

**IMPLEMENTATION OF THE 2001 DAC
RECOMMENDATION ON
UNTYING ODA TO THE LDCS
2009 REVIEW**

This document was submitted as a background document to the OECD High Level Meeting of 27-28 May 2009.

IMPLEMENTATION OF THE 2001 DAC RECOMMENDATION ON UNTYING ODA TO THE LDCS

2009 REVIEW

I. Background and highlights

1. The annual reviews of the implementation of the 2001 Untying Recommendation assess Members' performance in respect of their commitments (*e.g.* untying agreed forms of aid, and meeting effort sharing, transparency and reporting provisions) as well as the extent to which the Recommendation is delivering its objectives.

2. The 2008 review [DCD/DAC(2008)13/REV2] brought forward part of the comprehensive review, scheduled for 2009, in light of preparations for the Accra High Level Meeting in 2008. In particular, it was associated with DAC agreements to extend the coverage of the Recommendation to cover remaining non-LDC HIPCs, to promote greater local and regional procurement in developing countries, to invite non-DAC donors to respect the principles of the Recommendation and to invite suppliers to respect environmental and corporate social responsibility (CSR) principles. The 2010 review of the Recommendation will include an assessment of the implementation of these new provisions.

3. The present, 2009, review, was intended to cover the results of work undertaken in close collaboration with the WP-EFF to evaluate the outputs delivered and impacts of the Recommendation, *e.g.* in respect of furthering alignment or increasing the impact of aid on the local economy. Unfortunately, that work is not yet ready as a result of the time and difficulties associated with preparing such a report on the basis of country case studies. In consequence, the draft findings of that study will be submitted to the DAC after the summer break and in time for presentation, if the DAC so decides, to the SLM.

4. The present review thus focuses on the following two areas:

- Progress in operationalising the untying commitments agreed in the Accra Agenda for Action (AAA), particularly in relation to setting out individual country plans to untie aid to the maximum extent and to improve reporting and transparency (section II);
- The more "traditional" part of the annual review focusing on progress with aid untying, effort sharing and reporting/transparency (section III).

5. Key findings and recommendations arising from this review are as follows:

- Good progress is being made in untying aid in general and in reporting on the tying status of aid. 79% of all ODA is now untied, 17% is still tied and the tying status of only 4% of aid is not reported (section IIIa).

- Good progress is being made on approaches to deliver on AAA commitments. The DAC has approved the approach suggested to elaborating individual plans to untie aid to the maximum extent (section IIa) and to improving reporting through the CRS. The DAC has also approved the principle of abolishing DAC Table 7b, with WP-STAT now invited to work out the practical arrangements (section IIb).
- Improved performance on meeting the transparency requirements of the Recommendation is still needed (*i.e.* in relation to *ex ante* notifications and reporting on contract awards). The geographic distribution of contract awards, particularly the high share of awards going to suppliers from some donor countries, is highlighted (sections IIIc and d).

II. Progress in operationalising AAA untying commitments

6. The AAA notes that a number of donors have already fully untied their aid and encourages others to do so. In this connection, DAC Members agreed, *inter alia*, to elaborate individual plans by 2010 to untie their aid to the maximum extent. They also agreed to improve reporting on the 2001 Recommendation. Discussions on these themes have been pursued via informal meetings of DAC Members. The following sections report on the progress made on these matters.

a) *Elaborating plans to untie aid to the maximum extent*

7. The informal DAC discussions have agreed on the following approach to working towards the delivery of such plans by the 2010 deadline:

- There are certain aid categories which are difficult to untie in principle – *e.g.* administrative costs, imputed student costs, refugees in donor countries or development awareness programmes. While Members should exploit opportunities to untie such categories whenever possible, such categories would not be the prime target for future untying efforts.
- There are other categories of aid which can be untied in principle, such as capital goods/investment, project aid, technical co-operation/consultants and food aid (note: free standing technical co-operation and food aid remain excluded from the coverage of the 2001 untying Recommendation). While there may be political difficulties in untying the one or the other of these categories in some Members, an international procurement market does exist for the goods and services they cover. Also, many Members have been able to untie all or large amounts of their aid in these categories. Accordingly, future untying efforts should concentrate on these categories.

