



TRENDS IN CONCESSIONARY LOANS -THE ROLE OF OECD

François Pacquement

► To cite this version:

François Pacquement. TRENDS IN CONCESSIONARY LOANS -THE ROLE OF OECD. 1998.
halshs-04333980

HAL Id: halshs-04333980

<https://shs.hal.science/halshs-04333980>

Submitted on 10 Dec 2023

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

TRENDS IN CONCESSIONARY LOANS – THE ROLE OF OECD

*Translation of an article originally published in French in Afrique Contemporaine
N° 188, october-december 1998.*

Keywords

Official Development Assistance (ODA) - Peer pressure - Loans and grants – Development assistance committee (DAC) - OECD

Development assistance may be in kind, in the form of loans or grants. Bilateral aid by loans is evolving as a result of binding consultations within the OECD between donor countries. After recalling the foundations of this institution and its rules of operation, we will show the directions that are necessary for the loans of aid linked through it, then the global evolution that follows in terms of Official Development Assistance (ODA), particularly in the case of France.

Created in December 1960, the OECD (Organisation for Economic Cooperation and Development) is the heir to the OEEC (Organisation for European Economic Cooperation), which was itself set up after the Second World War to bring together the United States and Marshall Plan countries. Initially, some OECD members – now developed industrial countries – were themselves aid recipients. Today, the Organisation is a club in which industrial countries discuss various aspects of their public management in order to define “good practices”. The Organization therefore does not provide funding, with the use of the term “development” to highlight a concern then emerging for international cooperation.

The OECD has about fifteen directorates, which reproduce pretty much the usual areas of any government (except some sectors such as the army, culture, police or justice...). Each of these directorates provides the secretariat for several Groups – or Committees – bringing together the Member States at varying intervals (the rate may be monthly as well as annual) at the Paris headquarters of the Organization. In addition to the exchange of information and the search for common approaches, the work of the Groups leads to commitments by member countries, and even to legally binding decisions. In particular, the economic policy of each Member State is examined periodically in its various aspects by peers (under the guidance of two other Member States).

Two directions to manage loans

The Directorate for Development Cooperation (DCD)

The Development Cooperation Directorate provides the secretariat for the Development Assistance Committee (known as the DAC). Established in 1961, the DAC aimed to promote the expansion of member countries' aid to developing countries and to improve the efficiency of allocated resources (in any form in kind, or through grants or loans). While there were only nine founding members (Belgium, Canada, France, Germany, Italy, Portugal, the United Kingdom, and the Commission of the European Economic Community), the DAC now has twenty-two members (Australia, Canada, United

States, Japan, Norway, New Zealand, Switzerland, as well as the countries of the European Union outside Greece, to which the representation of the European Commission is added).¹²

The DAC – funded by the Directorate for Development Cooperation – is thus an important element of the administrative and political framework for Official Development Assistance (*see* box). It conducts regular peer review of the cooperation systems and development assistance policy of member countries. It counts aid efforts, makes recommendations to increase their effectiveness (“good practices” of aid, agenda for cooperation in the 21st century, etc.) and verifies their application during peer reviews. This is how it directs aid in the form of loans. The DAC Chair performs his duties on a full-time basis – a unique case among the OECD Groups. Every year, it publishes a report on the development of aid as well as on themes of reflection and current events. This report is now a reference document. The DAC thus pursues various reflections on important development aid and accounting issues: statistical rules, financial aspects, gender, environment, aid evaluation, participatory development and good governance, prevention of armed conflict and post-conflict management, etc.

Between 1960 and 1961, the United States accounted for more than 40% of total public aid to developing countries; another third came from France and the United Kingdom, the two great former colonial powers. One of the main concerns of these countries was to share the aid effort more widely.

Official Development Assistance (ODA)

ODA refers to any public expenditure with the following three characteristics:

- it is addressed to an eligible developing country, according to a pre-established list;
- promote economic development and improve living conditions in the country concerned;
- it includes an *element of minimum liberality*.

Aid may be granted directly by a State (bilateral aid) or through an international body (multilateral aid). Expenditure recorded in terms of ODA includes, in addition to development aid, food and emergency aid, aid to refugees, debt forgiveness, certain specific peacekeeping operations (rehabilitation of infrastructure, provision of emergency relief, mine clearance, demobilization, organisation of elections, etc.).

Bilateral aid may be subject to restrictive conditions relating to the origin of goods and services: it is tied aid.

