discourse, the untying of development assistance has been generally propagated as a major step towards greater effectiveness of invested resources. In this vein, both the German Financial Cooperation as well as the Dutch ORET program were untied (the latter was transformed into ORIO) and Danida complemented its tied program with an untied window. De jure untying, however, does not per se necessarily boost the development orientation of the programs and constitutes, thus, rather a means towards an end (e.g. strengthening of local economies via local procurement) rather than an end in and of itself. In particular in the late 1990ies, early 2000s, voices were raised at the OECD level addressing the circumvention of Helsinki provisions on concessionality and transparency (notification) requirements via the de jure untying of soft loan financing. Current DAC debates on the calculation of the grant element/concessionality level illustrate the political sensibility

of the different discount rates which are used by the DAC on the one hand and by the Arrangement on the other. In the case of Germany, the fact that also low-concessional loans, presumably without any budgetary effort, are reported as ODA, might exemplify such concerns. These reporting practices, which substantially vary across DAC member states, have triggered discussions about the – as of now not benchmarked – ODA criterion “concessional in character”.

Today, the question arises of whether a de jure or de facto tied soft loan instrument is still fit for its purpose(s). These discussions are triggered by shifts in the geographies of development. From the 1980ies onwards, these hybrid instruments have predominantly been used in the emerging economies of East Asia and the Pacific which were due to their dynamic growth considered as promising export markets. Slowly but surely this group of emerging countries is, however, graduating and is no longer eligible for traditional (tied) soft loan financing. The prospects that a great number of other LDCs will follow the example of the highly dynamic emerging countries remain unclear as of now. Thus, the current situation suggests a shift of focus towards less developed markets, which might be less attractive from an export promotion point of view.

The adaptation strategies adopted by the case study countries to overcome the legitimization problems and imminent crisis of soft loan policies differ. With the introduction of the “promotional loans” Germany, for instance, tailored its instruments to specific circumstances in the emerging economies, mainly of Eastern Asia. Any such financing, of course, is only conceivable outside the scope of the Arrangement. In the Netherlands currently a renewed impetus for the export orientation is observable with the set-up of the Dutch Good Growth Fund (and in particular its third pillar which provides tied aid financing). This move will be accompanied by the abandoning of the international (OECD) recommendations on untying. The extent to which these developments in the Netherlands are indicative of future scenarios in the field of bilateral soft loan financing remains to be seen. Future developments in the field of soft loan financing will most likely also be influenced by the anticipated changes in the international development architecture post-2015, and in particular by the discussions on the future of development financing. The latter is likely to be increasingly affected by non-OECD countries which themselves have become donors, but are not (yet) playing and abiding by the same rules as the DAC members.

(3) Notion of Development

Preliminary conclusions on the notion of development inherent to soft loan programs can be derived from the assessment of programmatic goals of the instruments examined as well as from the empirical analysis of supported sectors/projects.

Firstly, the analyzed programs draw on a conventional notion of development conceptualized as economic development. Taking up the additionality argument, which is ingrained in soft loan financing, it becomes clear that in view of resource constraints

and “financial gaps”, financial flows are thought to impact positively on development processes. In this reading financial flows contribute to economic growth and concomitantly to development, mainly via employment creation and income generation. Broadly speaking, investments are equated with economic growth that will eventually trickle down and create wider benefits – i.e. feed into development processes. These presumed linkages between financial flows and development suggest that a conventional economic notion of development is implicit to soft loan programs.

Secondly, the examination of officially stated development goals and objectives of the respective programs demonstrate that above all it is a sectoral approach that is the basis of the notion of development implicit to the programs examined: the fact that soft loans primarily flow into sectors such as health, water, transport or education is used as a legitimization of their development impact. The provision of public goods, which in the absence of soft loan financing would not have been produced or not in the required amount by the market, is key to development. The explanations provided in the Ex Ante Guidance for Tied Aid that are followed at least in the Austrian, the Danish and the Dutch programs, supports this assumption. The focus on the provision of not only physical but also social infrastructure has been observable since the introduction of the commercial non-viability requirement for procurement-tied projects in the early 1990ies and can be interpreted as conceptual re-orientation towards the notion of “human development”, which became the lead discourse on development in the 1990ies. In the 2000s, concerns over the sustainability of development in its economic, social and environmental dimensions gained momentum and have also entered the field of soft loan financing. Concomitantly, several programs (i.e. the German and the Danish) strengthened their emphasis on social infrastructure and included the environmental sector as a priority sector for soft loan financing.

Lastly, in recent years a priority and rhetorical shift towards private sector development can be observed also in the field of soft loan financing. Increasingly, soft loans are put in the context of the promotion of entrepreneurship and of business-friendly climate. There is reason to assume that this trend, which among the case study countries is the most pronounced in the Netherlands, will entail changes in the development notion that has so far underpinned soft loan financing. Strikingly, already today soft loan programs are frequently counted among private sector development instruments – although they explicitly focus on public projects and public recipients and, thus, are not the most adequate means towards the end of private sector development. Furthermore, the role of an “engine for development”, which is attributed to the private sector, must go hand in hand with new responsibilities of private sector actors and raises the question of how to strengthen the development dimension in the private sector in both donor and recipient countries. The key question to address in this context is which development policy commitments should and could be imposed on donor domestic companies participating in soft loan programs.

15.2. Outlook – What Future for Soft Loans?

Though national programs have been quite distinct, our analysis has shown that soft loans have been an integral part of external and development finance policies, respectively, in almost all DAC donor countries during the last four decades. Nevertheless, it appears as if the importance of soft loans has been declining in recent years. Tied soft loan financing volumes have decreased and some countries have evidently initialized steps to reform their development finance mechanisms. While the rapid economic development of emerging economies, and in particular China and Indonesia, has for many years provided a geo-economic environment favourable to using soft loan financing mechanisms, the graduation of many of these countries into upper middle income country status has effectively curtailed this avenue for the foreseeable future.

A proper assessment of the future of soft loans as an instrument of development finance will, however, have to consider a number of recent developments, which will without doubt exert a significant influence upon the future of development cooperation and development finance. Amongst the former, three major drivers of change need to be highlighted:

- (1) the global financial and economic crisis and its repercussions on development policy;
- (2) the discussions on a post-2015 development agenda at UN level and the associated discussion on the future of ODA in the OECD
- (3) the emergence of new donors, in particular amongst the BRICS countries, and their influence upon development cooperation.

Ad (1): The most obvious consequence of the global economic and financial crisis on most OECD donors has been its effects upon public finances. Growing public debt has led to austerity programs in many OECD donor countries and, with only a few exceptions, translated into cuts in development assistance budgets. Though currently it appears as if the economic situation in the OECD world has somewhat stabilized, consolidation policies will be continued in the medium term, particularly in the EU. Budgetary resources for development assistance will thus remain circumscribed for years to come. Donors have reacted to this situation differently, but some trends are becoming visible. Some countries (e.g. the Netherlands) have effectively abandoned their commitment to the 0.7 % ODA target, while others, which officially sticking to the 0.7 % target, are intensifying their efforts to increase their ODA by unorthodox measures. Amongst the latter, two related avenues are becoming increasingly popular: firstly, leveraging public aid money (grants) with ever increasing amounts of private money; and secondly, pressing towards a wider definition of what counts as ODA. In these circumstances, a real danger exists that the 0.7 % target, which was meant to serve as an incentive to donors, creates the perverse effect of watering down the

prevailing ODA concept by including a variety of other financial flows and instruments (e.g. state guarantees). It is clear that grants as the central instruments of development assistance in particular to LDCs become decidedly less attractive, while loans or mixed/blended instruments with low concessionality levels become the instruments of choice.

Ad (2): The discussions on a future development agenda for the period after 2015 are still on-going at UN level. It remains to be seen if agreement on a new development agenda with binding commitments will be achieved. This indeterminacy notwithstanding, the thrust of the discussion so far suggests that the Post 2015 development agenda will probably be substantially widened and include new issues, e.g. climate change, provision of global public goods, migration etc.³⁹⁵ This expansion bears two dangers: firstly, that the priority focus on poverty alleviation in development assistance will become diluted, and secondly, that the additional financing needs resulting from the new agenda will not be met by a proportionate increase in disposable financial resources. Thus, unless hopes for raising substantial amounts of private financing for the Post-2015 development agenda eventually materialize, competition for – as a consequence of the financial crisis – scarce public resources amongst the many development challenges will probably increase. In addition, pressure to include the new items on the development agenda into the ODA definition at the OECD/DAC level should be expected to mount.

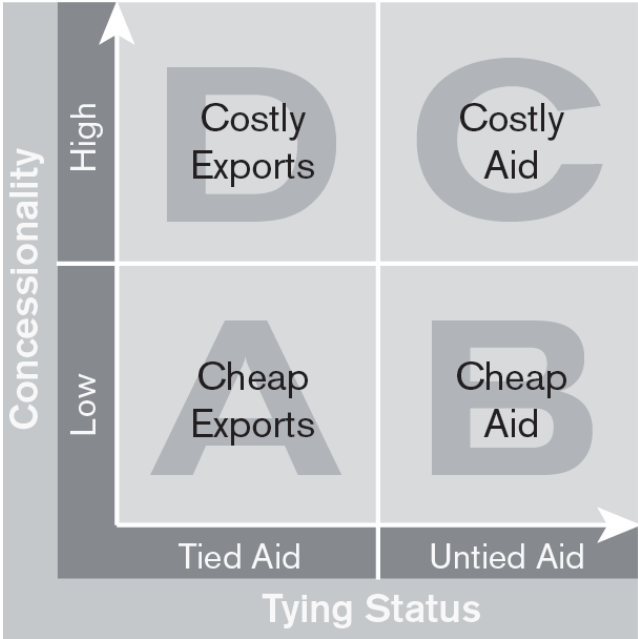
Ad (3): The emergence of New Donors, like for instance China and Brazil, has raised significant attention during recent years. By 2011, annual concessional flows from emerging economies to Low Income Countries (LICs) were estimated at USD 12-15 billion. Technical assistance grants from China stood at USD 67 billion annually (World Bank 2013c: 19). Though unsurprisingly the new donors also serve their own interests with their aid policies, their emergence in the field of international development was welcomed by most developing countries, be it for political reasons, e.g. the appeal to a new south-south cooperation agenda, or be it for the pragmatic reason of attracting new and alternative sources of development finance. Besides, it has been well received that the New Donors do not attach political conditionalities as well as social and environmental standards of the kind OECD/DAC donors usually require. As a consequence, it has become more difficult and/or costly to pursue foreign (economic) policy goals for DAC donors via their development assistance activities, including concessional financing. In addition, development programs and projects are implemented not only with funding from New Donors, but also to some extent with procurement tied goods and services from the former. This has led to two kinds of reactions: (i) business interests in DAC countries lobby for relaxing demanding conditionalities and standards attached to aid and external finance (in particular fi-

³⁹⁵ See e.g. Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda (United Nations: 2013)

nance under Arrangement terms), since the former are perceived as disadvantageous to their business interests. The export-led growth strategies promoted by many OECD countries as a response to the financial and economic crisis have given additional weight to these calls; (ii) DAC members have increased their efforts to integrate the New Donors into the OECD/DAC framework, the latest initiative being the Busan Partnership for Effective Development Co-operation, initialized by the High-Level Forum on Aid Effectiveness in Busan in 2011. Progress on these initiatives has however remained limited so far.

Against this general framework, four scenarios are possible for the future development of soft loans as an instrument of concessional finance. These can be categorized along the two fundamental dimensions – degree of concessionality (low/high) and their tying status (tied/untied).

Figure 15.1: Four Scenarios for the Future of Soft Loans



Source: Own Elaboration

Scenario A “Cheap Exports” combines tying with low levels of concessionality, i.e. less than 35 %. It is a scenario that under current arrangement terms is not permissible with the exception of very small projects of less than SDR 1 million. It would contradict both the spirit of the Arrangement and one of the core principles of the OECD development agenda. Thus, scenario A does not seem to be a feasible scenario for

the near future, since it would depend on a complete overhaul of the current institutional architecture.

