
DAC Guiding Principles

DAC Guiding Principles for Associated Financing and Tied and Partially Untied Official Development Assistance (Adopted by the DAC on 24 April 1987)

I. Preamble

1. Recognizing the need to avoid the risk of distortion of aid and trade, DAC Members undertake to ensure that Associated Financing and Tied and Partially Untied Official Development Assistance will promote priority developmental objectives and be consistent with fair trade competition and to this end adopt the Guiding Principles set out below. Most of these principles constitute good practice for Official Development Assistance generally but they are particularly important where there may be a risk of aid and trade distortion.

II. Definitions

2. *Official Development Assistance* (ODA) is defined as those resources to developing countries (and multilateral institutions) provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests:
 - i) It is administered with the promotion of the economic development and welfare of developing countries as its main objective, and
 - ii) It is concessional in character and contains a grant element of at least 25 percent. To calculate the grant element of an ODA transaction, a 10 percent discount rate is used.

3. *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 percent;
 - iii) Officially supported export credits, other official flows or other funds with a grant element of less than 25 percent.
4. Associated Financing transactions may take various forms—such as “mixed credit,” “mixed financing,” “joint financing,” “parallel financing,” or single integrated transactions. Their main characteristic is that the concessional component is linked in law or in fact to the non-concessional component, 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. In determining association or linkage “in fact,” due consideration should be given to the existence of informal understandings between the recipient and the donor authority and the intention by the donor through the use of ODA to facilitate the acceptability of a financing package.
5. *Untied Official Development Assistance* is defined as loans or grants which are freely and fully available to finance procurement from substantially all developing countries and from OECD countries. Funds provided to finance the recipient’s local costs are also defined as untied. *Partially Untied Official Development Assistance* is defined as loans or grants which are in effect tied to procurement of goods and services from the donor country and from a restricted number of countries which must include substantially all developing countries. For the purposes of these Guiding Principles, *Tied Official Development Assistance* is defined as loans or grants which are either in effect tied to procurement of goods and services from the donor country or which are subject to procurement modalities implying limited geographic procurement eligibility other than those described above under Partially Untied.
6. A transaction is defined to be *in effect* tied or partially untied if:
 - It is the subject of a formal or informal understanding to that effect between the recipient and the donor country, or
 - It involves practices which the Development Assistance Committee and the Participants in the Arrangement on Guidelines for Officially Supported Export Credits may determine to result in such tying or partial untying. In cases of substantial doubt as to whether a certain financing practice falls within the scope of the above definition, the donor country shall furnish evidence in support of any claim that such a practice is untied or partially untied.
7. For a transaction to qualify as untied or partially untied, respectively, the donor has to inform the recipient, at the time of the aid offer, clearly and explicitly of the countries which are eligible for procurement. In accordance with the *Memorandum of Understanding on Untying of Bilateral Development Loans in Favor of Procurement in Developing Countries*, Members wishing to extend Partially Untied Official Development Assistance will notify the Chairman of the DAC, and through him other DAC Members, of those developing countries which are eligible for procurement.

III. Guiding Principles¹

8. Members confirm that Associated Financing and Tied and Partially Untied Official Development Assistance should be the subject of greatest possible transparency.
9. Members will continue the mutual *ex post* examination of individual Associated Financing and Tied and Partially Untied Official Development Assistance transactions.
10. Members will refrain from extending commitments of Associated Financing and Tied and Partially Untied ODA transactions which do not comply² with the rules of the Arrangement on Guidelines for Officially Supported Export Credits set out in the Annex.³
11. Members undertake to confine Associated Financing and Tied and Partially Untied Official Development Assistance to priority projects and programs which are carefully appraised against developmental standards.
12. In implementation of these principles, Members undertake:
 - i) To establish and make available, during 1987 and subsequently as required, to other DAC Members and the OECD Secretariat the criteria for the selection and design of projects and programs financed by (a) Associated Financing, (b) Tied or Partially Untied ODA with a grant element of less than 50 percent, and (c) where different from (b) above, Tied or Partially Untied ODA with a grant element of 50 percent or more, including the exceptional conditions under which ODA is being used for "matching";
 - ii) To conduct thorough *ex post* evaluations of representative selections of projects and programs financed by Associated Financing and Tied and Partially Untied ODA, including the effects of tying on development effectiveness, and to make the results of the evaluations available for the regular DAC Associated Financing Reviews;
 - iii) In response to a request by Members of the Working Party on Financial Aspects of Development Assistance, to prepare thorough reports on individual projects and programs financed by Associated Financing or Tied or Partially Untied ODA to determine possible aid or trade distortion. These reports shall be prepared in accordance with criteria established by the Working Party which shall include project selection and appraisal procedures. Such reports shall be prepared promptly after the request has been received and be made available for the regular DAC Associated Financing Reviews;

1. As regards Associated Financing, paragraphs 9 to 17 apply to transactions containing an element of Official Development Assistance.

