

Part I Tied and Untied Development Assistance: Economic, Political and Legal Dimensions

2 The Tying of Aid as a Contemporary Phenomenon in Development Economics and Policy: Some Key Definitions and Stylised Facts

‘[N]et is the operative word. This is an important requirement for it demands that there be a net flow or transfer of resources from the donor to the recipient, in absence of which we could have countries “receiving” aid and yet having a net outflow of funds to the donor.’

– P. Ndegwa, *Aid and Trade*
(Ndegwa, 1964: 27)

Any investigation into the changing causes of (un)tying behaviour in OECD states has to be preceded by a brief discussion of the main definitions, forms and motivations of tied development assistance. Moreover, some aggregate descriptive data on the evolution of bilateral ODA allocations will be presented to prepare the ground for the ensuing analytical sections.

2.1 Terminological and Conceptual Issues: on the Nature and Purpose of Tied and Untied Aid

Development aid can take various shapes and be spent in different ways. Understanding its basic features, modalities and objectives is a necessary first step in an analysis of how untying ODA might increase the efficiency and ownership of development projects in recipient states.

2.1.1 Categories and Modalities of Official Aid Flows: a Brief Discussion of Major Analytical Concepts in International Development Finance

On a general level, Official Development Assistance signifies a special type of foreign aid involving a ‘transfer of real resources or entitlements to real resources’ (Hemmer, 2002: 929; translation JHP) between industrialised and developing countries.¹ ODA funds can either be given as commercial aid (concession of unilateral or reciprocal trade preferences) or in the form of financial aid (liquidity assets or balance of payments support), the latter denoting ‘development assistance in its classical meaning’ (*ibid.*: 929-930). In any event, in order to qualify as ODA in compliance with the DAC’s and the World Bank’s operational definitions, aid funds must constitute a ‘transfer of resources on special terms’ (*ibid.*: 930) and comprise a ‘substantial transfer element’ that is capable of activating the recipient country’s balance of payments (Maennig/Wilfling, 1998: 314).²

Two requirements associated with this type of inter-state assistance merit detailed discussion. First, a demand for ‘special terms’ implies that the loan elements contained in many ODA packages must be issued on more favourable conditions (low interest rate, high discount rate, long maturity, extended grace/pre-amortisation period) than would be the case if the recipient country had tried to borrow funds on international capital markets.³ Second, the imperative of a ‘substantial transfer element’ means that the long-term objective of ODA is the enhancement of recipients’ welfare (Browne, 1999: 40). If return flows – ‘the part of ODA [...] which “remains” in the donor country in the sense that aid funds have been used to buy commodities or services on the home

1 Unlike ODA (which is made available by OECD states for poor recipients named ‘Part I countries’), the related category of Official Aid (OA) refers to economic assistance for newly industrialising countries or countries in transition (‘Part II countries’). Together, both types make up the category of Official Concessional Finance (OCF) – if money channelled to high-income countries is omitted (Browne, 1999: 35; 37). All remaining kinds of development funds are kept outside the ODA/OA/OCF definition. Hence, official resources designated for the purpose of international aid always carry a state-centric connotation; private forms of assistance such as FDI (equity and portfolio investments), donations or workers’ remittances are usually excluded (Hemmer, 2002: 937).

2 An overview of the German balance of payments, its function as an indicator of foreign economic policy-making and the major principles of ‘balance mechanics’ is given by Maennig/Wilfling (1998: 9ff.).

3 The ability of many MDOs to pass on commercial credits from commercial trading centres to developing countries at discounted rates is frequently explained in terms of political (not economic) factors. An international organisation’s ‘creditworthiness’ is largely determined by its reputation and seignorage. In addition, private lenders generally welcome MDOs’ capacities for economic analysis and experience in committing creditors – *i.e.*, recipient countries – to conditionality requirements (Claessens/Diwan, 1989: 28).

market' (Stokke, 1989b: 320) – remain sizeable, the original task of international aid policy is seriously diminished. At least in principle, such definitions rule out the (mis)use of public development funds as part of a 'hidden agenda' to promote the economic well-being of donors in the first place.⁴

As concerns the qualitative modalities of aid allocation, it is also important to separate grants from loans. Whilst no repayment obligations accrue from the former (Harms/Lutz, 2003: 14), the latter are credits that have to be serviced by developing countries in due time.⁵ From a developmental perspective, interest-bearing loan schemes are often criticised because they create 'a financial burden' on the recipient (Hotta, 1991: 478). Many analysts contest the pro-poor efficiency of mixed credits which combine grants and loans in a single ODA package (*cf.* Section 1, fn. 1). Such techniques of associated financing have been employed by donors to deliberately minimise the overall opportunity costs of aid (Loutfi, 1973).

