

Contents

| | |
|---|-------|
| <i>Acknowledgements</i> | v |
| <i>List of Acronyms</i> | xv |
| <i>Table of Cases</i> | xvii |
| <i>DAC list of ODA recipients Effective for reporting on 2011, 2012 and 2013 flows</i> | xxiii |
| | |
| Introduction | 1 |
| 1. Tied Aid | 1 |
| 2. Scope and Objectives of the Book | 5 |
| 3. Outline of the Book | 10 |
| 4. Concluding Comments | 12 |
| | |
| Part I: Tied Aid in Context | |
| 1. Tied Aid and Poverty Alleviation: Contradictions and Inefficiencies of Benefactors' Development Cooperation Policies | 17 |
| 1. Introduction | 17 |
| 2. Poverty Eradication and Development Aid | 17 |
| 2.1 Increasing Aid Resources and Improving Aid Predictability..... | 22 |
| 2.2 Increasing Aid Effectiveness..... | 24 |
| 3. Tied Aid Practices | 29 |
| 3.1 Meaning of Tied Aid..... | 30 |
| 3.2 Tied Aid Data: A Critique | 32 |
| 3.3 Political and Economic Justifications for Tying Aid: An Old Fashioned Rationale? | 34 |
| 3.3.1 Donors' Economic Rationale..... | 35 |
| 3.3.2 Donors' Political Rationale | 37 |
| 3.4 Costs of Tied Aid..... | 38 |
| 3.4.1 The Loss of 'Trade for Aid' | 41 |
| 3.5 The Economic Effects of Tying Aid within the EU..... | 42 |
| 3.6 The Prisoner's Dilemma and the International Community..... | 43 |
| 4. Conclusions | 46 |
| | |
| 2. Food Aid | 48 |
| 1. Introduction | 48 |
| 2. Hunger and Food Aid | 49 |
| 2.1 Where do We stand on Hunger?..... | 49 |
| 2.2 Changing Patterns in the Way Food Aid is Perceived..... | 52 |

| | |
|---|-----|
| 2.3 Food Aid in the International Context of Human Rights Declarations, Covenants and Summits..... | 53 |
| 3. Food Aid: Definition, Donations and Modalities of Distribution | 59 |
| 4. Tied Food Aid: Definition, Data and Costs..... | 66 |
| 4.1 Definition | 66 |
| 4.2 Data..... | 69 |
| 4.3 Tied Aid and Genetically Modified Organisms in Food Aid..... | 70 |
| 4.4 The Costs of Tying Food Aid..... | 71 |
| 4.5 Donors' Rationales for Tying Aid | 74 |
| 5. Tied Aid and the Renewal of the UN Food Aid Convention..... | 77 |
| 6. The World Food Programme..... | 84 |
| 6.1 The WFP's Procurement Rules and System | 85 |
| 6.1.1 Emergency Food Aid: A Challenge that can be Met by Using Modern Procurement Techniques | 91 |
| 7. Conclusions | 94 |
| | |
| 3. International Steps to Untie Aid: Ten Years since the Recommendation on Untying Aid | 97 |
| 1. Introduction..... | 97 |
| 2. International Initiatives to Untie Aid: Forty Years of Negotiations to Make Aid More Effective | 98 |
| 3. A Thorough Scrutiny of the OECD/DAC Recommendation's Text..... | 102 |
| 3.1 Scope of the Recommendation's Coverage: Geographical Limitations, Exclusions and Derogations..... | 102 |
| 3.1.1 Geographical Scope: LDCs and HIPC..... | 102 |
| 3.1.2 Categories of ODA..... | 104 |
| 3.1.3 Exclusions: Technical Cooperation..... | 104 |
| 3.1.4 Exclusions: Food Aid | 106 |
| 3.1.5 Derogation(s) | 108 |
| 3.1.6 Emergency Aid | 109 |
| 3.1.7 Further Untying..... | 110 |
| 3.2 DAC—Donors' Commitments to Untying Aid De Jure and De Facto | 110 |
| 3.2.1 De Facto Untying and the Transparency Obligations..... | 111 |
| 3.2.2 Corollary Commitments: Completing De Facto Untying | 113 |
| 3.2.3 Effort Sharing and Coordination..... | 113 |
| 3.2.4 Procurement Procedures: The Use of Country Systems | 114 |