2. Associated Financing transactions whose Official Development Assistance component consists solely of technical cooperation are exempted from this rule, provided that the technical cooperation component remains below 3 percent of the total value of the Associated financing transaction or below \$1 million, whatever is lower.

3. The Arrangement rules concerning the minimum permissible concessionality level and its calculation affect neither the ODA definition nor the reporting of ODA disbursements and commitments: the threshold for ODA eligibility remains a grant element of 25 percent, calculated with a discount rate of 10 percent, and the grant element of ODA commitments continues to be calculated using a 10 percent discount rate.

- iv) A summary of the reports shall be submitted to the next DAC High-Level Meeting following the DAC Associated Financing Review at which they were considered.
13. The following considerations are important in examining the developmental priority of all projects and programs financed with ODA. Members undertake to pay particular attention, when examining the developmental priority of a project or program to be financed with Associated Financing or Tied and Partially Untied Official Development Assistance with a grant element of less than 50 percent, to these considerations:
- i) It is part of investment and public expenditure programs 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 coordination arrangements as may exist;
 - iii) It is being co-financed with an international development finance institution;
 - iv) Particular care will be applied in the examination of projects where evidence exists that they had been considered and rejected by an international development finance institution or another DAC Member on grounds of low developmental priority.
14. In conformity with the DAC Recommendation on Terms and Conditions of Aid, which stipulates that Members should relate the terms of aid on a case-by-case basis to the circumstances of each developing country or group of countries, Members undertake to tailor also the terms of Associated Financing to the economic situation, stage of development and debt servicing capacity of the recipient country.
15. In line with this general principle, to the extent that Associated Financing or Tied or Partially Untied ODA is provided to Least Developed Countries (as defined by the United Nations), Members will ensure that the transaction takes place on favorable terms. Members undertake to restrain the use of Tied and Partially Untied ODA and of ODA for Associated Financing in case of stronger developing countries, both as a proportion of the total ODA program and, subject to paragraph 10, for individual transactions, apart from technical cooperation.
16. Members reconfirm the importance of the "Good Procurement Practices for Official Development Assistance" approved by the DAC and the undertakings contained therein.
17. In order to ensure full transparency in the proposed use of Associated Financing and Tied and Partially Untied Official Development Assistance, especially prior to contract decisions, Members will use the system of contact points in their administrations actively and respond fully and promptly to requests for information by other Members on aid offers for particular projects.

IV. Statistical Reporting Requirements

18. Members reaffirm their commitment to comply fully and promptly with the standard requirements of the Creditor Reporting System which includes

Associated Financing and Tied and Partially Untied Official Development Assistance. In particular, Members will notify within two months of the signature date of the grant or loan agreement (specifying amounts, financial terms, tying status and purpose): a) individual ODA grants and loans, specifying those used for Associated Financing; b) individual OOF ("Other Official Flows") grants and loans, specifying those used in Associated Financing; and c) individual officially supported export credits used in Associated Financing. Under the Creditor Reporting System, reporting of technical cooperation grants is voluntary unless they are used in Associated Financing. Low value grants (less than \$10,000) may be grouped for individual recipients.

V. Review and Appraisal

19. Members agree to review periodically, through the DAC Working Party on Financial Aspects of Development Assistance, their policies and practices concerning Associated Financing and Tied and Partially Untied ODA against the Guiding Principles set out above. Members will provide information on policies and procedures as required for the review and will inform the DAC of any significant new policies adopted in this area. The Guiding Principles themselves will be the subject of review in the light of experience.

VI. Cooperation with the OECD Group on Export Credits and Credit Guarantees and with the Participants in the Export Credit Arrangement

20. The DAC Working Party on Financial Aspects of Development Assistance will follow closely relevant work of the Group on Export Credits and Credit Guarantees of the Trade Committee and the Participants in the Arrangement on Guidelines for Officially Supported Export Credits and cooperate with these Groups as required.