8. Members present at the informal DAC discussions agreed to prepare untying plans on this basis and to provide these by October 2009 for a first discussion in the DAC. All Members still extending tied aid are thus expected to prepare plans to untie it to the maximum extent. The DAC has approved this approach and timeline.

b) *Improving reporting and transparency*

9. This section deals with the following items:

- Reporting on the tying status of aid, including technical co-operation; and
- Improved reporting of *ex ante* notifications and follow up reporting on contract awards.

i) *Reporting on the tying status of aid, including technical co-operation*

10. Members are required to report on the tying status of aid, including technical co-operation to the LDCs; reporting the tying status of other technical co-operation is not mandatory. On the basis of the most recent (2007) CRS data, the tying status of only 4% of ODA is not reported (see Table 1). But it is much higher for certain countries (*e.g.* Greece, 75%; Portugal, 56%).¹ For some other Members, overall reporting is good except for technical co-operation where its tying status is not reported at all (Italy, Japan, Sweden). In Japan's case, the technical co-operation programme amounted to USD 1.8 billion in 2007, compared to those of Sweden and Italy, at USD 110 million and USD 148 million respectively).

11. Overall, there has been a clear improvement, but progress is still needed, most particularly in respect of a few Members and in relation to technical co-operation. There are likely to be different reasons underlying the reporting situation, *e.g.* confusing directives on reporting the tying status of technical co-operation, lack of statistical capacity, non-reporting to avoid showing a high ratio of tied aid to total aid.

12. In respect of technical co-operation, donors are not required to provide data on its tying status in their DAC aggregate reporting (DAC Table 7b). In order to make progress in reporting on the tying status of technical co-operation, the DAC has agreed to the principle of abolishing DAC Table 7b (and thus, with it, the provision that the tying status of technical co-operation need not be reported) and that Members should report on the tying status of technical co-operation through the CRS. The WP-STAT is invited to work out the practical implications of this change.

13. In other aid categories where tying status reporting needs to be improved, discussions with Members will seek to identify the causes and develop workable and realistic approaches to improve matters.

ii) *Improving reporting on ex ante notifications and contract awards*

14. Past discussions on this theme concluded that transparency provisions are not being comprehensively implemented. While it is difficult to calculate the number of *ex ante* notifications expected and the consequent number of reports on contract awards, it is clear that there are obvious and important lacunae.

15. Members continue to insist on maintaining these reporting/transparency provisions. Yet despite numerous calls to take actions to improve on the situation, including letters from the DAC Chair, there has been little overall improvement. In light of this situation, the DAC has agreed to develop a step by step approach to improve reporting. The basic idea is to identify a "test area" which should be the subject of a "special reporting effort" (but not be at the expense of present, albeit imperfect reporting performance). The Secretariat is therefore looking to identify a limited number of sectors, ensuring these cover a significant number of Members as well as key reporting lacunae, to provide the basis for such a "special effort" to improve reporting of *ex ante* notifications and contract awards. Experience with implementing such an approach should guide next steps in improving reporting more generally.

16. Once the Secretariat has identified the "test" area, it will be verified with Members and, absent views to the contrary, used as the basis for implementing these "special reporting efforts".

¹ For Greece and Portugal, much of the reporting gap concerns technical co-operation beyond the LDCs. Greece and Portugal report the tying status of its technical co-operation with LDCs as is required by the DAC.

III. Review of Implementing the Recommendation

a) *Aid untying*

17. All donors have, for some time now, fully met the commitments in the Recommendation to untie certain types of aid. Accordingly, this section focuses on the broader untying picture. As seen from Table 1, 79% of DAC bilateral aid was untied in 2007, 17% was tied and the tying status of the remaining 4% was not reported. Overall, this represents good progress over time, not only in terms of the growing share of untied aid but also in the declining share of aid for which the tying status is not reported. There are, of course, noticeable variations across Members. In some cases, below average shares of untied aid are associated with above average shares of aid where tying status is not reported (*e.g.* Greece, Portugal). Progress on reporting (see section II above) will help clarify the positions of such countries in respect of the degree to which programmes are untied.