Under standard financial arrangements, the size of the grant element (GE)⁶ is an appropriate measure to gauge the extent to which a given donor is actually willing 'to forgo return services if politically defined "international market conditions" were applied as an alternative yardstick' (Hemmer, 2002: 935; translation JHP). As a major criterion reflecting the true amount of concessionality, the GE is calculated by contrasting the real value of aid under market conditions with its value under conditions of ODA. Consequently, a low interest rate combined with a long final maturity, a long grace period and a high discount rate will – *ceteris paribus* – yield a high GE (Leipziger, 1983: 331); a

4 These qualifications illustrate yet another distinguishing feature of public – as opposed to private – development assistance. The primary goal of most FDI flows, for example, is microeconomic profit maximisation, not macroeconomic stability or long-term suprasectoral, social and political development (Ndegwa, 1964: 28). In the end, private overseas investments 'are certainly determined by "the operations of market forces" and do not involve the idea of "economic sacrifice" implied in the term "foreign aid"' (Ozawa, 1978: 526).

5 Strange (1967: 521) offers a succinct analysis of both buyers' (importers') and suppliers' (exporters') loans and credit insurance mechanisms in international development finance.

6 The DAC defines the GE as 'the excess of the loan's face value over the sum of present values (at market rate of interest) of all repayments, expressed as a percentage of the face value' (Leipziger, 1983: 335). By convention, development agencies apply a 'virtual interest rate' of 10% whenever they have no information on exact market conditions (Hemmer, 2002: 935). In some simulations of deflated rates of discount and grace period, the financial burden can even turn negative for single donors, *i.e.*, the real long-term costs of ODA can be significantly lower than the one-off nominal costs of aid provision (Bhagwati, 1970: 173). To capture similar effects of covert 'donor profit', critics have demanded a revised definition of the GE that also takes due account of the degree of tying. High return flows caused by protectionist aid and trade regulations might further reduce or distort the real value of ODA actually disbursed (Miyamoto, 1974: 448).

full grant contains a GE of 100%.⁷ In financial mathematics, the corresponding relationship reads

$$GE = \frac{L - \sum_{i=1}^T \frac{A_i}{\left(1 + \frac{r}{100}\right)^i}}{L} \cdot 100\%,$$

where GE denotes the grant element, L the nominal value of the loan, i the number of capitalisation periods, T the maturity of the loan, A_i the amount of annuity (payments on amortisation and interest) at the end of year i and r the rate of discount conceded by the donor (Hemmer, 2002: 935ff.; Jepma, 1994: 152).⁸ Depending on the size of the GE, an ODA credit may be classified as a ‘soft’ or ‘hard’ loan⁹. A minimum GE of 25% is another key attribute required by the DAC for bilateral loans to be accepted as ODA (Katada, 2002: 330).¹⁰ With respect to the medium-term quantitative effects of untied aid, it should be noted that a high degree of tying is roughly equivalent to a low GE, as the volume of return flows to the donor increases in both scenarios (Schrade, 1997: 286).

The channel of allocation – bilateral or multilateral – tends to impact on the quality of ODA as well. It has been argued that small donor countries preferably use multilateral channels to minimise administrative expenditure and ‘pool’ common resources to enhance mutual burden-sharing (Clay *et al.*, 2008: 16). Some authors have gone on to treat multilateral contributions as ‘pure grant equivalents’ (Bhagwati, 1970: 172) since MDOs can – at times – neutralise the strategic influence exerted by individual donors (Ndegwa, 1964: 28), especially if civil society actors are involved in allocative decision-making (Jakobeit *et al.*, 2009: 3-4). In contrast, big donor countries are assumed to be more inclined towards bilateral modes of disbursement because they can enforce political and

7 Leipzig (*ibid.*) uses the concept of indifference curves to map various combinations of grace period and maturity which all yield the same GE.

8 In some cases, the face value of a grant is not calculated as a relative but as an absolute measure (the so-called grant equivalent).