Scenario B “Cheap Aid” combines untying with low levels of concessionality, i.e. less than 35 %. As described, some of our case study countries have recently moved into the direction of leveraging stagnant budgetary aid resources with private monies. Germany with its development loans and the Dutch ORIO program are cases in point. Assuming that budgetary resources will remain scarce in the near future, both due to the continuation of austerity policies in many donor countries and the broadening of the Post-2015 development agenda, we would posit that Scenario B will be attractive to many donors. This is particularly true for donors, who want to target graduating emerging economies, be it in the interest of their export sectors or be it for development reasons. The recent parliamentary report of the UK House of Commons on British development assistance has explicitly called upon the Department for International Development (DfID) to search for financial instruments in order to be able to continue support for e.g. poverty alleviation programs in emerging economies (House of Commons 2014). Evidently, aid contributions for higher middle-income countries will have to involve lower levels of concessionality, which under current Arrangement terms, is however allowed only in untied form. Overall, we therefore think that concessional financing under Scenario B will be of relevance in the future.

Scenario C “Costly Aid” combines untied aid with high levels of concessionality, i.e. above 50 %. This presupposes large grant elements in concessional loans and would thus be particularly suitable for aid policies targeting low-income countries. In this sense, Scenario C would present the straightforward option for re-programming soft loans towards a strong development orientation. The realisation of this scenario depends on two conditions. Firstly, the political will to allocate substantial amounts of public money to such a program, and secondly, acceptance by the respective export interests, since no formal tying is allowed. The latter would seem most likely in countries with highly-competitive export sectors, e.g. Germany, where national exporters win a high share of contracts also under international competitive bidding. However, the viability of this scenario depends on the confluence of two conditions, the probability of which must be judged rather small.

Scenario D “Costly Exports” is a combination of tied aid with high levels of concessionality, i.e. above 50 %. It represents of course the straightforward continuation of the Helsinki Package’s provisions for tied aid to Least Developed Countries and Low-Income Countries, respectively. In contrast to Scenario C, its viability depends on only one condition, i.e. the political will to allocate sufficient budgetary resources in order to finance the concessional element, while simultaneously satisfying prevailing export interests. The potential of this scenario therefore consists of combining a higher development orientation of such a program (e.g. by targeting focus coun-

tries of national development assistance or priority sectors) with procurement from donors, thus making a, albeit limited, contribution to export promotion.

Our comparative discussion has resulted in a juxtaposition of two pairs of scenarios. The first pair consists of Scenario A and C, implying a move from tied to untied, while concomitantly increasing concessionality. This would of course represent an ideal-type movement away from export promotion towards development orientation goals. Unfortunately, from our perspective, this does not seem to be very realistic at the moment. Promoting growth, including via export policies, in order to exit the economic crisis remains the top priority in many OECD countries. Instead, we would posit that the second pair of scenarios consisting of B and D, respectively, presents the more viable avenue under current economic and political conditions. Evidently, this pair involves a trade-off between tying status and level of concessionality. Scenario B may become attractive for continuing soft loan programs with emerging economies, both for export promotion, particularly in the case of highly-competitive donor country exporters, as well as for targeted aid programs in those countries. Scenario D is the logical choice, if soft loan programs want to focus on LICs, while to some extent safeguarding donors' export interests. From a development perspective, however, even highly concessional tied aid would contravene the spirit of the OECD development agenda. Thus, it would be imperative that such soft loan programs are aligned with donors' development assistance priorities and programmed in a way which adheres to basic development principles, in particular alignment, ownership and PCD.

If, and to what extent, soft loans will play a role as an instrument of development finance in the future, thus, remains to be seen.

...

ANNEX

Bibliography
Interview List
Authors



Bibliography

Literature

- ActionAid/Both Ends/Somo (2013): The Dutch Good Growth Fund. Who Profits from Development Cooperation? Joint Publication in November 2013.
<http://www.eurodad.org/Entries/view/1546061/2013/11/12/The-Dutch-Good-Growth-Fund-who-profits-from-development-cooperation> (17.02.2014).
- ActionAid/Milligan, Jean (2001): ActionAid: Untying Aid in the European Union. In: International Trade Forum 2001/4.
- AGE (2007): Entwicklungspolitik und Außenwirtschaft: Gemeinsame Interessen nutzen. Fachtagung am 28.November 2007 in Berlin.
http://www.bdi.eu/download_content/GlobalisierungMaerkteUndHandel/AGE_Fachtagung_EZ_AW-28_11_07.pdf (17.02.2014).
- AGE (2005): Entwicklung des Privatsektors. Schlüssel zur Armutsbekämpfung. Die Konzeption der deutschen Wirtschaft zur Erreichung der Milleniumsziele. AGE Positionspapier.
http://www.bdi.eu/download_content/GlobalisierungMaerkteUndHandel/AGE_Privatsektor.pdf (17.02.2014).
- Agerskov, Ulla/Bisgaard, Clerk (2013): Statistical Yearbook 2013. Copenhagen: Statistics Denmark. Copenhagen. <http://www.dst.dk/pukora/epub/upload/17957/sty2013.pdf> (5.12.2013).
- Agerskov, Ulla/Bisgaard, Clerk (2012): Statistical Yearbook 2012. Copenhagen: Statistics Denmark. Copenhagen. <http://www.dst.dk/pukora/epub/upload/16251/sty2012.pdf> (5.12.2013).
- Arrowsmith, Sue/La Chimia, Annamaria (2009): Addressing Tied Aid: Towards a more Development-Oriented WTO? In: Journal of International Economic Law, 12/3, 707-747.
- Atkinson, Anthony B. (2004): New Sources of Development Finance. A Study Prepared for the World Institute for Development Economics Research of the United Nations University. Helsinki et al.
- Austrian Parliament (1997): Parlamentarische Materialien. Wien, 3369/AB XX.GP.
http://www.parlament.gv.at/PAKT/VHG/XX/AB/AB_03369/fnameorig_131678.html (15.02.2014).
- Barder, Owen/Krylová, Petra (2013): Briefs. Commitment to Development Index,
<http://www.cgdev.org/sites/default/files/CDI-brief-2013.pdf> (5.12.2013).
- Barder, Owen (2009): Beyond Planning: Markets and Networks for Better Aid. Center for Global Development, Working Paper 185.
[http://dspace.cigilibrary.org/jspui/bitstream/123456789/27465/1/WP_185 - Beyond planning - Markets and networks for better aid.pdf?1](http://dspace.cigilibrary.org/jspui/bitstream/123456789/27465/1/WP_185_-_Beyond_planning_-_Markets_and_networks_for_better_aid.pdf?1) (15.02.2014).
- Barnes, Amy/Brown, Garrett W. (2011): The Idea of Partnership within the Millennium Development Goals: Context, Instrumentality and the Normative Demands of Partnership. In: Third World Quarterly, 32/1, 165-180.

Bayer, Kurt/Stankovsky, Jan/Url, Thomas (1992): Soft Loans: Förderung österreichischer Exporte durch Kredite zu Entwicklungshilfekonditionen. Studie des Österreichischen Instituts für Wirtschaftsforschung.

BDI (2007): Positionspapier. Kooperation zwischen deutscher Industrie und Entwicklungspolitik. http://www.bdi.eu/download_content/GlobalisierungMaerkteUndHandel/BDI_PosPa_Wirtschaftskooperation.pdf (17.02.2014).

Berenschot/Seor/Ecolas (2006): ORET/MILIEV Evaluation. 1990-2004. Final Report. November 2006. <http://www.berenschot.com/news-inspiration/showcases/showcases/evaluatie-oret/> (17.02.2014).

BMeiA (2012): Dreijahresprogramm der österreichischen Entwicklungspolitik 2013-2015. Wien.

BMeiA (2011): Abkommen zwischen der Regierung der Republik Österreich vertreten durch den Bundesminister für Finanzen und dem Ministerrat der Republik Albanien vertreten durch das Ministerium für Finanzen über die finanzielle Kooperation. BGBLA_2011_III_93. https://www.ris.bka.gv.at/Dokumente/BgblAuth/BGBLA_2011_III_93/BGBLA_2011_III_93.pdf (27.02.2014).

BMeiA (2010): Dreijahresprogramm der österreichischen Entwicklungspolitik 2010-2012: Fortschreibung. Wien.

BMF (2013): Bericht der Bundesministerin für Finanzen an den Hauptausschuss des Nationalrates: Tätigkeitsbericht des Beirates gemäß § 6 Ausfuhrförderungsgesetz für das Geschäftsjahr 2012. http://www.bmf.gv.at/wirtschaftspolitik/aussenwirtschaft-export/Taetigkeitsbericht_2012_des_Beirates.pdf (20.12.2013).

BMF (2010): Mit dem BMF zum Export, Bundesministerium für Finanzen, Abteilung V/7. Wien http://www.bmf.gv.at/Publikationen/Downloads/BroschurenundRatgeber/BMF_zum_Export_Zoll_2012.pdf (15.02.2014).

BMW A (2008): Wirtschaftsbericht Österreich 2008. Wien. <http://www.bmwfj.gv.at/Wirtschaftspolitik/Wirtschaftspolitik/Documents/Wirtschaftsbericht%20%C3%96sterreich%202008.pdf> (20.10.2013).

BMZ (2013a): 14. Entwicklungspolitische Bericht der Bundesregierung. Weißbuch zur Entwicklungspolitik. http://www.bundesregierung.de/Content/Infomaterial/BMZ/Weissbuch_lang_21986464.html (17.02.2014).

BMZ (2013b): Leistungen der deutschen Entwicklungszusammenarbeit für die Wirtschaft. http://www.bmz.de/de/zentrales_downloadarchiv/mitmachen/Leistungsspektrum_EZ-Wirtschaft_121115.pdf (17.02.2014).

BMZ (2011): Minds for Change – Chancen schaffen. Enhancing Opportunities – Zukunft entwickeln. http://www.bmz.de/en/publications/type_of_publication/special_publications/Minds_for_Change.pdf (17.02.2014).

BMZ (2008): Leitlinien für die bilaterale Finanzielle und technische Zusammenarbeit mit Kooperationspartnern der deutschen Entwicklungszusammenarbeit. Konzepte 165. <http://www.bmz.de/de/publikationen/reihen/strategiepapiere/konzept165.pdf> (17.02.2014).

BMZ (n.s.): FC Funds. Master Presentation.

Bonucci, Nicola (2011): OECD Work on Export Credits: A Legal and Institutional Laboratory. In: OECD (ed.): Smart Rules for Fair Trade. 50 Years of Export Credits. Paris, 49-54.

Both Ends (2013): Cover for What? Atradius Dutch State Business' Support for Transactions via Tax Havens. http://www.bothends.org/uploaded_files/document/Cover_for_what.pdf (17.02.2014).

Breuss, Nonno T. (2005): Aktuelle Reformperspektiven der Österreichischen Kontrollbank AG: eine Analyse der Umsetzung der OECD Common Approaches on Environment and Officially Supported Export Credits vor dem Hintergrund der NGO Kritik am Exportfinanzierungsverfahren der Republik. Wien.

Byatt, Ian C.R. (1984): Byatt Report on Subsidies to British Export Credits. In: *The World Economy*, 7/2, 164-178.

Carnegie Consult (2013): Review ORIO. Eindrapportage. 14 October 2013. <https://zoek.officielebekendmakingen.nl/blg-262745.html> (17.02.2014).

Center for Global Development (n.s.): Commitment to Development Index. <http://www.cgdev.org/initiative/commitment-development-index/index> (15.02.2014).

Chang, Charles C./Fernandez-Arias, Eduardo/Servén, Luis (1999): Measuring Aid Flows: A New Approach. In: *World Bank Policy Research Working Paper*, WPS2050. http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2000/02/24/000094946_99031911113670/Rendered/PDF/multi_page.pdf (15.02.2014).

Chang, Hyun-sik/Fell, Arthur M./Laird, Michael (1999): Comparison of Management Systems for Development Co-operation in OECD/DAC Members, DCD 99/6.

Chianca, Thomaz (2008): The OECD/DAC Criteria for International Development Evaluations: An Assessment and Ideas for Improvement. In: *Journal of MultiDisciplinary Evaluation*, 5/9, 42-51.