18. The following recent developments are noteworthy. The Netherlands has now fully untied its “Development Related Infrastructure Facility” (ORIO), which also promotes the encouragement of recipient country SME involvement. Canada decided to untie its food aid in 2008 and the remainder of its tied aid by 2012/13. Similarly, Spain will untie its food aid by 2010 and the remainder of its tied aid, including technical co-operation, by 2015. This will take the number of DAC Members that have fully or largely (*e.g.* 80% or over) untied their aid up to 16 countries, with a number of others not very far below the 80% mark. Finally, the DAC has agreed to resist pressures arising from the recessions to retie aid or, in line with the Accra Agenda for Action, to introduce any new tied aid programmes [see DCD/DAC(2009)28].

b) *Effort sharing*

19. The Recommendation has the objective of improving effort sharing among Members and contains two indicators (in the reference indicators matrix) to assess progress. As seen from Table 2, both indicators remain well above the initial benchmark levels, showing that improvements in effort sharing have been significant and sustained.

20. Care needs to be taken in interpreting positions and particularly year on year movements in the matrix, which can result from change in any of the variables included in the formulae, *e.g.* debt relief. This being said, and for the “bilateral untying ratio” indicator, only Italy remains below the 1999-2001 benchmark (and thus well below the present DAC average), although its situation has improved strongly from the benchmark period. Many other donors are at, or close to 100%, *i.e.* their aid is fully or nearly fully untied. For the “composite indicator”, only Greece is below the 1999-2001 benchmark, and thus well below the current DAC average.

c) *Ex ante notifications*

21. The Recommendation requires Members to make *ex ante* notifications of aid offers covered by the Recommendation. As can be seen from Table 3, there were 214 *ex ante* notifications concerning untied aid offers to the LDCs in 2008, for a total value of USD 3.7 billion. The numbers of notifications for 2008 is similar to the average over the period since 2005, although the overall value of those notifications is down on the 2004-2006 average.

22. As mentioned earlier (section II), it is difficult to estimate the number of *ex ante* notifications in relation to untied aid volumes. But it is nevertheless clear that there continues to be a sizeable gap between the number (and value) of notifications expected compared to the notifications actually made. Table 3 suggests there are quite a number of Members whose aid is largely or totally untied, including the Least Developed Countries, yet who sometimes make no or relatively few *ex ante* notifications. Data lacunae

make it difficult to say to what extent this situation is explained by such countries having LDC untied aid offers that do not require *ex ante* reporting. Section II has set out how we intend to make progress in reporting performance.

d) Reporting on contract awards

23. As seen from Table 4, there was a sizeable increase in 2007 in terms of both the number and value of contract awards notifications. In terms of the numbers or notifications, this was totally due to the inclusion, as of 2007, of information on “small contracts”. Standardising for this, notifications of contract awards fell from 624 in 2006 to 327 in 2007. In value terms, and standardising for small contracts, the contract award information covered contracts worth a total of USD 2.9 billion in 2007 compared to USD 2.6 billion in 2006. Again, and as for *ex ante* notifications, it is felt there is considerable under-reporting on contract awards; section II sets out the approach to improving reporting performance.

24. In light of the above, care is required in “congratulating” or “criticising” Members in relation to reported patterns of contract awards, particularly when we are unable to say much about other countries that have stated their aid is untied but where this is not demonstrated through reporting obligations. Thus, and for those Members that do report comprehensively on contract awards, (see Table 5), two-thirds went to suppliers in OECD countries (in both numbers and value) in 2007, with the vast majority of these to suppliers in the donor country. This concentration of awards in donor/DAC countries was also found in 2005-06. Of the Members with sizeable untied programmes and who have reported on contract awards (France, Germany, Japan, UK, US), 87% of Japanese awards in 2007 went to suppliers in Japan, with the respective shares for the UK and US being 81% and 68%. By comparison, 24% of French awards went to suppliers in France. Outside the OECD area, twice as many contracts were awarded in 2007 to other developing country suppliers than to recipient country suppliers, with a preponderance of the larger contracts to the former group. There is no obvious benchmark for the expected distribution of untied aid contract awards. However, the very high share won by some donor suppliers is, *prima facie*, a cause for concern noted by some Members. For countries where high shares of untied aid contracts are regularly won by donor country suppliers, the countries concerned are invited to ensure that their procurement regimes are fully compatible with the untied status of their aid.