9 As early as in 1978, the DAC requested that bilateral donors extend more ‘soft’ loans with grant elements of up to 90% to the LDCs (Hemmer, 2002: 941-942).

10 The World Bank Group makes frequent use of both categories. Whereas the International Development Association (IDA) mainly offers non-interest loans to LDCs, the ‘harder’ loan schemes of the International Bank for Reconstruction and Development (IBRD) usually contain interest-bearing credits to more advanced countries (Hemmer, 2002: 942-943).

economic conditionalities more easily in direct negotiations with recipient authorities (Hemmer, 2002: 959-961; *cf.* Chapter 3).¹¹

A majority of bilateral donors routinely channel larger amounts of ODA into single development projects – notably capital-intensive industries or Technical Cooperation – while multilateral donors prefer cross-sectoral development programmes such as balance of payments support, budgetary assistance¹², debt relief or structural stabilisation schemes (Hotta, 1991: 480). One reason may be that specific projects carry a higher ‘visibility’ in terms of both domestic lobbying options and local employment (Stewart, 1970: 154); they can thus be more readily associated with and publicly legitimised by the donor. Beyond considerations of national prestige, some authors argue that it is easier for donors to directly influence the formulation, content and execution of projects than in the case of large-scale, anonymous programmes (Hemmer, 2002: 950).¹³ Still, the developmental efficiency of the latter is generally seen as superior (Gibbon, 1993: 47): One cohesive programme commonly incurs less administrative costs than a fragmented collection of standalone projects (OECD/DAC, 2009c: 12), and the prospects of political dialogue with recipient governments are usually better if this type of allocation is chosen (Lewis, 1993:

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- 11 Institutional theory has confirmed a number of these propositions (*cf.* Section 5.4). However, there are some reservations and counterarguments. In judging the extent of potential cost savings, for instance, coordination benefits brought about by collective ‘economies of scale and scope’ (Martens, 2002a: 21) always have to be balanced with (higher) expenditure on multilateral bureaucratic management ‘without incurring disproportionate national costs or compromising particular interests’ (Hill, 2003: 141). Furthermore, it would be naïve to presume that single donors cannot wield considerable influence in multilateral fora as well. As the example of US behaviour in the World Bank and IMF has shown, decision-making in international institutions can be heavily biased towards the national interests of the most powerful members (Wade, 2001; Woods, 2001). Steinberg (2002: 369) criticises the practice of ‘invisible weighting’ and ‘sovereign equality rules’ in the World Trade Organisation (WTO). To be sure, many MDOs are more accessible to recipients’ concerns and provide additional mechanisms of consultation. But at the same time, the degree to which true inclusion is guaranteed varies a lot within and between different institutions, as different modes of decision-making (‘one-dollar-one-vote’ in the Bretton Woods system; ‘one-country-one-vote’ in the UN system) clearly demonstrate. For an overview of the UN’s role in international development, see Browne (1999: 7-10).
 - 12 Budget support typically takes one of two forms. It can either be allocated as direct ‘general budget support’ to a recipient government or defined as ‘specific budget support’ for social sectors like health and education (Quartey, 2005: 1084). Its central feature is that ‘conditionality is directed towards policy measures which relate to the overall budget priorities. Within this category, funds may be spent on certain sectors, but there is no formal limitation as to where they should be spent’ (*ibid.*).
 - 13 Of course, the fungibility of development resources introduces limitations to national control in project assistance. A donor can hardly sanction the misuse of ODA funds *ex post* if the recipient would have been able to finance the project in question anyway. Under such circumstances, tied aid may even be justified on economic grounds (Hemmer, 2002: 946-948).

4). On the other hand, programme officers may encounter severe difficulties in situations where a recipient lacks absorptive capacity. Moreover, a specific danger of budgetary assistance lies in ‘the temptation for the developing country to slacken off its export or import-substitution efforts if it believes the foreign exchange gap will be filled anyway’ (Stewart, 1970: 153). Food Aid is a case in point here. Its undisputed purpose is to secure basic nutrition and stabilise food prices in the poorest and most conflict-ridden countries, but it is frequently delivered in the form of pure block grants whose effects ‘on the ground’ are extremely hard to monitor (Matthews, 1999: 75).¹⁴

Lastly, it should be kept in mind that promises of ODA (commitments) and actual payments (disbursements) are two different things. As many aid statistics do not provide a detailed breakdown of the sectoral use of funds, commitments usually have to be taken as a ‘second best’ indicator of real aid flows – although they ‘tend to exaggerate the actual flow of resources, in part because repayments of loans are not netted out, and in part because of the time lag between the commitment of assistance and its disbursement’ (Matthews, 1999: 68). Donors’ honesty, political will and confidence in the pro-poor effects of ODA are essential if development aid is to make a difference in North-South relations (Leipziger, 1983: 335).