Otherwise, it is called untied; strictly, for aid to be considered untied, this status should be predictable (and not decided on a case-by-case basis) and that the goods and services it finances are subject to international competition procedures (international invitations to tender, if possible from the feasibility studies).

The grant element of a loan refers to the difference between the amount of the loan (the principal) and the discounted projected repayments (difference expressed as a percentage of the principal). A 40% grant element therefore indicates that the loan is repaid at a present value of 60% of principal. According to this principle, a grant is accompanied by a 100% grant. For loans, the longer the term, the longer the maturity of the first repayment, the lower the interest rate, the more the liberality increases.

¹ In 1974, Portugal withdrew from the DAC and applied for inclusion in the DAC list of developing countries; subsequently, Portugal joined the DAC in 1991.

² 14 countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, the United Kingdom and Sweden.

The Exchanges Directorate

The Trade Directorate facilitates the reflection of OECD members on various themes such as:

- monitoring of significant developments in trade policy (for example, following recent financial instability);
- the effects of trade and investment liberalization;
- access to the market for goods and services after the entry into force of the Marrakesh Agreements (concluding the GATT negotiations, known as the *Uruguay Round*);
- regulatory reform and the market access difficulties it creates.

In general, the OECD regularly reaffirms its members' commitment to freedom of trade, enshrined in its Convention. It thus frequently examines trade issues in the negotiations of the World Trade Organization (the WTO, which succeeded the GATT) such as, recently, the multilateral agreement on investment. Like other directorates in other areas, the Trade Directorate prepares periodic reviews of members' trade policies. Finally, it is building an active network of relations with non-member countries.

The various OECD Directorates and their Working Groups cooperate (for example, between the Directorates for Trade, Development Cooperation, Environment, Public Management, Agriculture). Although the Trade Directorate is not *a priori* interested in the effectiveness of development aid, it nevertheless exercises vigilance in this field, since aid may sometimes appear to cover operations whose purpose is export promotion.

Thus, to prevent such a diversion of aid, an agreement was concluded between various countries included in the "Participant Group", constituting the "Arrangement on Guidelines, for officially supported export credits" known as the "Arrangement" (or "Helsinki Agreement").

The mechanism of the Arrangement

The result of a historical evolution

The Arrangement therefore provides a general framework for an agreement on export credits administered by the OECD. Participating countries are Australia, Canada, the European Union, Korea, the United States, Japan, Norway, New Zealand and Switzerland (i.e., OECD member countries, excluding Hungary, Iceland, Mexico, Poland, the Czech Republic and Turkey).

The origins of the agreement date back to the late 1960s with the introduction of a first text on credits on ship sales (then called "consensus text"). In 1976, negotiations were opened with the aim of extending the practice to other categories of goods and services, leading to the text of the "Arrangement" on 1 April 1978. This agreement was then the subject of several revisions (mainly in 1983, then in 1991) to produce the document of the "Helsinki Agreement" (or "Helsinki Package"), supplemented since then by some marginal changes, particularly in the area of credit insurance (1998).

Discussions focused, at the insistence of the United States, on the need to prevent aid from being used for commercial purposes, particularly in highly competitive sectors such as telecommunications, transport or energy. In contrast, in the early 1990s, while the text was being negotiated, the DAC commissioned a study by Catrinus Jepma³ on the observed additional costs in tied aid operations. Some observed deviations could be as high as 20%, highlighting a diversion of aid for protection against international competition.

The Helsinki Agreement, which came into force in 1992, aims to dissuade States from providing *public support* for export credits. It covers financing of goods and services (including sales contracts equivalent to leasing) with a public contribution and a repayment period of at least two years. The

³ Published in 1991 - Jepma, C. J. *The tying of aid*, Paris, Development Center, OECD

Arrangement includes tied (or partially untied) aid credits, which are considered to be a real distortion of competition⁴.

The content of the Arrangement

The Arrangement is a *gentlemen's agreement*. It includes the dual requirement of *discipline*, limiting operations that may receive public support – by calibrating duration, deferral, interest rate, guarantee premium – and *transparency*, including the obligation to notify participating countries, before any formal commitment of a credit, in order to control the application of *discipline* and to allow competition to be exercised. This calibration therefore applies both to loans on commercial terms granted or guaranteed by public facilities (supported) and to loans with a grant (aid under ODA not untied).