Table 1. Reporting of the tying status of bilateral ODA in 2007

(excluding administrative costs to donors)

	Total ODA			of which: Technical Co-operation				Share of Technical Co-operation in total ODA %	
	Total USD million	Untied %	Tied %	Not reported %	Total USD million	Untied %	Tied %		Not reported %
Australia	1 620	96	4	..	1 157	95	5	..	71
Austria	1 344	78	22	..	206	32	68	..	15
Belgium	1 531	96	4	..	711	100	..	..	46
Canada	3 101	74	20	6	1 402	76	24	..	45
Denmark	1 357	96	4	..	90	98	2	..	7
Finland	608	92	8	..	232	94	6	..	38
France	7 871	90	9	1	2 896	90	10	..	37
Germany	9 386	75	18	7	3 502	37	45	18	37
Greece	224	14	11	75	138	16	0	83	62
Ireland	791	100	..	..	20	100	..	..	3
Italy	1 397	54	36	11	148	..	..	100	11
Japan	11 834	80	4	16	1 821	..	..	100	15
Luxembourg	237	100	..	..	..	..	..	..	..
Netherlands	4 535	82	18	..	356	97	3	..	8
New Zealand	259	84	16	..	66	59	41	..	26
Norway	2 711	100	..	..	585	100	..	..	22
Portugal	591	38	6	56	153	99	1	0	26
Spain	3 658	65	30	5	958	76	18	6	26
Sweden	2 113	95	..	5	110	..	..	100	5
Switzerland	1 415	100	..	..	188	100	..	..	13
United Kingdom	5 681	100	..	..	1 409	100	..	..	25
United States	23 330	67	33	..	747	11	89	..	3
Total	85 595	79	17	4	16 898	63	20	17	20

Source: Creditor Reporting System, (commitments data)

Table 2. DAC Members' positions in respect of the reference indicators matrix

	Bilateral LDC ODA Untying Ratio (1) <i>(Reference point : 0.60)</i>		Effort-sharing Composite Indicator (2) <i>(Reference point : 0.04)</i>	
	<i>Base (99-01 ave.)</i>	<i>2007</i>	<i>Base (99-01 ave.)</i>	<i>2007</i>
Australia	0.42	0.98	0.05	0.08
Austria	0.34	0.90	0.04	0.07
Belgium (3)	0.49	1.00	0.08	0.21
Canada	0.40	0.85	0.03	0.10
Denmark	0.77	0.94	0.28	0.29
Finland	0.69	0.99	0.08	0.18
France (5)	0.54	0.89	0.06	0.11
Germany (6)	0.43	0.80	0.04	0.09
Greece (7)	..	0.87	..	0.03
Ireland (8)	1.00	1.00	0.17	0.27
Italy	0.30	0.53	0.03	0.05
Japan (5)	0.76	0.86	0.05	0.06
Luxembourg (9)	..	1.00	..	0.34
Netherlands 10)	0.86	0.99	0.22	0.24
New Zealand (11)	..	0.81	..	0.08
Norway	0.99	1.00	0.30	0.34
Portugal (6)	0.42	0.91	0.11	0.09
Spain	0.25	0.76	0.02	0.07
Sweden	0.69	0.97	0.18	0.24
Switzerland	0.84	1.00	0.09	0.12
United Kingdom	0.63	1.00	0.07	0.12
United States (12)	0.01	0.75	0.01	0.05
Total DAC	0.55	0.87	0.04	0.08

Source : OECD (DAC and CRS)

1. The Bilateral LDC ODA untying ratio represents: Untied bilateral LDC ODA divided by total bilateral LDC ODA (commitments basis).
2. The Effort-sharing composite indicator represents: (bilateral LDC ODA/GNI times the bilateral LDC ODA untying ratio) + multilateral LDC ODA/GNI. Following the DAC convention, multilateral ODA is treated as untied.
3. Belgium extended CRS reporting of tying status to include their grant programme as from 2000. The 1999-2001 average figures shown are thus based on a two-year average (2000-2001).
4. Sweden did not report technical co-operation tying status in 2007.
5. France and Japan do not report the tying status of free standing technical co-operation (FTC).
6. Germany and Portugal commenced the reporting of technical co-operation tying status as from 2003.
7. Greece commenced reporting to the CRS as from 2002.
8. Ireland commenced reporting to the CRS in 2000. The 1999-2001 average figures shown are thus based on a two-year average (2000-2001).
9. Luxembourg commenced the reporting of tying status as from 2003.
10. Netherlands extended CRS reporting of tying status to include FTC as from 2000. The 1999-2001 figures shown are thus based on a two-year average (2000-2001).
11. New Zealand commenced reporting to the CRS as from 2002.
12. The United States did not report tying status to the CRS for period 1999-2001.