2.2 *What Is Aid Tying? Outlining Donors’ Strategies between Domestic Export Promotion and International Poverty Reduction*

2.2.1 Forms of Tying: the Composition of National Aid Budgets

In essence, the practice of tying aid can be described as a package deal that links the granting of a particular amount of ODA to the recipient’s readiness to spend a predetermined share of precisely those payments on goods and services originating from the donor country. Before individual types and motivations of

14 In spite of their well-founded basic needs legitimisation, Food Aid programmes such as the US ‘Food for Peace’ scheme (Hemmer, 2002: 951ff.) have aroused discontent. Critics maintain that donors primarily stick to these policies because they want to rid themselves of surplus production in agriculture – the result being that recipients’ own agricultural markets are faced with excessive supply that further depresses domestic price levels and crowds out home suppliers. The EU has been blamed countless times for the continuation of bulk supplies through its Common Agricultural Policy (Hix, 1999: 250; Nuscheler, 2004: 272). Food Aid and humanitarian assistance disbursed in regions of conflict may also encourage military looting of relief deliveries. For an analysis of the case of Somalia in the 1990s, see Hanington (1992). The rise of humanitarian aid after the Indian Ocean *tsunami* in 2004 and the Pakistan earthquakes of 2005 is discussed in OECD/DAC (2009b: 8).

tied aid are discussed, two general definitions of tying from a legal and an economic perspective are presented.

In juridical terms, the US anti-trust laws of the 1950s classified the method of tying as a special contractual relationship in which a sales agreement for commodity *A* between a ‘seller’ and a ‘buyer’ only becomes operational if the ‘buyer’ simultaneously agrees to purchase a related commodity *B*. The ‘buyer’ is thus forced to accept the *tying* commodity *B* in order to receive the *tied* commodity *A* that had prompted his desire to buy anything in the first place (Mitchell, 1961: 1; 10). The total price for both goods increases because commodity *B* adds a shadow price on the amount to be paid exclusively for commodity *A*. Whenever a ‘buyer’ openly refused to accept a bargain like this, the proposed package deal¹⁵ constituted a violation of federal law and was declared illegal under the provisions of the Sherman Act. However, arbitrary measures of discrimination¹⁶ against individual bidders were permitted if the ‘buyer’ voluntarily honoured the tying requirement and the deal was macroeconomically sound; at any rate, there had to be clear-cut evidence that tied sales resulted in aggregate economic benefits ‘that are by far superior to possible disadvantages which may accrue in certain smaller circles’ (*ibid.*: vi; translation JHP). A more principled justification for the negative effects of tying contracts in neoclassical terms was also given: If all actors behave rationally, it will not be possible to compel a ‘buyer’ to accept the tying good; he could (and should) therefore refrain from entering into such a commitment (*ibid.*: 1).¹⁷

In international development relations, donors – the ‘sellers’ of credits – have pursued three main types of ODA tying (Jepma; 1988: 797). (1) Aid contracts may restrict procurement to a specific project or programme (project tying); (2) they may be related to particular commodities or services (product tying); or (3) they may introduce limits on the eligibility of the location of tendering and/or procurement (source tying), ‘usually including the donor country itself’ (Jepma, 1994: 7). In the latter case, return flows are noticeably high because supplementary foreign exchange spent on the transaction often represents ‘an addition to the amount that the developing country would

15 So-called tie-in sales have been – and, in some cases, still are – a dominant feature of the agricultural sector in many developing countries. Basu (2003: 301) discusses examples of how package deals linking commercial loans to real-estate/land tenancy tend to aggravate a borrower’s long-term indebtedness.

16 Allocating different contractual conditions to different suppliers also infringes the free-trade principles of reciprocity and most-favoured-nation treatment which have been key norms of the GATT since the 1950s (Maennig/Wilfling, 1998: 192-194).