In terms of *discipline*, the 1991 provisions provide for two main types of constraints depending on the beneficiary countries - the least developed countries (LDCs) with no restrictions: ⁵

- a complete ban on tied aid credits for upper-middle-income countries (MICs);
- in the case of other countries, the prohibition of linked aid credits for "commercially viable" projects on the basis of prices obtained by the market mechanism and which may be financed by trade credits; This provision therefore applies to lower-middle-income countries (MITCs) and low-income countries (LICs).

Transparency is organized by a procedure of systematic reporting of operations, in order to make possible their contestation by a participant. The provisions on tied aid define the procedures for notification, transparency, consultation and prior review of projects and the practices of Member countries. Any competition must be subject to a prior declaration, with a time limit, during which any participant may ask questions, request documentation (such as the feasibility study), or even request the passage before the “Consultation Group”. This group then examines the project at the request of a Member State.

The Annex of the Arrangement proposes reference criteria for judging the usefulness of development projects and programs. When notifying a competition, this list must be duly completed, in the form of a "state of appreciation of the quality of the aid" (or “AQUA”).

The *commercial viability* of an operation is the key concept for assessing financing. It is generally assessed on the basis of the operating balance of the project and the possibility of remuneration of the capital used.

Putting it into practice.

The 1991 text was the result of a difficult compromise and kept some obscure points. It has since been the subject of various grooming and redefinition, based on the jurisprudence resulting from the analysis of certain projects or following *ad hoc* work. In particular, the criteria for analyzing *commercial viability* have given rise to a number of complementary studies, to clarify the concept of a project and its contours, the prices used for the calculations, any adjustments linked to the taxation of the host country, etc.

In the event of a transition to the Focus Group, the Focus Group screens the project for two *key tests* (as the group refers to them). This examination is supplemented by an assessment of the quality of the aid (*aqua*), which, however, has no catch-up effect. The key tests aim to establish commercial viability through two complementary approaches: firstly, from the perspective of the ten-year financial analysis

⁴ The concepts used by the agreement are themselves subject to successive redefinition. Thus the idea of *public support*, which is regularly reviewed, is currently being used for “direct credits, refinancing, interest rate subsidies, financing of aid (credit or grant), insurance or guarantee of export credits.”

⁵ Each year, the Trade Directorate publishes an updated list of countries, based on data published by the World Bank Atlas (which is released in September) and the rankings in force in various institutions.

of the investment, and on the other hand, by simple questioning of participants on an alternative offer of financing on market conditions (a declaration suffices to attest to the existence of a competing offer and therefore commercial viability). In general, decisions must reflect a consensus (the Member States of the European Union attend the meetings and then meet with the Commission to express the Union's position with one voice).

A recent report submitted to the Consultation Group shows that after six years of implementation of the Helsinki Agreement, more than 100 projects were examined by the Consultation Group. In practice, just over half of the projects examined were considered commercially viable (58 operations). With respect to the others, in 17 cases, the government of the notifying country invoked the upper national interest clause to override the negative opinion. In four cases, the funding was made available on terms appropriate to the Arrangement and in one case, the aid was untied. The remaining 36 projects deemed "commercially viable" appear to be abandoned by the funder (unless they are being reformulated, which is difficult to ascertain). However, for their part, the governments of the beneficiary countries continue to implement it despite this verdict (and therefore the withdrawal of the donor), which seems to attest to their willingness to finance these operations. However, it can be seen that, despite the declared viability, no non-concessional funding has taken over from the originally planned aid assistance.

Thus, one of the hypotheses of the mechanism of the Arrangement does not seem to work effectively. In case of rejection before the Consultation Group, the project is supposed to be carried out on non-concessional financing (the Helsinki rules should not constitute a brake on investment aid in middle-income or low-income countries). However, most of the rejected projects did not find resources and were not carried out. In practice, the rejection on simple declaration of a country proposing a commercial competition is theoretical. It therefore appears that aid financing does not replace commercial financing.

Overall, however, the report highlights that the Helsinki disciplines have really prompted donors to direct tied aid towards projects that are not commercially viable. These included case law and a set of recommendations for the energy, telecommunications, transport and industry sectors (*see box*). Further, funders seem to practice strong self-censorship, as even untied aid providers follow these precedents and withdraw support from sectors deemed profitable.

In doing so, in a few years, the mechanism of the Arrangement has contributed to considerably changing the form and content of public aid by loans, and this is the case in particular of French aid, which has always expressed itself in a substantial way under this term of subsidized loans.