Note: The above table is based on the group of least developed countries show on the DAC List of ODA Recipients effective from 2006 for reporting on 2005, 2006 and 2007.

Table 3. Least Developed Countries *ex ante* notifications posted to the DAC Bulletin Board 2002-2008

	Volume (USD million)							Number of Notifications						
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
Australia (1)	..	..	68	34	83	52	20	..	..	3	4	5	6	4
Austria	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Belgium	..	3	3	559	907	413	759	..	2	2	8	18	41	34
Canada	..	31	..	19	3	16	..	..	3	..	2	1	1	..
Denmark	113	15	..	..	0	3	10	25	7	..	..	1	1	7
Finland	8	..	..	..	..	..	4	3	..	..	..	..	..	2
France	37	132	234	107	250	186	188	7	20	30	13	25	14	8
Germany	218	192	507	563	275	464	78	25	25	34	49	31	38	7
Greece	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ireland	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Italy	150	..	531	..	..	..	..	15	..	3	..	..	..	..
Japan	41	330	338	732	334	1 175	772	5	47	60	88	59	88	77
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Netherlands (1)	27	314	3	0	..	0	..	6	19	2	1	..	1	..
New Zealand (1)	0	..	..	..	..	..	..	1	..	..	..	..	..	..
Norway	8	93	..	25	6	..	..	2	13	..	2	3	..	..
Portugal	..	..	..	1	..	..	..	..	..	..	1	..	..	..
Spain	12	..	9	10	30	8	..	1	..	1	2	3	1	..
Sweden (1)	..	0	..	..	..	..	..	..	1	..	..	..	..	..
Switzerland	13	16	76	13	..	..	..	3	1	10	1	..	..	..
United Kingdom (1)	8	91	385	555	318	..	0	1	22	13	23	21	..	15
United States (1)(2)	40	..	2 197	3 198	2 239	328	1 882	1	..	18	40	45	37	60
Total LDCs	676	1 218	4 351	5 815	4 444	2 645	3 713	95	160	176	234	212	228	214
<i>For memo:</i>														
Overall total	968	1 656	5 028	9 539	8 469	19 879	5 281	102	186	211	311	346	329	331
Other recipients	292	438	677	3 724	4 025	17 234	1 568	7	26	35	77	134	101	117

Source : OECD-DAC Untied *ex ante* database.

- In an effort to ensure competitiveness, Australia, the Netherlands, New Zealand, Sweden, United Kingdom and the United States have submitted several notifications for which the project amount has not been made available.
- The overall total amount for the United States for 2007 includes an untied grant for USD 15 billion for a 5 year HIV/AIDS plan.

Note: The notation ".." indicates no data available.

Table 4. Summary of contracts awarded (1)