Christiansen, Karin/Rogerson, Andrew (2006): Is the Current Aid Architecture 'Fit for Purpose'? In: ÖFSE (ed.): *Mehr Wirksamkeit in der EZA. Quantensprung oder Rhetorik. Österreichische Entwicklungspolitik: Analysen, Informationen*. Wien, 11-17.

CIA (2013): *The World Factbook*. Denmark. <https://www.cia.gov/library/publications/the-world-factbook/geos/da.html> (10.11.2014).

Clark, Helen (2011): *The Real Wealth of Nations: Lessons from the Human Development Report*. In: OECD (ed.): *Development Co-operation Report 2011*. 50th Anniversary Edition. Paris, 47-56.

Clay, Edward, J. et al. (2009): *Untying Aid: Is It Working? Thematic Study on the Developmental Effectiveness of Untied Aid: Evaluation of the Implementation of the 2001 DAC Recommendation on Untying ODA to the LDCs*. Synthesis Report, Copenhagen. <http://www.oecd.org/dac/evaluationnetwork> (15.02.2014).

Clay, Edward J. et al. (2008): *The Developmental Effectiveness of Untied Aid (1) Evaluation of the Paris Declaration and of the 2001 DAC Recommendation on Untying ODA to the LDCs, Phase I Report*. Copenhagen, 1-67.

Cohen, Daniel/Jacquet, Pierre/Reisen, Helmut (2006): *After Gleneagles: What Role For Loans In ODA?* In: *OECD Development Centre Policy Briefs*, 31, 4-26.

Commission on International Development (1970): *Report of the Commission on International Development ("Pearson Report")*. <http://www.laetusinpraesens.org/docs/infwill/inf5.php> (15.02.2014).

Conte, Christoper/Karr, Albert R. (2001): *Outline of the U.S. Economy*. Washington D.C.

Cutts, Steve/West, Janet (1998): *The Arrangement on Export Credits*. *The OECD Observer*, 2011/April-May, 12-14.

Danida (2013a): *NEC Strategy. Strategic Framework for Priority Areas. Natural Resources, Energy, and Climate Change*. <http://um.dk/da/~media/UM/Danish-site/Documents/Danida/Det-vil-vi/Udv-strategi/NEC%20Strategy%202013.pdf> (1.2.2014).

Danida (2013b): Minutes from External Grant Committee Meeting on 8 May 2013. <http://um.dk/en/danida-en/about-danida/danida-transparency/danida-documents/danida-grant-committee/previous-grant-committee-meetings/> (5.12.2013).

Danida (2013c): Minutes from External Grant Committee Meeting on 12 June 2013. <http://um.dk/en/danida-en/about-danida/danida-transparency/danida-documents/danida-grant-committee/previous-grant-committee-meetings/> (5.12.2013).

Danida (2013d): Internal Grant Committee Meeting 3 May 2013, Agenda Item No. 7.

Danida (2013e): External Grant Committee Meeting 12 June 2013, Agenda Item No. 2.

Danida (2007): Danish Mixed Credit Standard Form for Appraisal of Wind Energy Projects. Copenhagen. <http://um.dk/en/~media/UM/English-site/Documents/Danida/Activities/Business/DB%20Finance/Rules%20and%20Guidelines/Guidelines%20for%20Appraisals/APPRaisalO FWINDENERGYPROJECTS.jpg> (5.12.2013).

Danida/Secretariat for Mixed Credits (2010): General Conditions for Loan Agreements and for the Provision and Administration of Interest Subsidy under the Mixed Credit Programme for Developing Countries. October 2010. http://um.dk/en/~media/UM/English-site/Documents/Danida/Activities/Business/DB%20Finance/Rules%20and%20Guidelines/ConditionsfortheLoanAgreements_October10.jpg (20.01.2014).

Danish MfA (2013): Annual Report 2012. Copenhagen. <http://um.dk/en/~media/UM/English-site/Documents/About-us/Annual%20Report%202012.pdf> (5.12.2013).

Danish MfA (2012): Danish Act on International Development Cooperation Consolidated Act no. 555 of 18.06.2012, English Translation. Copenhagen. <http://amg.um.dk/en/~media/amg/Documents/Overall%20Policies/New%20law%20for%20development%20cooperation/Lov%20ENGELSK.pdf> (5.12.2013).

Danish MfA/Danida (2013): Guidelines for Presentations to the: Programme Committee, Danida Grant Committees, Council for Development Policy. Copenhagen. http://amg.um.dk/en/~media/amg/Documents/Technical%20Guidelines/Guideline%20for%20Presentations%20of%20Appropriations%20and%20Strategy%20Documents/Guidelines_for_Presentation_of_Appropriations_and_Strategy_Documentsfinal1.pdf (20.11.2013).

Danish MfA /Danida (2012): Danida's Annual Report 2011. <http://um.dk/en/danida-en/activities/annual-report-2011/the-story-of-the-years-danish-development-cooperation/> (10.11.2013).

Danish MfA/Danida (2011a): DB Finance Brochure. Copenhagen. <http://um.dk/en/~media/UM/English-site/Documents/Danida/Activities/Business/DB%20Finance/Danida%20Business%20Finance%20Folder%202012.pdf> (5.12.2013).

Danish MfA/Danida (2011b): Danida Strategic Framework for Priority Area Growth and Employment 2011-2015. <http://um.dk/en/~media/UM/English-site/Documents/Danida/Goals/Strategies/Growth%20and%20Employment%20Strategy%202011-15.pdf> (21.11.2013).

Danish MfA/Danida (2011c): Danida's Annual Report 2010. Denmark's Participation in International Development Cooperation 2010. http://www.netpublikationer.dk/um/11095/html/entire_publication.htm (21.01.2014).

Danish MfA/Danida (2011d): Danish Development Cooperation in a Results Perspective. Danida's Framework for Managing for Developments Results 2011-2014. Copenhagen. <http://amg.um.dk/~media/amg/Documents/Front%20page/DanidasFrameworkforManagingforDevelopmentResults20112014Final.pdf> (5.12.2013).

Danish MfA/Danida (2010): FREEDOM from POVERTY – FREEDOM to CHANGE. Strategy for Denmark's Development Cooperation.

<http://um.dk/en/~media/UM/Englishsite/Documents/Danida/Goals/Strategy/Freedom%20from%20poverty.ashx> (20.01.2014).

Danish MfA/Danida (2008): Danida's Annual Report 2007.

http://www.netpublikationer.dk/um/9115/pdf/danidas_annual_report_2007.pdf (21.01.2014).

Danish MfA/Danida (2007a): General Rules and Guidelines for Procurement. Danish Tied Mixed Credits to Developing Countries. Copenhagen. <http://um.dk/en/~media/UM/English-site/Documents/Danida/Activities/Business/DB%20Finance/Rules%20and%20Guidelines/Guidelines%20for%20Procurement/Tied.jpg> (5.12.2013).

Danish MfA/Danida (2007b): Brief Guidelines. Mixed Credits for Programme Countries (May).

<http://amg.um.dk/en/~media/amg/Documents/Technical%20Guidelines/Danida%20Business%20Finance/BriefGuidelinesMixedCreditstoProgrammeCountriesMay2007.ashx> (5.12.2013).

Danish MfA/Danida (2006): Danida's Annual Report 2005.

http://www.netpublikationer.dk/UM/7410/pdf/danidas_annual_report_2005_b.pdf (21.01.2014).

Danish MfA/Danida (2004): Meta-Evaluation. Private and Business Sector Development Interventions. 2004/6. Copenhagen.

Danish MfA/Danida (2002): Evaluation. Mixed Credit Programme. 2002/4. Copenhagen.

Danish MfA/Secretariat for Mixed Credits (n.s.): Buyer/End-User's Declaration.

<http://um.dk/en/~media/UM/English-site/Documents/Danida/Activities/Business/DB%20Finance/Rules%20and%20Guidelines/OtherStandardDocuments/BuyerEndusersDeclaration.jpg> (26.02.2014).

Danish Ministry of Trade and Industry (2001): The Statutes of Eksport Kredit Fonden. Circular on the Statutes of Eksport Kredit Fonden 19 of February 8, 2001. <http://www.ekf.dk/en/about-ekf/ekfs-legal-basis/Pages/Vedt%C3%A6gt.aspx> (5.12.2013).

Danish Ministry of Trade and Industry (1999): Act on Eksport Kredit Fonden, Legislative Order 913 of December 9, 1999. Copenhagen. <http://www.ekf.dk/en/about-ekf/ekfs-legal-basis/Pages/Lov-om-Dansk-Eksportkreditfond.aspx> (5.12.2013).

Dann, Philipp (2012): Entwicklungsverwaltungsrecht. Theorie und Dogmatik des Rechts der Entwicklungszusammenarbeit, untersucht am Beispiel der Weltbank, der EU und der Bundesrepublik Deutschland. Jus Publicum 212. Tübingen.

De Milly, Hubert (2012): From Aid Effectiveness to Development Effectiveness: Paying Tribute to the WP-EFF. <http://www.hiidunia.com/wp-content/uploads/downloads/2012/06/120614-Celebrating-Busan.pdf> (15.02.2014).

DEval (2013): Multi-Annual Evaluation Programme (MEP) 2013-2015.

www.deval.org/de/evaluierungsprogramm.html?file=files/content/Dateien/Evaluierung/Multi-annual_Evaluation_Programme.pdf (17.02.2014).

DIHK (2010): Mehr Wirtschaft wagen! Pläydoyer für eine wachstumsorientierte deutsche Entwicklungspolitik. Entwicklungspolitisches Positionspapier des deutschen Industrie und Handelskammertag. <http://www.dihk.de/themenfelder/international/aussenwirtschaftspolitik-recht/entwicklungspolitik/positionen> (17.02.2014).

Dutch MfA (2013a): Factsheet on the Homogeneous Budget for International Cooperation (HGIS) – 214. <http://www.government.nl/government/documents-and-publications/budgets/2013/09/17/factsheet-on-the-homogeneous-budget-for-international-cooperation-hgis.html> (17.02.2014).

Dutch MfA (2013b): A World to Gain. A new Agenda for Aid, Trade and Investment. April 2013. <http://www.government.nl/ministries/bz/documents-and-publications/letters/2013/04/05/global-dividends-a-new-agenda-for-aid-trade-and-investment.html> (17.02.2014).

Dutch MfA (2013c): Chapter 3 The Dutch Good Growth Fund: Finance for Development. AVT13/BZ110239.

Dutch MfA (2009): Results in Development. Report 2007-2008.

Easterly, William (2006): The White Man's Burden. New York.

Egger, Nadja (1997): Soft Loans in der internationalen Finanzierung. Eine Fallstudie aus Österreich, Wien.

Elbers, William (2002): Poverty Reduction (Be)For(e) Profit? A Study about the Contribution of the ORET-Program to Poverty Reduction. Master Thesis. Catholic University Nijmegen.

Engberg-Pedersen, Lars (2009): The Future of Danish Foreign Aid: the Best of the Second-best? In: Hvid, Nanna/Moritzen, Hans (eds.): Danish Foreign Policy Yearbook. Copenhagen, 107-136.

Erlassjahr (2013): Gefahr einer neuen Überschuldung: Die Mischung von öffentlichen Zuschüssen und privatem Kapital. Fachinformation Nr. 44 von Walter Ulbrich. 18.12.2013. http://www.erlassjahr.de/cms/upload/2013/Fachinfo_44/Fachinfo_Mischfinanzierung_No.44_Kopie.pdf (17.02.2014).

Escobar, Arturo (1995): Encountering Development: the Making and Unmaking of the Third World. Princeton, NJ.

ETA Umweltmanagement/ARBOS (2010a): Evaluierung der österreichischen Exportförderung. Ökologische, soziale und ökonomische Auswirkungen auf die Zielländer: Endbericht. Im Auftrag des Bundesministeriums für Finanzen.

ETA Umweltmanagement/ARBOS (2010b): Evaluierung der österreichischen Exportförderung. Ökologische, soziale und ökonomische Auswirkungen auf die Zielländer: Zusammenfassung einer Studie im Auftrag des Bundesministeriums für Finanzen von ETA Umweltmanagement und ARBOS management advisors. https://www.bmf.gv.at/wirtschaftspolitik/aussenwirtschaft-export/ETA-Kurzzusammenfassung_2.pdf?3vtn20 (2.12.2013).