The evolution of bilateral aid

ODA in steady decline

Statements by DAC members showed that in 1997 ODA fell for the fifth consecutive year. For the last fiscal year, total net ODA to developing countries fell from \$55.4 billion to \$47.6 billion, a decrease of 14.2% in current terms. Aid worth 0.33% of donor GDP in 1992, when the Helsinki Agreement came into force, was reduced to 0.22% in 1997, the lowest level ever before.

Recommendations making "case law"

Energy sector

Projects must be examined in terms of the overall performance of the network in which they are integrated, except where the geographical area of the project can be technically and financially separated. The dissociability of an equipment to the network leads to a strong presumption of financial non-profitability (most often due to the need for a heavy investment, little offset by a slow rise in consumption, due in particular to a low payment capacity of beneficiaries). The assumption is that any national electricity grid is cost-effective, unless there is inadequate

pricing or a structural excess of charges relative to consumers' payment capacities. In such cases, the Panel may make recommendations.

As regards distribution equipment (lines and substations), the criteria for dissociation from the national network stem from the local use of low-voltage links for clearly identified beneficiaries, such as areas of low population. As regards electricity production, the dissociable character is more readily recognized for power stations providing basic generation, than for those used to ensure peak power. The former may be the subject of a marginal analysis. In the case of hydroelectric projects, in addition to the general characteristics of electricity generation, consideration must be given to all the positive effects directly attributable to it. Finally, "renewable energy" type equipment is generally considered not commercially viable.

Telecommunications sector.

As in the case of energy, the autonomy of the project in relation to the national grid must be justified if it is not commercially viable. Experience to date limits this possibility to projects serving areas where the ratio of "per capita investment cost" is particularly high (rural, inhospitable or sparsely populated).

Transport sector

Aeronautics is generally considered a viable sector (including the financing of aids to navigation). Initially, the Arrangement already included specific binding rules on the financing of new or used aircraft. Only the creation of airport infrastructure appears to be commercially viable.

As regards railways (in terms of infrastructure), subways, bridges and roadways, the subsidies generally required attest to their non-commercial viability.

Manufacturing sector

All industrial projects are considered commercially viable, unless they specifically target insolvent populations.

This decline in aid is mainly due to the G7 countries, of which only Canada and Japan saw their real contributions increase in 1997. However, this increase is fundamentally due to a rebalancing effect of their contributions to multilateral agencies (which they had decreased in 1996); in fact, these two countries have also reduced the share of their bilateral aid. Regarding the US, the amounts paid are controversial, as the US statement includes substantial support for Israel (which is not a DAC-listed country). For France, Germany and the United Kingdom, aid measured in terms of real net flows decreased between 2 and 11%.

Aid from other DAC countries now accounts for 28% of total ODA by member countries (twice their share of total DAC participants in GDP). Their contributions have remained virtually stable since 1992.

Partial substitution by private capital

A change in strategy has taken place on the part of aid donors as private capital flows have increased.

In 1996, the DAC adopted a report on "the role of development cooperation at the dawn of the 21st century". This document highlighted various global strategy objectives, including poverty reduction, improved education and health, increased gender equality, environmental need for sustainable development, respect for human rights and the importance of good governance. Naturally, none of these ideas then appeared as truly new. However, their inclusion in the same document, setting the general framework within which bilateral cooperation would be judged in the future by their peers, The consensus was that aid should be withdrawn from economic sectors as a whole and that it should focus on commercially non-viable activities.

It is true that in the same year 1996 net private capital inflows were the highest ever - 286 billion dollars. Unfortunately, this level should remain that of an exceptional year: in 1997, flows were down (with 206 billion dollars in estimated amount) mainly due to the Asian Crisis; 1998, this trend should hardly change, because of the effect of the spread of the crisis towards Latin America, the CEEC-NIS countries and even all industrialized countries. Indeed, the private capital concerned mainly goes to the most dynamic economies of Asia, Europe, South and Central America. In 1996, low-income countries received \$22 billion, most of which was concentrated in China and India, with sub-Saharan African countries – including South Africa – receiving five times less (about \$4 billion).

In the future, the current consensus to earmark aid for projects of a social nature – ‘not commercially viable’ – could therefore be called into question, whether private finance continues to focus geographically on certain countries and whether the recent financial market crisis has a lasting impact on them.

The two comparisons between the loan and the gift

This double monitoring by the OECD of loan financing is reflected in the evaluation of *the grant element*, which is the subject of two mechanisms, the first being in the eligibility criteria under the Arrangement, the second is for ODA measurement on behalf of the DAC. These two mechanisms are distinguished essentially by the *discount rates used* in the calculations.