| | | |
|-------|---|-----|
| 3.3 | Monitoring | 115 |
| 3.4 | Effectiveness and Enforcement: A Successful Story? | 117 |
| 3.4.1 | Effectiveness | 117 |
| 3.4.2 | Enforcement | 122 |
| 4. | Assessment and Conclusions..... | 122 |
| 4. | Tied Aid: The Example of Italy | 125 |
| 1. | Introduction..... | 125 |
| 2. | An Overview of the Italian Development Cooperation System..... | 126 |
| 2.1 | Legal Foundations and Institutional Structure of the Italian Development Cooperation System | 126 |
| 2.2 | Principles and Objectives | 129 |
| 2.3 | Volume of Aid | 133 |
| 2.4 | Sectors and Countries of Interventions | 134 |
| 2.5 | Instruments of Italian Bilateral Development Cooperation Policies | 135 |
| 3. | Italy's Stand on Tied Aid and the Legal Foundations of Tied Aid Conditions | 139 |
| 3.1 | Proposals for Reforming Law 49/87..... | 143 |
| 3.1.1 | Content of the Major Reform Bill: the Commitment to Untie Aid | 145 |
| 4. | Aid in Practice: Procurement Procedures and Tied Aid Projects | 146 |
| 4.1 | <i>Crediti di Aiuto</i> : Modalities for Granting Aid | 146 |
| 4.1.1 | Tied Aid in Practice: The Procurement Process in the <i>Crediti di Aiuto</i> | 148 |
| 4.1.2 | Examples of the Procurement Process in the <i>Crediti di Aiuto</i> | 149 |
| 4.2 | <i>Interventi a Dono</i> | 151 |
| 4.2.1 | The Procurement Process in the <i>Interventi a Dono</i> ... | 153 |
| 4.2.2 | Examples of Aid Tenders for <i>Interventi a Dono</i> | 155 |
| 4.3 | Review Mechanisms: The Sincat/ENEL Case..... | 158 |
| 4.4 | Food Aid Projects | 159 |
| 5. | Assessment, Conclusions and Future Prospects..... | 162 |
| 5. | Tied Aid: The Example of the UK..... | 165 |
| 1. | Introduction..... | 165 |
| 2. | Development Cooperation in the UK..... | 166 |
| 3. | Tied/Untied Aid Practices in the UK..... | 169 |
| 3.1 | History of UK Tied Aid | 169 |
| 3.2 | The New Century: The UK's Vision on Untying Aid and the International Community of Donors..... | 171 |
| 3.3 | The International Development Act..... | 172 |