EuropeAid (2013): Germany at a Glance. http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/accountability-report-2013/2013_germany_donor_profile_en.pdf (17.02.2014).

European Commission (2012): Denmark. http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/denmark-donor-profile.pdf (5.12.2013).

European Commission (2011): EU 2011 Report on Policy Coherence for Development, SEC(2011) 1627 final, Brussels. http://ec.europa.eu/europeaid/what/development-policies/documents/eu_2011_report_on_pcd_en.doc.pdf (15.02.2014).

European Commission (2002): Responses to the Challenges of Globalization. A Study on the International Monetary and Financial System and on Financing for Development. European Economy, Special Report, 2002/1, Luxembourg. http://ec.europa.eu/economy_finance/publications/publication7652_en.pdf (15.02.2014).

European Union (2006): Consolidated Versions of the Treaty on European Union and of the Treaty Establishing the European Community, C 321 E/1. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2006:321E:0001:0331:EN:PDF> (15.02.2014).

European Union (1992): Treaty on European Union, Official Journal C 191. <http://eur-lex.europa.eu/en/treaties/dat/11992M/htm/11992M.html> (15.02.2014).

Evans, Peter C. (2003): International Rules Governing Export Credit Financing: Too Strong, Too Weak or Just Right? A Report Prepared for the International Financial Flows an Environment Project, World Research Institute. http://pdf.wri.org/evans_draft_7_30_03.pdf (15.02.2014).

Eyben, Rosalind (2010): Harmonisation: How Is the Orchestra Conducted? In: Cornwall, Andrea/Eade, Deborah (eds.): Deconstructing Development Discourse. Buzzwords and Fuzzwords. Burlington on Dunsmore, Rugby, 215-222.

Fernald, Mark D. (1984): The Legal Effect of International and Domestic Efforts to Control their Use. In: Boston College International and Comparative Law Review, 7/2, 433-468.

Fielding, David/McGillivray, Mark/Torres, Sebastian (2007): A Wider Approach to Aid Effectiveness: Correlated Impacts on Health, Wealth, Fertility and Education. In: Mavrotas, George/Shorrocks, Anthony (eds.): Advancing Development: Core Themes in Global Economics. Hampshire and New York, 183-197.

Fleisig, Heywood/Hill, Catherine (1984): The Benefits and Costs of Official Export Credit Programs. In: Baldwin, Robert E./Krueger, Anne O. (eds.): The Structure and Evolution of Recent U.S. Trade Policy. Chicago, 321-258.

Flick, Uwe (2009): Sozialforschung. Methoden und Anwendungen. Ein Überblick für die BA-Studiengänge. Reinbeck bei Hamburg.

FMO (2012): Infrastructure Development Fund – Quick Scan. www.fmo.nl/nl/library/download/urn:uuid:e66b6924-78e5-422f-bc56-b613361fa496/2012-idf-quickscan-2.pdf?format=save_to_disk&ext=.pdf (17.02.2014).

FMO Evaluation Unit (2013): FMO Evaluation Report 2012/2013. Mind the Gap: Expectations versus Realizations of Project Outcomes. Investment & Mission Review. March 2013.

Folketinget (2013): Folketinget 2012-13, Aktstykke nr. 64, 7. februar.Folketingstidende E.

Fraser, Alastair/Whitfield, Lindsay (2009): Understanding Contemporary Aid Relationships. In: Whitfield, Lindsay (ed.): The Politics Of Aid. African Strategies for Dealing with Donors. Oxford, New York, 74-107.

Fritz, Livia (2013): Tied Aid Credits – A Hybrid Instrument at the Interface of Export Promotion and Development Policy. Diplomarbeit. Universität Wien.

Fry, Lucia (2011): Africa Let Down by Busan Aid Agreement. <http://www.actionaid.org/2011/12/africa-let-down-busan-aid-agreement> (15.02.2014).

Führer, Helmut (1996): The Story of Official Development Assistance. A History of the Development Assistance Committee and the Development Co-operation Directorate in Dates, Names and Figures, Paris. <http://www.oecd.org/dac/1896816.pdf> (15.02.2014).

G8 (1975): Rambouillet Declaration. <http://www.g8.utoronto.ca/summit/1975rambouillet/communique.html> (15.02.2014).

GAO (2002): Export-Import Bank and Treasury Differ in Their Approaches to Using Tied Aid, Washington D.C. <http://www.gao.gov/assets/240/235016.pdf> (15.02.2014).

GATT/WTO (1994): Agreement on Subsidies and Countervailing Measures. http://www.wto.org/english/docs_e/legal_e/24-scm.pdf (15.02.2014).

Gatti, Stefano (2008): Project Finance in Theory and Practice: Designing, Structuring, and Financing Private and Public Projects. London.

Geberth, Rolf (1998): The Genesis of the Consensus. In OECD (ed.): The Export Credit Arrangement. Achievements and Challenges 1978-1998. Paris, 27-32.

Gibson, Clark C et al. (2005): The Samaritan's Dilemma. The Political Economy of Development Aid. Oxford, New York.

- Gössinger, Agnes/Raza, Werner (2011): Bilateral Development Finance Institutions in Europe. A Comparative Analysis of DEG, CDC, FMO and NORFUND with Recommendations for Development Policy. December 2011. ÖFSE Working Paper 29. http://www.oefse.at/Downloads/publikationen/WP29_Finance_Institutions.pdf (17.02.2014).
- Government of the Netherlands (2012): Development Cooperation. Spending Cuts and Increases. Leaflet. 19.09.2012. <http://www.minbuza.nl/en/news/2012/09/review-of-development-cooperation-well-under-way.html> (17.02.2014).
- Grath, Anders (2012): The Handbook of International Trade and Finance: The Complete Guide to Risk Management, International Payments and Currency Management, Bonds and Guarantees, Credit Insurance and Trade Finance. London.
- Gulrajani, Nilima (2011): Transcending the Great Foreign Aid Debate: Managerialism, Radicalism and the Search for Aid Effectiveness. In: *Third World Quarterly*, 32/2, 199-216.
- Gütermann, Aljoscha (2011): "Be Social, Make Profit". Eine Untersuchung zur Arbeitsweise der niederländischen Entwicklungsbank, FMO. Diplomarbeit. Universität Wien. http://othes.univie.ac.at/12910/1/2011-01-04_0307120.pdf (17.02.2014).
- Hall, Steven (2011): Managing Tied Aid Competition: Domestic Politics, Credible Threats, and the Helsinki disciplines. In: *Review of International Political Economy*, 18/5, 646-672.
- Hancock, Graham (1989): *Lords of Poverty: The Power, Prestige, and Corruption of the International Aid Business*. New York.
- Handrich, Martin (1992): *Förderung von Exporten im Rahmen von Entwicklungshilfefinanzierungen: Möglichkeiten und Grenzen*. Vienna.
- Hanssen-Bauer, Jon/Owen, Anthony D./Grimsrud, Bjerne (2008): Evaluation of the Norwegian Mixed Credits Programme, Evaluation Reports 2000/8,1. Oslo. <http://www.norad.no/en/tools-and-publications/publications/publication?key=165405> (15.02.2014).
- Harmer, Adele/Ray, Deepayan B. (2009): *Study on the Relevance and Applicability of the Paris Declaration on Aid Effectiveness in Humanitarian Assistance*. London. <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/6020.pdf> (15.02.2014).
- Hoebink, Paul (2011): Die Niederlande als Vorbild? Herausforderungen und Perspektiven der niederländischen Entwicklungspolitik. *Neue Wege in der EZ*. Zentrum Jahrbuch.
- Hoebink, Paul (1998): The Humanitarianisation of the Foreign Aid Program in the Netherlands. In: *The European Journal of Development Research*, 11/1, June 1999, 176-202. http://www.ru.nl/publish/pages/546128/1999_-_paul_hoebink_-_the_humanitarization_of_the_foreig_aid_programme_of_the_netherlands_-_ejdr_11-1.pdf (17.02.2014).
- Hoebink, Paul/Schulpen, Lau (1998): Netherlands Aid Policies for Poverty Reduction. Working Paper 115. ODI. <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/2776.pdf> (17.02.2014).
- Holland, Martin (2008): The EU and the Global Development Agenda. In: *Journal of European Integration*, 30/3, 343-362.
- House of Commons (2014): *The Future of UK Development Co-operation: Phase 1: Development Finance. Eight Report of Session 2013-14, Volume 1: Report, together with formal minutes, oral and written evidence, HC 334, International Development Committee, 12 February 2014*.

IOB (1999): ORET/MILIEV Review 1994-1999. Assisting Developing Countries to Buy Investment Goods and Services in the Netherlands. IOB Evaluations. N.283. November 1999. <http://www.iob-evaluatie.nl/sites/iob-evaluatie.nl/files/283%20Oret-Miliev%201994-1999.pdf> (17.02.2014).

IOB (2009): Evaluation of the LDC Infrastructure Fund. Investing in Infrastructure. IOB Evaluation. N.324. July 2009. <http://www.oecd.org/derec/netherlands/44362357.pdf> (17.02.2014).

IOB/NCSTE (2006): Country-led Joint Evaluation of the Oret/Miliev Programme in China. The Development and Environment Related Export Transactions Programme. Ncste (China) and IOB (Netherlands). Aksand. Amsterdam. http://www.iob-evaluatie.nl/joint_evaluation_ORET_MILIEV_programme (17.02.2014).

Jackson, Penny (2012): Value for Money and International Development: Deconstructing Myths to Promote a More Constructive Discussion, OECD/DCD. <http://www.oecd.org/dac/effectiveness/49652541.pdf> (15.02.2014).

Jennings, Michael (2006): Using Archives. In: Desai, Vandana/Potter, Robert B. (eds.): Doing Development Research. London, Thousand Oaks, New Delhi, 241-250.

Jepma, Catrinus J. (1991): The Tying of Aid. Paris.

Keijzer, Niels (2012): The Future of Development Cooperation: from Aid to Policy Coherence for Development? Ecdpm. [http://www.ecdpm.org/Web_ECDPM/Web/Content/Download.nsf/0/1376CE79C07BD125C12579F300756B90/\\$FILE/ECDPM_assisesBE_plenary_English.pdf](http://www.ecdpm.org/Web_ECDPM/Web/Content/Download.nsf/0/1376CE79C07BD125C12579F300756B90/$FILE/ECDPM_assisesBE_plenary_English.pdf) (15.02.2014).

Ketkar, Suhas/Ratha, Dilip (2009): Innovative Financing for Development. Washington D.C.

KfW (1969): Law Concerning Kreditanstalt für Wiederaufbau. Version of 18th July 2013. www.kfw.de/Download-Center/KfW-Gesetz-und-Satzung-sowie-Gesch%C3%A4ftsordnungen/Law-concerning-KfW-and-KfW-By-laws/KfW_Gesetz_E.pdf (17.02.2014).

KfW Entwicklungsbank (2013): Assignment of Consultants. Guidelines for the Assignment of Consultants in Financial Cooperation with Partner Countries. <https://www.kfw-entwicklungsbank.de/Download-Center/PDF-Dokumente-Richtlinien/Consulting-E.pdf> (17.02.2014).

KfW Entwicklungsbank (2012a): Innovation Works. Technology for Development. Annual Report 2012 on Cooperation with Developing Countries. https://www.kfw-entwicklungsbank.de/Download-Center/PDF-Dokumente-Jahresberichte/2012_Jahresbericht_E.pdf (17.02.2014).

KfW Entwicklungsbank (2012b): From the Idea to Operation – the Project Cycle. A Closer Look at the Procedures of Financial Cooperation. https://www.kfw-entwicklungsbank.de/Download-Center/PDF-Dokumente-Flyer/Verfahrensflyer_2012_E.pdf (17.02.2014).

KfW Entwicklungsbank (2011): FC Development Loans. Need-Based Financial Products. <https://www.kfw-entwicklungsbank.de/Download-Center/PDF-Dokumente-Finanzprodukte/Fin.Prod.-Englisch.pdf> (17.02.2014).