17 Later on, many assumptions of neoclassical economics were relaxed or modified to accommodate views of preference formation that move beyond the concept of methodological individualism (*cf.* Section 2.3).

otherwise have spent in the donor country' (Stewart, 1970: 153). There are also combinations of individual modes of tying. Food Aid, for example, is mostly 'doubly tied' with regard to source/origin and product/commodity (Matthews, 1999: 77).

Concerning the relative extent of tying in single contracts, the DAC countries and other bilateral donors have developed three conventional categories to estimate the quantitative degree of limited procurement eligibility (Michaelowa, 1998: 23-24; Jepma, 1994: 7). Tied ODA 'in a narrower sense'¹⁸ may refer either to completely tied aid (*i.e.*, a tying ratio of 100%; TA), partially¹⁹ tied aid (tying ratios between 0% and 100%; PTA) or completely untied aid (a tying ratio of 0%; UA). While the first type includes 'loans and grants [which] are classified as tied aid, whether they are tied formally or through informal arrangements' (Clay *et al.*, 2008: 4), the third type covers '[I]loans and grants whose proceeds are fully and freely available to finance procurement from all OECD countries and substantially all developing countries (*ibid.*), and the second type takes an intermediate position. When ODA is completely tied, the above example of a package deal struck between a 'seller' and a 'buyer' applies: The latter only receives the full amount provided that it is used to purchase imports from the donor country. This form of tied aid is mainly employed in infrastructure or Technical Cooperation contracts (Martens, 2002a: 3) which imply the delivery of capital-intensive and technologically advanced goods as well as specialised consulting and training services. In this case, donors' domestic industries enjoy significant comparative advantage *vis-à-vis* recipients, who often have no choice but to accept the restrictions if they want to receive any ODA at all (Jepma, 1991: 19).²⁰

Project tying in Technical Cooperation appears to be particularly 'effective' from a 'donor-interest' point of view as it can be attached directly to the 'offshore costs of specific projects or purposes which would not be undertaken if aid from one donor country or another was not available' (Hopkin, 1970: 4).

18 While tied aid 'in a narrower sense' relates to the degree of tying in monetary flows, tied aid 'in a broader sense' includes the quality and properties of goods and services to be procured under these arrangements.

19 Some authors denominate this category as 'partially untied aid'.

20 ActionAid Alliance (2003: 14) provides statistical data on the vast influence of Technical Cooperation funds on the effective tying of aid in the year 2001. The difficulties in capturing exact tying ratios for this type of aid are compounded by the fact that it has been exempted from the DAC's definition of tied ODA since November 1997 (*cf.* Section 5.4). 'This has had the effect of significantly lowering the published figures on tied aid as reported to the DAC' (Chinnock, 1998: 8). Qualitatively, the DAC has deplored the negative consequences of Technical Cooperation for recipients' educational systems various times. Given in the form of scholarships, it may further exacerbate the 'brain-drain' of young professionals (OECD/DAC, 2008d: 17).

In many bilateral aid relationships, such ODA can be modelled as a ‘transfer of (sector-specific) capital goods from the donor to the recipient’ (Michael/van Marrewijk, 1998: 64) – although this relationship is heavily skewed in favour of the donor. Besides, Technical Cooperation projects are mostly characterised by voluntary tying behaviour. When a donor concedes selective price discounts or offers additional services, a recipient may deliberately opt for tying and ignore possible alternatives under competitive bidding (Mitchell, 1961: 18). This phenomenon regularly applies to tied Food Aid (Baird, 1996: 1212) where donors do not merely deliver the commodities themselves, but also provide for their shipment over thousands of kilometres (ActionAid Alliance, 2003: 10).

From the recipients’ viewpoint, the second type (PTA) boils down to a commitment to import a certain percentage of each unit of the provided good. The granting of such assistance sometimes involves additional arrangements about the countries of procurement (OECD area, developing countries or ‘triangular’ contracts with third states). However, it may be almost impossible for statisticians to trace these flows without ambiguity, as large components of PTA automatically reverse the allocative trend of fully tied aid in some donors’ accounting systems. Various OECD members still have difficulties in clearly delineating tied aid from PTA (Jepma, 1991: 11), and one may speculate on whether they really view this problem as a technical issue or use it as a pretext for the ongoing existence of tied ODA (*cf.* Section 6.4). Owing to the DAC’s activism in devising more coherent monitoring routines during the past years, cases of non-reporting or underreporting have fortunately been reduced (*cf.* Section 5.4).²¹