Volume and Number: 2003-2007

	USD million					Number of contracts					USD million	Number of contracts
	2003	2004	2005	2006	2007 (2)	2003	2004	2005	2006	2007 (2)	2007 (3)	
Australia	..	..	47.8	52.7	152.0	..	..	31	9	500	100.5	12
Austria	..	..	3.4	1.6	..	..	..	3	2	..	..	..
Belgium	..	29.7	7.0	7.4	39.5	..	36	15	25	121	18.2	5
Canada	28.3	..	18.1	0.0	16.2	3	..	4	0	4	16.1	1
Denmark	..	..	..	2.2	11.1	..	..	..	4	18	6.5	6
Finland	21.6	..	..	..	13.3	2	..	..	..	90	5.5	3
France	117.0	68.9	73.6	398.7	1 089.5	10	11	16	291	1139	350.3	66
Germany	57.6	94.0	394.7	332.5	183.0	47	66	130	120	94	171.8	52
Greece	0.4	0.5	0.0	0.3	3.0	1	2	1	7	36	0.0	0
Ireland	..	..	..	..	..	..	..	..	..	..	..	..
Italy	..	..	..	27.4	0.0	..	..	..	1	0	0.0	0
Japan	221.8	..	n.a.	2.7	..	33	..	28	21	23	..	23
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..
Netherlands	214.0	15.9	..	..	4.0	8	2	0	..	1	4.0	1
New Zealand	..	..	..	..	31.0	..	..	..	..	385	10.5	7
Norway	..	..	..	..	6.0	..	..	0	..	1	6.0	1
Portugal	..	..	..	0.0	16.9	..	..	0	0	49	1.4	1
Spain	..	3.6	46.5	0.0	0.1	..	1	8	0	4	0.0	0
Sweden	7.9	6.4	..	0.0	11.6	2	2	0	0	16	0.0	0
Switzerland	..	..	..	..	..	..	..	..	..	..	..	..
United Kingdom	12.9	0.8	32.3	..	368.6	3	9	19	..	841	293.7	54
United States	0.7	107.5	280.4	1 809.9	1 938.6	1	17	73	144	178	1 917.0	95
Total	682.1	327.4	903.7	2 635.4	3 884.2	110	146	328	624	3500	2 901.3	327

Source : Contracts Awards Questionnaire

1. Any revisions on previous years' data have been updated to this table.
2. Data for 2007 include small contracts (*i.e.* below SDRs 7000 000 and SDRs 130 000 for investment related technical co-operation).
3. For reference: data for 2007 excluding small contract awards.

Note: The notation ".." indicates no data available.

Table 5. Geographical distribution of contracts awarded in 2007

	Total Contracts Awarded		within donor country		Other OECD and non_DAC countries		Developing countries (excl. LDCs)		LDCs	
	No. of contracts	USD mn.	No. of contracts	USD mn.	No. of contracts	US\$ mn.	No. of contracts	USD mn.	No. of contracts	USD mn.
Australia	12	100.5	10	96.3	0	0.0	1	1.4	1	2.8
Austria (2)	..	..	..	..	..	..	..	..	..	..
Belgium	5	18.2	1	2.8	0	0.0	2	2.1	2	13.3
Canada	1	16.1	1	16.1	0	0.0	0	0.0	0	0.0
Denmark (3)	6	6.5	5	6.5	1	0.0	0	0.0	0	0.0
Finland	3	5.5	3	5.5	0	0.0	0	0.0	0	0.0
France	66	350.3	16	57.4	7	119.7	32	134.3	11	38.9
Germany	52	171.8	29	75.9	3	6.7	4	6.4	16	82.9
Greece (4)	0	0.0	..	..	..	..	..	..	..	..
Ireland (2)	..	..	..	..	..	..	..	..	..	..
Italy (5)	0	0.0	..	..	..	..	..	..	..	..
Japan (6)	23	..	20	..	2	..	0	..	1	..
Luxembourg	..	..	..	..	..	..	..	..	..	..
Netherlands	1	4.0	1	4.0	0	0.0	0	0.0	0	0.0
New Zealand	7	10.5	6	9.1	1	1.4	0	0.0	0	0.0
Norway	1	6.0	0	0.0	0	0.0	1	6.0	0	0.0
Portugal	1	1.4	0	0.0	0	0.0	1	1.4	0	0.0
Spain (4)	0	0.0	..	..	..	..	..	..	..	..
Sweden (4)	0	0.0	..	..	..	..	..	..	..	..
Switzerland (2)	..	..	..	..	..	..	..	..	..	..
United Kingdom	54	293.7	44	258.4	4	13.3	4	12.6	2	9.3
United States	95	1917.0	65	1207.4	6	20.2	20	650.2	4	39.2
Total DAC	327	2 901.3	201	1 739.4	24	161.2	65	814.3	37	186.4

Source : Contract Awards Questionnaire, 2006. (Provisional data).

1. This table does not include information on small contracts.
2. No contract award information provided.
3. Two contracts for Denmark did not include project amounts.
4. No contracts from Greece, Spain and Sweden were reported above the SDR 700 000 threshold.
5. No contracts awarded pertaining 2007 *ex ante* notifications.
6. No contract amounts have been provided.