KfW Entwicklungsbank (2010): FC Promotional Loan. A Complementary Financing Instrument of Financial Cooperation (FC) with Developing Countries. https://www.kfw-entwicklungsbank.de/Download-Center/PDF-Dokumente-Finanzprodukte/Merkblatt_F%C3%B6rderkredit_en.pdf (17.02.2014).

KfW Entwicklungsbank (2007a): Working Together for Our Climate. Annual Report 2007 on Cooperation with Developing Countries. KfW Entwicklungsbank. DEG. KfW Bankengruppe. https://www.kfw-entwicklungsbank.de/Download-Center/PDF-Dokumente-Jahresberichte/2007_Jahresbericht_E.pdf (17.02.2014).

- KfW Entwicklungsbank (2007b): Guidelines for Procurement of Goods, Works and Associated Services in Financial Cooperation with Partner Countries. Last updated in September 2013. <https://www.kfw-entwicklungsbank.de/Download-Center/PDF-Dokumente-Richtlinien/Vergabe-E.pdf> (17.02.2014).
- KfW Entwicklungsbank (2006): Promotion of Developing Countries. Disbursements of Funds. https://www.kfw-entwicklungsbank.de/Download-Center/PDF-Dokumente-Richtlinien/Merkblatt_Auszahlungen_E.pdf (17.02.2014).
- KfW Entwicklungsbank (2004): Investing Bears Fruits. Annual report 2004 on Cooperation with Developing Countries. KfW Entwicklungsbank. DEG. KfW Bankengruppe. https://www.kfw-entwicklungsbank.de/Download-Center/PDF-Dokumente-Jahresberichte/2004_Jahresbericht_E.pdf (17.02.2014).
- KfW Entwicklungsbank (2002): New Energy. For Development with a future. Annual report on German Cooperation with Developing Countries. https://www.kfw-entwicklungsbank.de/Download-Center/PDF-Dokumente-Jahresberichte/2002_Jahresbericht_E.pdf (17.02.2014).
- KfW Entwicklungsbank (n.s.): Die Finanzielle Zusammenarbeit mit Entwicklungsländern – Ziele, Konzepte und Beispiele aus der Praxis. Master Presentation.
- Kindornay, Shannon (2011): From Aid to Development Effectiveness: A Working Paper, the North-South Institute. <http://www.nsi-ins.ca/wp-content/uploads/2012/10/2011-From-aid-to-development-effectiveness.pdf> (15.02.2014).
- Kindornay, Shannon/Morton, Bill (2009): Development Effectiveness: Towards New Understandings. Issue Brief, Development Cooperation Series, the North-South Institute. <http://www.focusintl.com/GD126-%20Development%20effectiveness%20-%20Towards%20new%20understandings.pdf> (15.02.2014).
- King, Michael et al. (2012): Measuring Policy Coherence for Development, Final Report, Ecdpm. [http://www.ecdpm.org/Web_ECDDPM/Web/Content/Download.nsf/0/6E502CEB0FA7D3E6C1257A090060DA79/\\$FILE/Measuring%20PCD%20report%20Volume%201_comb.pdf](http://www.ecdpm.org/Web_ECDDPM/Web/Content/Download.nsf/0/6E502CEB0FA7D3E6C1257A090060DA79/$FILE/Measuring%20PCD%20report%20Volume%201_comb.pdf) (15.02.2014).
- Klein, Michael U./Hardford, Tim (2005): The Market for Aid. Washington D.C.
- Kuhn, Michael G./Horváth, Balázs/Jarvis, Christopher J. (1995): Officially Supported Export Credits. Recent Developments and Prospects. Washington, D.C.
- La Chimia, Annamaria (2004): International Steps to Untie Aid: The DAC / OECD Recommendation on Untying Official Development Assistance to the Least Developed Countries. In: Public Procurement Law Review, 13/1, 1-29.
- Lammersen, Frans (2001): Development Choices: Opening Up Markets. In: International Trade Forum, 2001/4.
- Lammersen, Frans (1998): Mission Accomplished: Ex Ante Guidance for Tied Aid. In OECD (ed.): The Export Credit Arrangement. Achievements and Challenges 1978-1998. Paris, 59-66.
- Lammersen, Frans/Owen, Anthony D. (2001): The Helsinki Arrangement: its Impact on the Provision of Tied Aid. In: International Journal of Finance; Economics, 6/1, 69-79.
- Lancaster, Carol (2008): Danish and US Foreign Aid Compared: A View from Washington. In: Hvid, Nanna/Moritzen, Hans (eds): Danish Foreign Policy Yearbook. Copenhagen, 31-54.
- Lancaster, Carol (2007): Foreign Aid. Diplomacy, Development, Domestic Politics. Chicago and London.
- Lerrick, Adam/Meltzer, Allan H. (2002): Grants: A Better Way to Deliver Aid. Quarterly International Economics Report, Carnegie Mellon Gailliot Center for Public Policy. <http://www2.gsu.edu/~poljsd/4421/4421readings/Lerrick-Meltzer.pdf> (15.02.2014).

- Levit, Janet K. (2004): The Dynamics of International Trade Finance Regulation: The Arrangement on Officially Supported Export Credits. In: *Harvard International Law Journal*, 45/1, 65-183.
- Lomoy, Jon (2013): Yes, It Is Time to Revisit the Concept of Development Assistance, *OECD Insights*, May 4, 2013. <http://oecdinsights.org/2013/05/04/yes-it-is-time-to-revisit-the-concept-of-official-development-assistance/> (15.02.2014).
- Maca, Silvia et al. (2007): *Soft Loans – Neuerungen*, 21 November 2007. <http://www.oekb.at/de/osn/DownloadCenter/exportservice/finanzieren/Praesentation-Soft-Loans-Neuerungen.pdf> (15.02.2014).
- Mahon, Rianne/McBride, Stephen (2008): *The OECD and Transnational Governance*. Vancouver, Toronto.
- Manning, Richard (2013): OECD is Ignoring its Definition of Overseas Aid. In: *Financial Times*, April 9, 2013. <http://www.ft.com/intl/cms/s/0/b3d73884-a056-11e2-88b6-00144feabdc0.html#axzz2U1AjlUfN> (15.02.2014).
- Manning, Richard (2011): The Future of International Concessional Flows. In: *OECD (ed.): Development Co-operation Report 2011. 50th Anniversary Edition*. Paris, 109-120.
- Martenczuk, Bernd (2008): Export Aid and EC State Aid Control. In: *Santaolalla Gadea, Francisco/Rodriguez Iglesias, Giles C. (eds.): EC State Aid Law*. Alphen aan den Rijn, 169-190.
- Martens, Kerstin/Jakobi, Anja P. (2010a): *Mechanisms of OECD Governance: International Incentives for National Policy-Making?* Oxford, New York.
- Martens, Kerstin/Jakobi, Anja P. (2010b): Introduction: The OECD as an Actor in International Politics. In: *Martens, Kerstin/Jakobi, Anja P. (eds.): Mechanisms of OECD Governance: International Incentives for National Policy-Making?* Oxford, New York, 1-25.
- Martens, Kerstin/Jakobi, Anja P. (2010c): Conclusion: Findings, Implications and Outlook of OECD Governance. In: *Martens, Kerstin/Jakobi, Anja P. (eds.): Mechanisms of OECD Governance: International Incentives for National Policy-Making?* Oxford, New York, 260-280.
- Martens, Bertin et al. (2002): *The Institutional Economics of Foreign Aid*. Cambridge.
- Mayring, Philipp (2004): Qualitative Content Analysis. In: *Flick, Uwe/Steinke, Ines/ Von Kardorff, Ernst (eds.): A Companion to Qualitative Research*. London, Thousand Oaks, New Delhi, 266-269.
- Mendelowitz, Allan I. (1994): *Combating U.S. Competitors' Tied Aid Practices*. Washington D.C.
- Mendelowitz, Allan I. (1989): *Export Credits: The Effectiveness of the 1987 Agreement to Control the Use of Tied Aid Credits Under the Arrangement on Guidelines for Officially Supported Export Credits*. Testimony. Washington D.C.
- Mess, Markus (2012): *Niederlande*. In: *Gieler, Wolfgang (ed.): Entwicklungszusammenarbeit im europäischen Vergleich. Eine grundlegende Einführung in die Politik ausgewählter Staaten*. Internationale Politik. Berlin, 125-139.
- Meyer, Stefan/Schulz, Nils-Sjard (2008): *From Paris to Accra: Building the Global Governance of Aid, Development in Context*. In: *FRIDE*, 2008/16. Madrid.
- Michaelowa, Katharina A. (1998): *Die neue politische Ökonomie liefergebundener Entwicklungshilfe*. Baden-Baden.
- Ministry of Foreign Affairs of Finland/WaterPro Partners and Associated Firms (2003): *Evaluation of the Finnish Concessional Credit Scheme*.
- Moravcsik, Andrew M. (1989): Disciplining Trade Finance: the OECD Export Credit Arrangement. In: *International Organization*, 43/1, 173-205.

- Morrissey, Oliver (1999): Aid and Trade Policy (In)Coherence. In: Forster, Jacques/Stokke, Olav S. (eds.): Policy Coherence in Development Co-operation. London et al., 373-388.
- Morrissey, Oliver (1998): ATP is Dead: Long Live Mixed Credits. In: Journal of International Development, 10/2, 247-255.
- Moyo, Dambisa (2009): Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa. London.
- NL Agency/MfA (2013a): Policy Rules for the ORIO Grant Facility. http://english.rvo.nl/sites/default/files/2013/12/Policy%20Rules%202012%20-%20English_0.pdf (17.02.2014).
- NL Agency/MfA (2013b): ORIO Manual 2013. <http://english.agentschapnl.nl/sites/default/files/2013/12/ORIO%20Manual%202013%20in%20English.pdf> (17.02.2014).
- NL Agency/MfA (2013c): ORIO Fact Sheet 2013. <http://english.rvo.nl/sites/default/files/2013/12/EN%20factsheet%202013.pdf> (17.02.2014).
- NL Agency/MfA (2013d): Intake Form ORIO, Facility for Infrastructure Development. http://english.rvo.nl/sites/default/files/2013/12/ORIO%20Intake%20form_0.doc (17.02.2014).
- NL Agency/MfA (2013e): Procurement Process and Assessment ORIO. <http://english.rvo.nl/sites/default/files/2013/12/ORIO%20Procurement%20guidelines%20version%202.5.pdf> (17.02.2014).
- NL Agency/MfA (2013f): Template Result Indicators. <http://english.rvo.nl/sites/default/files/2013/12/Template%20Result%20Indicators.xls> (17.02.2014).
- NL Agency/MfA (2013g): Template Progress Report. <http://english.rvo.nl/sites/default/files/2013/12/ORIO%20Progress%20Report%20Template.doc> (17.02.2014).
- NL Agency/MfA (2011): ORIO Policy Rules 2009-2011. <http://english.rvo.nl/sites/default/files/2013/12/ORIO%20Policy%20Rules%20English.pdf> (17.02.2014).
- Nygren, Birgitta (1998): Mission Impossible: Enhancing Discipline on Tied Aid Credits. In: OECD (ed.): The Export Credit Arrangement. Achievements and Challenges 1978-1998. Paris, 55-58.
- Obrovsky, Michael (2006): Entwicklungspolitische Kohärenz. Zu den erweiterten politischen Rahmenbedingungen für mehr Wirksamkeit in der EZA. In: ÖFSE (ed.): Mehr Wirksamkeit in der EZA. Quantensprung oder Rhetorik. Österreichische Entwicklungspolitik: Analysen, Informationen. Wien, 69-81.
- Obrovsky, Michael/Schlögl, Lukas (2011): Politikkohärenz durch Kohärenzpolitik! Bedingungen für Policy Coherence for Development in Österreich, ÖFSE-Edition 17. Wien.
- ODI (2009): The Trade Implications of Aid Instruments and Tying Practices, Studien und Materialien. KfW-Development Research. Frankfurt am Main.
- OECD (2013a): OECD Country Classification 2013 – as of 20 July 2013. <http://www.oecd.org/tad/xcred/2013-ctryclass-en-as-of-20-july-2013.pdf> (5.12.2013).
- OECD (2012): OECD Strategy on Development. Meeting of the OECD Council at Ministerial Level. <http://www.oecd.org/development/50452316.pdf> (15.02.2014).
- OECD (2011a): Aid Effectiveness 2005-10: Progress in Implementing the Paris Declaration. Paris.
- OECD (2011b): Smart Rules for Fair Trade. 50 Years of Export Credits. Paris. http://www.oecd-ilibrary.org/trade/smart-rules-for-fair-trade_9789264111745-en (15.02.2014).
- OECD (2008a): The Export Credits Arrangement 1978-2008. Achievements and Challenges - Continued! Paris. <http://www.oecd.org/tad/xcred/40594872.pdf> (15.02.2014).