| | |
|---|-----|
| 4. The Aid Procurement Process: The Rules Applied | 174 |
| 5. The Impact of the Untied Aid Policy | 178 |
| 6. Conclusions | 180 |
| 6. Tied Aid: The Rules on Access to EU External Assistance | 182 |
| 1. Introduction | 182 |
| 2. EU Development Cooperation Policies: An Overview | 185 |
| 2.1 Structure of EU Development Cooperation | 188 |
| 2.2 EU External Assistance: Geographic and Thematic Aid | 191 |
| 3. The EU Legislative Measures for Untying EU Aid | 195 |
| 3.1 The EU Pledge to Further Untie EU Aid | 195 |
| 3.2 The Rules on Contractual Participation in EU External Action Contracts | 198 |
| 3.2.1 The Rules on Contractual Participation in the EU Development Cooperation Instruments set up by Regulation 1905/2006 | 200 |
| 3.2.2 Eligibility Rules: Article 31 of Regulation 1905/2006 | 200 |
| 3.2.3 Eligibility Rules for Thematic Aid | 201 |
| 3.2.4 Eligibility Rules for Geographic Aid | 202 |
| 3.2.5 Eligibility Rules: Other (Donor) Countries' Suppliers and Goods | 204 |
| 3.2.6 Eligibility Rules: Projects Implemented in LDCs | 208 |
| 3.2.7 Eligibility Rules: Miscellaneous | 209 |
| 3.2.8 Exceptions | 209 |
| 3.2.9 Local Purchases | 210 |
| 3.3 Food Security Projects and Policies | 211 |
| 3.4 Aid Projects Implemented by NGOs | 213 |
| 3.5 Eligibility Rules for Access to EDF Aid | 213 |
| 4. Conclusions | 215 |
| 7. Tied Aid: The Example of the USA | 219 |
| 1. Introduction | 219 |
| 2. US Aid Programmes: A Brief Overview | 220 |
| 2.1 Status and Data on US Tied Aid | 224 |
| 3. USAID: Eligibility Rules for Participation in USAID Procurement Aid Contracts | 225 |
| 3.1 USAID: An Introduction | 225 |
| 3.2 USAID and the Legal Framework for Procurement: The Source, Origin and Nationality (S/O/N) Rules | 227 |
| 3.2.1 Regulation 22 CFR part 228 | 229 |
| 3.2.2 Procurement Restrictions for Certain Products and Cargo Preference Clauses | 232 |
| 3.2.3 The 2012 Reforms | 237 |

| | |
|---|-----|
| 4. US Food Aid Programmes and Tied Aid | 239 |
| 4.1 Attempts to Reform US Food Aid..... | 244 |
| 5. The Millennium Challenge Corporation | 248 |
| 5.1 MCC Procurement Procedures..... | 251 |
| 6. Conclusions | 254 |

Part II: Tied Aid and the EU

| | |
|---|-----|
| 8. Tied Aid and the External Competences of the EU | 259 |
| 1. Introduction..... | 259 |
| 2. Setting the Framework for Discussion: the EU's External Action Competences, Development Aid Procurement and Tied Aid | 261 |
| 2.1 The CPP, Export Credits and Tied Aid | 266 |
| 3. Interaction between the CCP and other EU External Competences..... | 273 |
| 3.1 Trade and Foreign Policy | 273 |
| 3.2 Trade and Environment | 275 |
| 4. Development Cooperation | 277 |
| 4.1 Parallel Powers, Mutual Complementarity, Policy Coherence between the Union and the Member States | 277 |
| 4.2 Interaction between Trade and Development Cooperation | 282 |
| 5. Conclusions | 286 |
| 9. The Single Market and Tied Aid | 288 |
| 1. Introduction..... | 288 |
| 2. The Single Market and Public Procurement: An Overview | 289 |
| 3. The Commission's Stance on the Legality of Tied Aid | 295 |
| 4. Tied Aid Practices and the Free Movement Provisions..... | 299 |
| 4.1 The Setting up of the Tied Aid Condition..... | 299 |
| 4.2 The Implementation of the Tied Aid Condition..... | 303 |
| 4.2.1 The Donor Carrying out the Procurement Process | 304 |
| 4.2.2 The Recipient Country Carrying out the Procurement Process..... | 306 |
| 4.2.3 Conclusions..... | 310 |
| 4.3 Positive Obligations under the Treaty | 311 |
| 4.4 Derogations of Articles 34 and 56 of the Treaty..... | 315 |
| 5. Tied Aid and the Treaty Provisions on State Aid | 317 |
| 5.1 The Measure Needs to be Classifiable as Aid | 319 |
| 5.1.1 The Economic Advantage..... | 319 |
| 5.1.2 Normal Market Conditions..... | 321 |
| 5.2 Distortion of Competition and Effect on Trade Between Member States..... | 323 |
| 5.3 Aid Granted by the State or through State Resources..... | 323 |