The third type of completely untied assistance can be used at a recipient’s own discretion.²² Popular forms include macroeconomic programme assistance, budgetary aid and structural support. These flows are harder to attach to specific obligations, and it may be impossible to assign them to project-specific

21 The original version of the Creditor Reporting System (CRS) jointly set up by the DAC and the World Bank in 1967 comprised six basic categories of aid tying (with slight overlaps): (1) ODA contributions channelled through MDOs (worldwide procurement permitted); (2) bilateral payments directly financing imports from OECD countries and other developing countries; (3) bilateral payments not directly financing imports (structural and balance of payments support, debt relief, Food Aid, local cost financing); (4) partially tied payments directly financing imports (procurement restricted to the donor and recipient country); (5) partially tied payments for Technical Cooperation; and (6) partially tied payments without any further qualification. All remaining types of payment were subsumed under the category of tied aid. Due to problems of data collection and estimation of tying ratios, the DAC decided to pragmatically focus on the ‘three main distinctions’ (Jepma, 1991: 27) of fully tied, partially tied and fully untied aid (OECD/DAC, 2002b).

22 The DAC’s regulations emphasise the need for differential treatment of grants and loans in the context of tied, partially tied and untied aid (Isaka, 1997: 1).

purposes. Nonetheless, some donors have extended tying requirements to macroeconomic ODA as well. For example, the provision of US balance of payments support has been linked to import quotas for certain US products until the early 1990s (Jepma, 1991: 12). But aid flows may also be made conditional upon the formulation of indigenous 'development plans' (Carlin, 1967: 49). Untied aid given as programme or sector support is deemed to be pro-poor efficient and strengthen the development of local capacities 'which can only come from managing and running programmes' (OECD/DAC, 2008d: 14).

A threefold typology of tying levels is further compromised by the necessity to distinguish between formal and informal tying (La Chimia, 2003: 1-2). *De iure*, formal tying of aid is based on a bilateral contract stating explicit details of both sides' export/import commitments. Yet in the day-to-day workings of development politics, *de facto* tying of aid may still occur in the absence of a legal text. There are various examples of implicit agreements where donors and recipients make a tacit deal on 'national content' in bilateral ODA deliveries. The 'seller' may be able 'to enforce the condition of joint sale by more subtle indirect means' (Mitchell, 1961: 20), or the tied aid given is meant to 'generate political goodwill, from the recipient towards the donor, such that the recipient may feel more disposed, if not obliged, to purchase goods from the donor' (Morrissey, 1993).²³ Again, the existence of silent understandings or gentlemen's agreements in international aid relations bears witness to the enduring relevance of power differentials between the 'suppliers' and the 'consumers' of ODA – a lasting trend that even the most accurate statistical breakdown is unable to unveil (Dinwiddy, 1973: 79-80).²⁴

In a similar vein, the practice of issuing mixed credits makes it increasingly difficult to discern (partially) tied and untied shares of ODA in larger aid packages. Such financing schemes commonly connect untied grants with commercial export or supplier credits (Michaelowa, 1998: 23-24; Osei, 2003:

23 Hicks (1963: 172) provides historical evidence from the era of anti-communist 'containment' by analysing the extent of US informal tying in aid relations with India and Pakistan. In contemporary aid politics, the EU's multi-annual preferential agreements with ACP countries in the context of the Lomé and Cotonou accords may also be mentioned in this regard (ActionAid Alliance, 2003: 12; Hix, 1999: 340; Forwood 2001: 427). When donors appear as newcomers in development contacts with recipient states, the terms and conditions initially negotiated usually predetermine subsequent arrangements: 'If possible, these guidelines are expected to apply also to projects that are based on previous aid offers – this is the retroactive effect of aid tying' (Wirtschaftswoche, 1984: 28; translation JHP).

24 Some authors go as far as to define forms of 'direct' and 'indirect' tying. Whereas the first type refers to a formal restriction of procurement to donors' domestic markets ('tied [...] by rules and procedures'), the latter amounts to an informal preferential treatment of home industries in the donor country ('tied [...] by practices') (DFID, 2001: 2). For an overview of the mechanisms of direct and indirect aid tying, see Hemmer (2002: 955).

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