OECD (2008b): Declaration on Policy Coherence for Development. 4 June 2008 – C/MIN(2008)2/FINAL. <http://acts.oecd.org/Instruments/ShowInstrumentView.aspx?InstrumentID=138&InstrumentPID=134&Lang=en&Book=False> (15.02.2014).

OECD (2008c): Export Credit Financing Systems in OECD Member Countries and Non-Member Economies: Netherlands. http://www.oecd-ilibrary.org/trade/export-credit-financing-systems-in-oecd-member-countries-and-non-member-economies-netherlands_9789264071735-en (17.02.2014)

OECD (2005-2008): The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. <http://www.oecd.org/development/effectiveness/34428351.pdf> (15.02.2014).

OECD (2005): The Development Dimension. Policy Coherence for Development. Promoting Institutional Good Practice. Paris.

OECD (2003): Policy Coherence: Vital for Global Development. Policy Brief. <http://www.oecd.org/development/pcd/20202515.pdf> (15.02.2014).

OECD (2001): The DAC Guidelines Poverty Reduction. Paris. http://www.oecd-ilibrary.org/development/poverty-reduction_9789264194779-en (15.02.2014).

OECD (1998): The Export Credit Arrangement. Achievements and Challenges 1978-1998. Paris.

OECD (1995): Export Credit Financing Systems in OECD Member and Non-Member Countries. Paris.

OECD/DAC (2014): The Future of the DAC List of ODA Recipients. DCD/DAC(2014)4. <http://www.oecd.org/dac/externalfinancingfordevelopment/documentupload/ERG%20S2%20Jan%202014%20-%20The%20Future%20of%20the%20DAC%20List%20of%20ODA%20Recipients%20DCD-DAC-2014-4-ENG.pdf> (28.02.2014).

OECD/DAC (2013a): Development Co-operation Report 2013. Ending Poverty. Paris.

OECD/DAC (2013b): Converged Statistical Reporting Directives for the Creditor Reporting System (GRS) and the Annual DAC Questionnaire. Paris. DCD/DAC(2013)15/FINAL.

OECD/DAC (2013c): Loan Concessionalities in DAC Statistics. Feb 2013. DCD/DAC(2013)2. <http://search.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC%282013%292&docLanguage=En> (17.02.2014).

OECD/DAC (2012a): The DAC List of ODA Recipients. Factsheet. <http://www.oecd.org/dataoecd/13/58/49483614.pdf> (15.02.2014).

OECD/DAC (2012b): DAC High Level Meeting 2012: New Directions in DAC Measurement and Monitoring of External Development Finance. <http://www.oecd.org/dachlm/DACHLMDevFinance.pdf> (12.07.2013).

OECD/DAC (2012c): Development Co-operation Report in 2012. Lessons in Linking Sustainability and Development. Paris. <http://www.oecd-ilibrary.org/docserver/download/4313111e.pdf?expires=1387205714&id=id&accname=guest&checksum=8F5A1D00AB576012646E60B5923BC785> (16.12.2013).

OECD/DAC (2012d): Mid-Term Review of Germany, November 2012. DCD/JL(2012)63. http://www.bmz.de/en/zentrales_downloadarchiv/Presse/47_414_1_Abschlussbericht_Brief_Lo moy_2.pdf (17.02.2014).

OECD/DAC (2011a): Busan Partnership for Effective Development Co-operation. http://effectivecooperation.org/files/OUTCOME_DOCUMENT_-_FINAL_EN.pdf (15.02.2014).

OECD/DAC (2011b): Table 22: Statistics Other Terms Parameters, for loan-giving DAC members. <http://www.oecd.org/dac/stats/tab22e.xls> (15.05.2013).

OECD/DAC (2011c): DAC Peer Review of Denmark. Paris.

OECD/DAC (2011d): The Netherlands. Development Assistance Committee. Peer Review. <http://www.oecd.org/dac/peer-reviews/49011988.pdf> (17.02.2014).

OECD/DAC (2010): Peer Review of Germany. <http://www.oecd.org/dac/peer-reviews/46439355.pdf> (17.02.2014).

OECD/DAC (2009): Better Aid. Managing Aid. Practices of DAC Member Countries. Paris.

OECD/DAC (2008): Is it ODA? Factsheet. <http://www.oecd.org/dac/stats/34086975.pdf> (15.02.2014).

OECD/DAC (2005): Working Party on Export Credits and Credit Guarantees. Notifications of changes in the export credit System. Notes from the Netherlands. TD/ECG/N(2005)5. <http://search.oecd.org/officialdocuments/displaydocumentpdf/?cote=TD/ECG/N%282005%295&docLanguage=En> (17.02.2014).

OECD/DAC (2003): Rome Declaration on Harmonisation. <http://www.oecd.org/development/effectiveness/31451637.pdf> (15.02.2014).

OECD/DAC (2002): History of the 0.7% ODA Target. DAC Journal, 3/4, III-9-III-11. <http://www.oecd.org/dac/stats/45539274.pdf> (15.02.2014).

OECD/DAC (2001): Recommendation on Untying ODA to the Least Developed Countries, DCD/DAC/2001)12/Final.

OECD/DAC (1996): Shaping the 21st Century: The Contribution of Development Co-operation. Paris.

OECD/DAC (1992): Development Assistance Manual. DAC Principles for Effective Aid. Paris.

OECD/DAC (1987): DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance. <http://www.oecd.org/dac/31775636.pdf> (15.02.2014).

OECD/DAC (1978): DAC Recommendation on Terms and Conditions of Aid. <http://www.oecd.org/dac/stats/31426776.pdf> (15.02.2014).

OECD/DAC (n.s.) Aid Statistics. Official Development Assistance-Definition and Coverage. <http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm> (15.02.2014).

OECD/DAC (n.s.) DAC Glossary of Key Terms and Concepts. <http://www.oecd.org/dac/dacglossaryofkeytermsandconcepts.htm> (15.02.2014).

OECD/DCD (n.s.): Peer Reviews of DAC Members. <http://www.oecd.org/dac/peer-reviews/> (15.02.2014).

OECD/ECG (2008): Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of the Official Export Credits to Low Income Countries adopted by the OECD Working Party on Export Credits and Credit Guarantees (ECG). Paris, TAD/ECG(2008)15.

OECD/PG (2013): Arrangement on Officially Supported Export Credits. Paris, TAD/PG(2013)11. <http://search.oecd.org/officialdocuments/displaydocumentpdf/?doclanguage=en&cote=tad/pg%282013%2911> (05.12.2013).

OECD/PG (2005): Ex Ante Guidance for Tied Aid. TD/PG(2005)20. <http://search.oecd.org/officialdocuments/displaydocumentpdf/?doclanguage=en&cote=td/pg%282005%2920> (21.01.2014).

OECD Stats (2013a): OECD.StatExtracts. http://stats.oecd.org/OECDStat_Metadata/ShowMetadata.ashx?Dataset=TABLE3A (14.06.2013).

- OECD Stats (2013b): OECD.StatExtracts.
<http://stats.oecd.org/Index.aspx?DataSetCode=TABLE3A> (03.06.2013).
- OeKB (2013): Environmental and Social Assessment under the Austrian Export Promotion System: Process Description. <http://www.oekb.at/en/osn/DownloadCenter/export-services/project-and-environmental-analyses/esa/OeKB-ESA-Process-Description.pdf> (02.11.2013).
- OeKB (2012): Exportservice: Jahresbericht.
<http://www.oekb.at/de/osn/DownloadCenter/unternehmen/berichte/OeKB-Exportservice-Jahresbericht-2012.pdf> (02.11.2013).
- OeKB (2011): Mit weichen Darlehen harte Fakten schaffen. In: Relevant. Informationen der Oesterreichischen Kontrollbank Gruppe, 1, 6-9.
- OeKB (2010a): Export Financing with OeKB: The Optimal Way to Finance Exports and Foreign Investments. June 2010. Wien.
- OeKB (2010b): Soft Loan-Fragebogen für Unternehmen die einen gebundenen Hilfskredit (Rahmen II-Finanzierung) beantragen.
<http://www.oekb.at/de/osn/DownloadCenter/exportservice/finanzieren/Soft-Loan-Fragebogen-Allgemein-Dezember-2010.docx> (12.10.2013).
- OeKB (n.s.): Soft Loans. <http://www.oekb.at/en/export-services/financing/soft-loans/pages/default.aspx> (15.02.2014).
- Open Forum for CSO Development Effectiveness (n.s): 4th High Level Forum on Aid Effectiveness (HLF 4). <http://www.cso-effectiveness.org/4th-high-level-forum-on-aid,080?lang=en> (15.02.2014).
- ORET.nl (2007): Frequently Asked Questions ORET October 2007.
http://www.oret.nl/docs/ORET_FAQ_oktober_2007_ENG.pdf (17.02.2014).
- ORET.nl (2006): ORET Program. http://www.oret.nl/docs/ORET_brochure_eng.pdf (17.02.2014).
- Owen, Tony (1998): Mission Assessed: What Grounds for Commercial Viability? In: OECD (ed.): The Export Credit Arrangement. Achievements and Challenges 1978-1998. Paris, 67-70.
- Petermann, Jan-Henrik (2013): Between Export Promotion and Poverty Reduction: The Foreign Economic Policy of Untying Official Development Assistance. Wiesbaden.
- Picciotto, Robert (2005): The Evaluation of Policy Coherence for Development. In: Evaluation, 11/3, 311-330.
- Picciotto, Robert (2004): Policy Coherence and Development Evaluation Concepts, Issues and Possible Approaches, Institutional Approaches to Policy Coherence for Development OECD Policy Workshop 18-19 May 2004 Room Document 2. <http://www.oecd.org/pcd/31659358.pdf> (15.02.2014).
- Power, Michael (1997): The Audit Society. Oxford.
- Provost, Claire/Tran, Mark (2013): Value of Aid Overstated by Billions of Dollars as Donors Reap Interest on Loans. In: The Guardian, April 30, 2013. <http://www.theguardian.com/global-development/2013/apr/30/aid-overstated-donors-interest-payments> (15.02.2014).
- Raffer, Kunibert (1998): Looking a Gift Horse in the Mouth. In: Zagreb International Review of Economics&Business, 1/2, 1-21.
- Rao, Pinninti K. (2003): Development Finance. Heidelberg.
- Ray, John E. (1998): The Arrangement from the Inside. In OECD (ed.): The Export Credit Arrangement. Achievements and Challenges 1978-1998. Paris, 33-38.

Ray, John E. (1995): *Managing Official Export Credits: the Quest for a Global Regime*. Washington D.C.

Renard, Robrecht/Cassimon, Danny (2001): *On the Pitfalls of Measuring Aid*, Discussion Paper 2001/69: United Nations University, World Institute for Development Economics Research.

Reuke, Ludger/Grohse, Yasmin (2013): *Aus ODAstan nichts Neues: Es gilt das gebrochene Wort. Die unzureichende deutsche „Öffentliche Entwicklungsunterstützung“ 2006-2011/2012*. Germanwatch. Studie. <http://germanwatch.org/en/download/7786.pdf> (17.02.2014).

Riddell, Roger C. (2007): *Does Foreign Aid Really Work?* Oxford.

Rosefsky, Katherine P. (1993): *Tied Aid Credits and the New OECD Arrangement*. In: *Journal of International Law*, 14/3, 437-467.

Ruckert, Arne (2008): *Making Neo-Gramscian Sense of the Development Assistance Committee*. In: Mahon, Rianne/McBride, Stephen (eds.): *The OECD and Transnational Governance*. Vancouver, Toronto, 96-113.