| | | |
|-------|---|-----|
| 5.4 | Compatibility of the Aid Schemes with the Common Market..... | 325 |
| 6. | Conclusions..... | 326 |
| 10. | Tied Aid Procurement and the EU Public Procurement Directives | 328 |
| 1. | Introduction | 328 |
| 2. | Overview of the Public Procurement Directives | 330 |
| 2.1 | An Evolving Story..... | 330 |
| 2.2 | Major Principles | 334 |
| 3. | The Directives' Definition of Contracting Authorities and Aid Procuring Entities | 337 |
| 3.1 | The First Case: The Procurement Process Carried out by the Donor State or by a Procurement Agent on Behalf of the Donor State | 337 |
| 3.1.1 | The Directives' Notion of 'Contracting Authority': Member states' Agencies Operating Within and Outside the EU | 337 |
| 3.1.2 | Conclusions | 344 |
| 3.2 | The Second Case: The Procurement Process is Carried out by the Beneficiary Country..... | 344 |
| 3.3 | Article 8 of the Public Sector Directive: The Case of a Contract Financed by a Procurement Entity | 348 |
| 4. | Possible Factors Against the Application of the Directives to Aid Procurement Contracts..... | 350 |
| 4.1 | Delivery of the Aid Contracts in a Third Country | 351 |
| 4.2 | The Exception in the Utilities Directive for Activities Pursued in a Non-Member Country | 355 |
| 4.3 | International Agreements with Third Countries | 357 |
| 4.4 | Emergency Aid | 359 |
| 5. | Conclusions..... | 360 |

Part III: Tied Aid and the WTO

| | | |
|-----|--|-----|
| 11. | Tied Aid and the WTO | 365 |
| 1. | Introduction | 365 |
| 2. | Tied Aid and the Objectives and Principles of the WTO..... | 366 |
| 3. | Tied Aid within GATT and GATS..... | 370 |
| 4. | Tied Aid and the Subsidies and Countervailing Measures Agreement..... | 378 |
| 4.1 | Identifying Subsidies: The Financial Contribution and the Income/Price Support Elements..... | 378 |
| 4.2 | The Benefit | 384 |
| 4.3 | Specificity | 389 |
| 4.4 | Tied Aid as a Prohibited (Export) Subsidy..... | 389 |

| | |
|--|-----|
| 5. The WTO Agreement on Agriculture (AoA) and Tied Aid: State of the Law and Proposals for its Reform..... | 394 |
| 5.1 Introduction..... | 394 |
| 5.2 Tied Aid within the Agreement on Agriculture..... | 395 |
| 5.3 Food Aid within the Negotiations for Reforming Agricultural Trade | 398 |
| 5.4 The Draft Modalities for Reforming Article 10.4..... | 400 |
| 6. Concluding Remarks..... | 407 |
| 12. Tied Aid and the GPA | 411 |
| 1. Introduction | 411 |
| 2. GPA Coverage..... | 414 |
| 2.1 The GPA's Approach to Coverage and Development Aid..... | 414 |
| 2.1.1 Gaps in the Interpretation of the Exceptions in Article II(3)(e)(i) and (iii) | 418 |
| 2.2 The Exemptions in Article II(3)(e) and their Implications on the Granting of Aid as Budget Support and the Use of Country Systems..... | 422 |
| 3. General Coverage: Would Aid-Funded Procurement be Covered but for the International Assistance and Aid Exception? | 423 |
| 3.1 Introduction..... | 423 |
| 3.2 Definition of Procurement and the Exceptions in the General Notes | 424 |
| 3.3 Entities Covered | 425 |
| 3.4 Conduct Covered..... | 427 |
| 4. Concluding Remarks: Reflecting on the New Agreement and the Exclusion for Development Aid Procurement..... | 428 |
| 13. Conclusions..... | 431 |
| <i>Bibliography</i> | 444 |
| <i>Index</i> | 461 |