Sanchez, Michelle R. (2008): *The WTO and the OECD Rules on Export Credits: a Virtuous Circle? The Example of the Embraer Case and the 2007 Civil Aircraft Understanding*. Direito Artigos Working Paper (29). São Paulo.

Schmidt, Wilson E. (1964): *The Economics of Charity: Loans versus Grants*. In: *Journal of Political Economy*, 72/4, 387-395.

Schweiger, Eva (2013): *Tied Aid Credits as an Instrument of Development Finance. An Economic Assessment*. Diplomarbeit Universität Wien.

Seebens, Holger (2012): *Entwicklungspolitik Kompakt. Wie stark profitiert die deutsche Volkswirtschaft von der öffentlichen Entwicklungszusammenarbeit?* KfW-Development Research. *Entwicklungspolitik Kompakt*. Nr.19, 14. Dezember 2012. https://www.kfw-entwicklungsbank.de/Download-Center/PDF-Dokumente-Development-Research/2012-12-14_EK_EZ-und-Exporte.pdf (17.02.2014).

Severino, Jean-Michel (2011): *The Resurrection of Aid*. In: OECD (ed.): *Development Cooperation Report 2011*. 50th Anniversary Edition. Paris, 121-134.

Six, Clemens (2006): *Harmonisierung und Anpassung als Strategien für wirksamere Hilfe? Bisherige Erfahrungen mit bi- und multilateralen Gebern*. In: ÖFSE (ed.): *Mehr Wirksamkeit in der EZA. Quantensprung oder Rhetorik. Österreichische Entwicklungspolitik: Analysen, Informationen*. Wien, 17-31.

Spitz, Gabi/Muskens, Roeland/van Ewijk, Edith (2013): *The Dutch and Development Cooperation. Ahead of the Crowd or Trailing Behind?* NCDO. March 4th. Amsterdam. <http://www.ncdo.nl/sites/default/files/Report%20Analysis%20The%20Dutch%20and%20Development%20Cooperation%20FINAL%202013%2003%2004.pdf> (17.02.2014).

Stafford, David (1998): *Wallén, Helsinki, Schaerer et al: Some Major Achievements, Some Challenges to Meet*. In: OECD (ed.): *The Export Credit Arrangement. Achievements and Challenges 1978-1998*. Paris, 45-50.

Statistik Austria (2013): *Außenhandel: Die wichtigsten Handelspartner Österreichs 2012*. http://www.statistik.gv.at/web_de/services/wirtschaftsatlas_oesterreich/aussenhandel/index.html (23.11.2013).

Statistisches Bundesamt (2013): *Foreign Trade. Ranking of Germany's Trading Partners in Foreign Trade 2012*. Published on October 30, 2013. https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/ForeignTrade/TradingPartners/Tables/OrderRankGermanyTradingPartners.pdf?__blob=publicationFile (17.02.2014).

- Terre des Hommes (2012): Die Wirklichkeit der Entwicklungspolitik. Eine kritische Bestandsaufnahme der deutschen Entwicklungszusammenarbeit. Wohin steuert die Entwicklungspolitik? Zahlen und Fakten. http://www.tdh.de/fileadmin/user_upload/inhalte/10_Material/Wirklichkeit_der_Entwicklungshilfe/2012-20-1_2/2012-20_2_Wirklichkeit_der_Entwicklungspolitik.pdf (17.02.2014).
- The Danish Government (2013): Priorities for Danish Development Cooperation. Overview of the Development Cooperation Budget 2014-2017. <http://um.dk/en/~media/UM/English-site/Documents/Danida/Goals/Strategy/priorities%20for%20the%20Danish%20development%20Cooperation%20for%202014.pdf> (5.12.2013).
- The Danish Government (2012): The Right to a Better Life. Strategy for Denmark's Development Cooperation, June 2012. Copenhagen, http://um.dk/en/~media/UM/Danish-site/Documents/Danida/Det-vil-vi/right_to_a_better_life_pixi.pdf (5.12.2013).
- The Danish Government (2010): Freedom from Poverty. Freedom to Change. Copenhagen. <http://um.dk/en/~media/UM/English-site/Documents/Danida/Goals/Strategy/Freedom%20from%20poverty.ashx> (5.12.2013).
- The Danish Parliament (n.s.): The Committees. http://www.thedanishparliament.dk/Committees_and_delegations/Committees/URU.aspx, (18.01.2014).
- The Reality of Aid Management Committee (2012): South-South Development Cooperation: A challenge to the aid system? In: ReliefWeb (ed.): Briefing Kit for Reality of Aid Project + Humanitarian Financing. Quezon City.
- Timonen, Eero (1998): The Birth of the 'Helsinki Package'. In: OECD (ed.): The Export Credit Arrangement. Achievements and Challenges 1978-1998. Paris, 51-54.
- Tinbergen, Jan (1986): On the Theory of Economic Policy. *ISI Current Contents* (22), 914, June 2, 1986. <http://www.garfield.library.upenn.edu/classics1986/A1986C401200001.pdf> (15.02.2014).
- Tinbergen, Jan (1952): On the Theory of Economic Policy. Amsterdam.
- Tujan, Antonio Jr. (2011): Aid Effectiveness Debatte. Ownership braucht Demokratie. In: E+Z, 2011/09, 340-341.
- Tvardek, Steve (2011): Smart Aid Rules for Development, Not Export Promotion. In OECD (ed.): Smart Rules for Fair Trade. 50 Years of Export Credits. Paris, 208-214.
- UNIDO (2008a): Independent Evaluation. SIERRA LEONE. UNIDO Integrated Programme. Post-Conflict SME Support Programme for Industrial Development and Poverty Alleviation. Vienna.
- UNIDO (2008b): Public Goods for Economic Development. Vienna.
- United Nations (2013): A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development. The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda. New York. http://www.un.org/sg/management/pdf/HLP_P2015_Report.pdf (03.03.2014).
- United Nations (2003): Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002. <http://www.unmillenniumproject.org/documents/aconf198-11.pdf> (15.02.2014).
- United Nations (n.s.): Millennium Development Goals. <http://www.un.org/millenniumgoals/> (15.02.2014).
- Url, Thomas (2003): Die Rolle von Soft Loans in der Außenhandelsförderung. Studie des WIFO im Auftrag der Oesterreichischen Kontrollbank AG (Not released study). Wien.

- Van der Hoeven, Rolf (2010): Policy Coherence: The Newest Fad in International Discourse? In: Hoebink, Paul (ed.): European Development Cooperation. In Between the Local and the Global. Amsterdam, 25-46.
- Vanheukelom, Jan et al. (2012): Reporting on Development: ODA and Financing for Development. Maastricht, Brussels.
- ViceVersa (n.d.): Factsheet Ontwikkelingsrelevante Infrastructuurontwikkeling (ORIO). <http://viceversaonline.nl/images/stories/vooroordeel4.doc> (17.02.2014).
- Wang, Zhen-kun (1997): Managing Official Export Credits: The Quest for a Global Regime by John E. Ray. In: The Economic Journal, 107.1997/442, 823-825.
- Werkgroep Exportfinanciering (2012): Agenda voor een Strategische Inzet Van Het Instrumentarium Voor Exportfinanciering. Rapport High-Level Werkgroep Exportfinanciering – Den Haag, 4 Juli 2012.
- West, Janet (2011): Export Credits and the OECD. In OECD (ed.): Smart Rules for Fair Trade. 50 Years of Export Credits. Paris, 20-34.
- West, Janet (1998): Introduction. In: OECD (ed.): The Export Credit Arrangement. Achievements and Challenges 1978-1998. Paris, 9-12.
- Whitfield, Lindsay (2009): The Politics of Aid. African Strategies for Dealing with Donors. Oxford, New York.
- Wolff, Stephan (2004): Analysis of Documents and Records. In: Flick, Uwe/Steinke, Ines/ Von Kardorff, Ernst (eds.): A Companion to Qualitative Research. London, Thousand Oaks, New Delhi, 284-289.
- Wolfmayer-Schnitzer, Yvonne et al. (2003): Evaluierung von interessanten Absatzmärkten und Exportpotentialen für die österreichische Exportwirtschaft: Zusammenfassung und wirtschaftspolitische Schlussfolgerungen. Studie des Österreichischen Instituts für Wirtschaftsforschung im Auftrag der Oesterreichischen Kontrollbank AG im Namen und auf Rechnung des Bundes (Bundesministerium für Finanzen), (unpublished).
- Wood, Bernard et al. (2011): The Evaluation of the Paris Declaration. Final Report, Danish Institute for International Studies. Copenhagen.
- Wood, Bernard et al. (2008): Synthesis Report on the First Phase of the Evaluation of the Implementation of the Paris Declaration. Copenhagen.
- Woodward, Richard (2009): The Organisation for Economic Co-operation and Development (OECD). London.
- World Bank (2013a): World Bank GNI per Capita Operational Guideliens & Analytical Categories. siteresources.worldbank.org/DATASTATISTICS/Resources/OGHIST.xls (5.12.2013).
- World Bank (2013b): Net ODA Received (% of GNI). <http://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS> (03.04.2013).
- World Bank (2013c): Financing for Development Post-2015, The World Bank Group, October 2013. Washington D.C. <http://www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/WB-PREM%20financing-for-development-pub-10-11-13web.pdf> (07.03.2014).
- Ziai, Aram (2007): Exploring Post-development. Theory and Practice, Problems and Perspectives. London, New York.
- Ziai, Aram (2006): Zwischen Global Governance und Post-Development. Entwicklungspolitik aus diskursanalytischer Perspektive. Münster.

OECD Archive Footage

DAC Working Party on Financial Aspects of Development Assistance

DAC/FA(81)1	DCD/DAC/FA(93)10/REV1
DAC/FA/M(81)1(Prov.)	DCD/DAC/FA(94)3
DAC/FA(82)2	DCD/DAC/FA(94)8
DAC/FA/M(82)1(Prov.)	DCD/DAC/FA(94)9
DAC/FA(85)2	DCD/DAC/FA/M(94)1/PROV
DAC/FA(86)8	DCD/DAC/FA/M(94)2/PROV
DAC/FA(86)11)	DCD/DAC/FA(95)1
DAC/FA(86)12	DCD/DAC/FA(95)2/REV 1
DAC/FA(87)1	DCD/DAC/FA(95)14
DAC/FA(87)2	DCD/DAC/FA(95)3/REV1
DAC/FA(87)5	DCD/DAC/FA(96)1)
DAC/FA(87)6	DCD/DAC/FA(96)6
DAC/FA/M(87)1(Prov.)	DCD/DAC/FA(97)8
DAC/FA(89)2	DCD/DAC/FA(97)10
DAC/FA/M(89)1(Prov.)	D/DAC/FA(97)8
DAC/FA/M(89)1(Prov.)	DCD/DAC/FA/M(97)1
DCD/DAC/FA(90)5	DCD/DAC/FA(98)3
DCD/DAC/FA(90)8	DCD/DAC/FA(98)4
DAC/FA/M(90)1(Prov.)	DCD/DAC/FA(98)6
DCD/DAC/FA(91)1	DCD/DAC/FA(98)12
DCD/DAC/FA(91)2	DCD/DAC/FA(98)13
DCD/DAC/FA/M(94)1/PROV	DCD/DAC/FA(99)6
DAC/FA(92)1	DCD/DAC/FA(99)8
DCD/DAC/FA(92)1	DCD/DAC(2001)12/FINAL
DCD/DAC/FA/M(92)3	DCD/DAC/FA(2002)2
DCD/DAC/FA(92)8/REV1	DCD/DAC/FA(2002)9
DCD/DAC/FA(93)3	DCD/DAC(2010)34/FINAL
DCD/DAC/FA(93)6	DCD/DAC(2010)40/REV1
DCD/DAC/FA/M/(93)2/PROV	

Participants Group

TD/CONSENSUS/84.23	TD/CONSENSUS(95)12
TD/CONSENSUS/85.88	TD/CONSENSUS(95)17
TD/CONSENSUS/86.11	TD/CONSENSUS(95)43
TD/CONSENSUS/86.52	TD/CONSENSUS(95)54
TD/CONSENSUS/86.53	TD/CONSENSUS(96)20
TD/CONSENSUS/86.66	TD/CONSENSUS(96)23
TD/CONSENSUS/88.14	TD/CONSENSUS(96)39
TD/CONSENSUS/88.25	TD/CONSENSUS(96)14
TD/CONSENSUS/89.24	TD/CONSENSUS(97)21
TD/CONSENSUS/89.4	TD/CONSENSUS(97)45
TD/CONSENSUS/89.4/Annex	TD/CONSENSUS(97)57
TD/CONSENSUS/90.26	TD/CONSENSUS(2001)6
TD/CONSENSUS/90.52	TD/PG(2003)7
TD/CONSENSUS(90)43/Annex I	TD/PG(2003)8
TD/CONSENSUS(91)23	TD/PG(2004)8
TD/CONSENSUS(91)31	TD/PG(2004)17
TD/CONSENSUS(91)32	TD/PG(2004)26
TD/CONSENSUS(92)12	TD/PG(2005)7
TD/CONSENSUS(92)42	TD/PG(2005)8
TD/CONSENSUS(93)6	TD/PG/M(2005)13/FINAL
TD/CONSENSUS(93)23	TD/PG(2005)20
TD/CONSENSUS(93)46	TD/PG(2006)9
TD/CONSENSUS(93)55	TD/PG(2006)23
TD/CONSENSUS(94)32	TAD/PG(2012)9
TD/CONSENSUS(94)50	TAD/PG(2013)1
TD/CONSENSUS(95)11	

Other

C-M(90)11-Prov.	DCD/DAC, Final Communiqué 16/05/2002
DAC(83)7,	DCD/DAC/STAT(2012)18/REV1
DAC(83)17	DCD/DAC/STAT(2012)20/DRAFT
DAC(87)17	OECD/GD(94)67
DAC(88)11	SG/PRESS(92)35
DCD(99)6	TAD/ECG(2008)1
DCD/DAC(2007)39/FINAL	TC/ECG/82.4
DCD/DAC(2010)40/REV1	

OECD Archive Footage: Document Codes

Code	Corresponding Body/Working Party
C-MIN	Ministerial Council Meeting
DAC/FA , after 1991 DCD/DAC/FA	Development Assistance Committee – Working Party on Financial Aspects of Development Assistance – Documents
DAC/FA/A , after 1991 DCD/DAC/FA/A	Development Assistance Committee – Working Party on Financial Aspects of Development Assistance – Agenda
DAC/FA/M , after 1991 DCD/DAC/FA/M	Development Assistance Committee – Working Party on Financial Aspects of Development Assistance – Minutes
DAC/STAT	Development Assistance Committee – Working Party on Statistical Problems – Documents
OECD/GD	OECD General Distribution
TC/ECG , after 1989 TD/ECG , after 2007 TAD/ECG	Trade (and Agriculture) Committee – Group on Export Credits and Credit Guarantees – Documents
TD/CONSENSUS , after 2003 TD/PG , after 2007 TAD/PG	Trade Directorate – the Participants Group – Documents
TD/CONSENSUS/A , after 2003 TD/PG/A , after 2007 TAD/PG/A	Trade Directorate – the Participants Group – Agenda
TD/CONSENSUS/M , after 2003 TD/PG/M , after 2007 TAD/PG/M	Trade Directorate – the Participants Group – Minutes



Interview List

Interview Partner	Institution / Position	Date
OECD; STAT etc.		
Silvia Maca	Austrian Ministry of Finance, Head of Department III/7 Export Financing, International Export Financing Policy and Risk Management Export Promotion	22.06.2012
Christoph Kreutler	Austrian Ministry of Finance, Department III/7 Export Financing, International Export Financing Policy and Risk Management Export Promotion	22.06.2012
Kamran Kazamzadeh	Austrian Permanent Mission to the OECD, Counselor	29.06.2012
Marielies Rehor	Austrian Ministry for European and International Affairs, former Head of the Finance Division, Department for Development Co-operation	01.08.2012
Frans Lammersen	OECD Development Directorate (DCD/DAC), former Chairman of the Participants' Consultation Group and Vice Chairman of the Participants Group	03.07.2012
Bill Nicol	OECD Development Directorate (DCD/DAC), Senior Counselor	05.07.2012
Steve Tvardek	Export Credits Division, Trade and Agriculture Directorate, Head of Division	04.07.2012
Francois De Ricoflis	Export Credit Division, Head of the ECG and the Participants Group	20.07.2012
John Evans	Trade Union Advisory Committee to the OECD (TUAC), General Secretary	02.07.2012
Consultation Meetings		
Michael Obrovsky	Austrian Foundation for Development Research (ÖFSE), Head of Research Department; Development Policy & Development Cooperation	June 2012
Hedwig Riegler	DAC Working Party on Statistical Aspects (WP-STAT), former Head of Statistics in the Austrian Development Agency	April 2013
Klaus Steiner	Austrian Federal Ministry for European and International Affairs (BMeiA), Head of Unit VII.2a "Quality Management and Evaluation" in the General Directorate for Development Cooperation	Mai 2012
Austria		
Carl de Colle	Austrian Chamber of Commerce (WKO)	02.10.2013
Barbara Koder-Krajnik	Bundesministerium für Wirtschaft, Familie und Jugend (BMWFJ)	18.10.2013
Eva Kohl	Austrian Development Agency (ADA), Head of Coordination Office Mozambique	29.08.2013
Christoph Kreutler	Ministry of Finance (BMF), Department III/7 Export Financing, International Export Financing Policy and Risk Management Export Promotion	27.09.2013

Interview Partner	Institution / Position	Date
Michael Laschan	Bundesministerium für Wirtschaft, Familie und Jugend (BMWFJ)	18.10.2013
Silvia Maca	Ministry of Finance, Head of Department III/7 Export Financing, International Export Financing Policy and Risk Management Export Promotion	27.09.2013
Oliver Prausmüller	Austrian Chamber of Labor (AK)	24.10.2013
Werner Schmied	Oesterreichische Kontrollbank AG (OeKB), Head of Department Project and Environmental Analyses	27.09.2013
Klaus Steiner	Austrian Federal Ministry for European and International Affairs (BMeiA), Head of Unit VII.2a "Quality Management and Evaluation" in the General Directorate for Development Cooperation	12.09.2013
Verena Valduga	Oesterreichische Kontrollbank AG (OeKB)	27.09.2013
Astrid Wein	Austrian Development Agency (ADA), Head of Coordination Office Albania	14.10.2013, 11.10.2013 (Email)
Hilde Wipfel	Koordinierungsstelle der Österreichischen Bischofskonferenz für internationale Entwicklung und Mission (KOO)	08.10.2013
Denmark		
Tina Bidstrup Hansen	Ministry of Foreign Affairs/Danida, Danida Business Finance, Chief Advisor	18.09.2013
Lars Christian Oxe	Ministry of Foreign Affairs, Evaluation Department, Senior Advisor / Chief Technical Advisor	19.09.2013
Lars Koch	IBIS, Director of Policy and Campaigns	20.09.2013
Anne Skovlund	Danish Church Aid	20.09.2013
Lars Engberg-Pedersen	DIIS, Senior Researcher	23.09.2013
Poul Buch-Hansen	former Director of Development Associates, former Professor at the University of Copenhagen	24.09.2013
Søren Juhl	EKF, Large Corporate, Deputy Director	25.09.2013
Christine Louise Steffensen	EKF, International Relations, Advisor	25.09.2013
Niels Egerup	Ministry of Foreign Affairs, Danida, Green Growth Department, Chief Advisor	25.09.2013
Henrik Schaumburg-Müller	former Professor at Copenhagen Business School, Consultant to Danida	26.09.2013
Marie Gad	Danish Confederation of Industries, Chief Policy Advisor	26.09.2013
Germany		
Sophie Kraume	Ministry for Economic Cooperation and Development (BMZ), Abteilung 2, Referat 221: Grundsätze, Verfahren der FZ, TZ-Gremien und Instrumentarium von KfW, DEG	23.09.2013
Stefan Russek	Ministry for Economic Cooperation and Development (BMZ), Lieferaufbindungsfragen Technische Zusammenarbeit	23.09.2013
Helmut Reisen	Head of OECD Development Centre until 2012, now CEO of Shifting Wealth, Professor of Economics University Basel	24.09.2013
Regine Richter	NGO Urgewald, Expert on Export Finance of KfW IPEX Bank	24.09.2013

Interview Partner	Institution / Position	Date
Martin Dorschel	KfW Development Bank, Head of Evaluation Unit	26.09.2013
Klaus Peter-Pischke	KfW Development Bank, Leiter Grundsätze und Verfahren	26.09.2013
Thomas Reker	KfW Development Bank, Project Manager Bereich Förderpolitik, Promotional Instruments and Financial Products	25.09.2013
Telephone Conference		
Jan-Henrik Petermann	dpa-Journalist; Dissertation about (Un)tying Aid	01.08.2013
Walter Ulbrich	NGO Erlassjahr, Expert on Development Finance	01.09.2013
Stefan Russek	Ministry for Economic Cooperation and Development (BMZ), Lieferaufbindungsfragen Technische Zusammenarbeit	01.10.2013
Almut Knop	Ministry for Economic Cooperation and Development (BMZ), Department on OECD/DAC, ODA Statistics	01.11.2013
Hedwig Riegler	DAC Working Party on Statistical Aspects (WP-STAT), former Head of Statistics in the Austrian Development Agency	01.12.2013
Email Correspondence		
Peter Wolff	German Development Institute (DIE), Head of Department 'World Economy and Development Financing'	March-August 2013
The Netherlands		
Wiert Wiertsema	NGO Both Ends, Expert on Export Credit Agencies and Capital Flows	20.09.2013
Mirco Goudriaan	Ministry of Foreign Affairs, Senior Policy Officer, Sustainable Economic Development Department, Business Climate and Markets	19.09.2013
Sandra Luiszoon	Ministry of Foreign Affairs, Policy Officer, Social Development Department & Sustainable Economic Development Department	19.09.2013
Andri van Mens	Ministry of Foreign Affairs, Senior Policy Officer, Private Sector, CSR and Infrastructure, Sustainable Economic Development Department	19.09.2013
Wim Bekker	Ministry of Foreign Affairs, Policy Advisor Infrastructure and Financial Sector Units, Sustainable Economic Development Department	19.09.2013
Theo Sande	Ministry of Foreign Affairs, Expert on OECD/DAC Statistics	20.09.2013
Janse Joris	NL Agency, Unit Manager ORIO/ORET Ministry of Economic Affairs, Agriculture and Innovation	19.09.2013
Jan Pronk	Institute of Social Studies, Erasmus University Rotterdam, Professor, former Minister for Development Cooperation	16.09.2013
Paul Hoebink	Centre for International Development Issues Nijmegen (CIDIN), Director of CIDIN and Professor at University of Nijmegen	17.09.2013
Paul Wolff	Entrepreneurial Development Bank (FMO), Senior Investment Manager Emerging Markets Fund	18.09.2013
Stan Stavenuiter	Entrepreneurial Development Bank (FMO), Senior Policy Officer Evaluation Unit	18.09.2013



Authors

Livia Fritz

has been a researcher in the ÖFSE Soft Loan Project. She holds a diploma in Development Studies from the University in Vienna and studies Economics and Social Sciences at the Vienna University of Economics and Business. Her research interests focus on international development policy and finance and transformation processes in the post-soviet space.

Werner Raza

is ÖFSE Director and has been the project leader of the ÖFSE Soft Loan Project. Dr. Raza is an economist by training, with a specialisation in international economics and development. Dr. Raza has been a lecturer at various universities, and has served as advisor to the Austrian government on external and development finance as well as on external trade.

Manuel Schuler

holds a diploma in Socioeconomics from the Vienna University of Economics and Business and has been a researcher in the ÖFSE Soft Loan Project. He further is student of International Development at University of Vienna. His main research interests are development finance, public policy as well as development cooperation.

Eva Schweiger

holds a diploma in Development Studies from the University of Vienna and has been a researcher in the ÖFSE Soft Loan Project. Her research interests focus on health and social policy.