Under the Arrangement, *the concessionality element* of a loan is measured. It is assessed as *the element of liberality* (gain between the principal of the loan and the repayment flows), obtained after calculation of discount at the market rate for the currency concerned. The discount rate actually used is determined for each currency from the average rates recorded during the second half of the year (by adding a corrective factor according to the duration of the loans granted: the longer the duration of the assistance, the more the discount incorporates an additional risk).

For its part, the Development Assistance Committee uses the notion of *grant element* contained in a loan. It is calculated as *the element of liberality*, obtained after calculation of discount at the rate of 10% – value unchanged since the origin, being considered as the universal opportunity cost of public expenditure. A loan may be recognized under ODA if it contains at least 25% of the grant element. However, as far as ODA statistics are concerned, loans are recorded – like other aid – as disbursements progress (in total value of the flow and not just for the grant equivalent share), the repayments, on their part, show a decrease in these same flows.

The co-existence of this double calculation of liberality sometimes leads to contradictions: when market interest rates are below 10%, a commercial type loan can quickly become eligible under the grant element. Thus, the low level of Yen rates meant that some 10-year market-based loans, with one or two years of deferral, were able to qualify for ODA, helping to raise Japan’s position among the major donors (for the amounts it allocates, rather than the share of GDP it allocates).

The future of loan aid

The logic of loans

On the donor side, loans obviously allow to benefit from a significant leverage effect in relation to available budgetary resources, and thus, to significantly increase the number of projects assisted, and the participation specific to each project. However, the banker’s approach (even when the latter grants a grant) also enshrines the relationship between funder and beneficiary in a strong, long-term contractual framework, requiring close monitoring, finally obliging the parties, in accordance with banking practice, to be concerned with the sustainability of the project, which is mechanically linked to the need to ensure repayment.

On the beneficiary side, the loans constitute a genuine mark of trust, which can be reported to obtain additional financing. At the same time, the presence of the lender in the set-up of the transaction gives it an increased weight compared to other administrative and political actors surrounding the project (for example, to discuss institutional aspects, price formation, legal constraints). The use of loans

therefore gives the project a stronger institutional dimension, significant in the context of developing countries.

Aid financing is, by definition, based on a specific perspective. However, the logic of the instrument (in particular, that the operation must be repayable and therefore often financially viable within the meaning of the Arrangement) must not prevail over the political imperative (providing effective development assistance). However, in the case of loans, under the effect of the Arrangement, the constraints have become so strong that the object for which one lends may sometimes seem to be secondary, despite its specific advantages in terms of development. The constraint of the Arrangement on aid loans weighs particularly on France, which has made it one of its means of intervention.

The effects of debt crises.

France ranks fourth – behind Japan, the United States and Germany – among lenders using loan assistance. Together, these four countries contributed more than 90% of the debt to developing countries' ODA terms.

In 1989, at the *Dakar summit*, France committed for 35 African countries to cancel all their outstanding debts, for debts with liberal conditions. Over the next 3 years, it therefore incurred FF 30.5 billion in losses and profits due on ODA debt. This cancellation was followed in 1994 by a new global debt forgiveness operation under the accompanying measures for the devaluation of the CFA franc (*Dakar II*): FF 25.3 billion from low- and middle-income countries were thus erased. In total, since 1972, debt forgiveness granted by France to developing countries represents approximately FF 58 billion (\$10.7 billion).

In addition, in 1990, at the franco-african summit of *La Baule*, France decided to grant only donations to the States of the Least Developed Countries (LDCs). However, the Agence Française de Développement (AFD) has the possibility to grant, without State approval, justifiable ODA loans to companies in these countries, based on the intrinsic profitability of the projects to ensure the repayment of this debt - the Arrangement does not preclude the financing of such projects in those countries.

For the middle-income countries of sub-Saharan Africa in the franc zone (Cameroon, Congo, Côte d'Ivoire and Gabon), interest rates on French loans were limited to 5% (the scope of this measure was reduced by the subsequent evolution of rates). These efforts by France, particularly in terms of debt adjustment, do not exclude the granting of new loans to middle-income countries (MICs) whose medium-term growth prospects and solvency suggest a capacity to service their debt.

According to the DAC, after the conversion of loans into grants under debt relief measures, and then after the 1990 French decision to no longer contribute to the sovereign debt of African LDCs, the share of grants (in net bilateral disbursements) increased from about 33% (at the beginning of the decade) to over 90% (in 1994 and 1995, when debt relief accounted for a quarter of grants). At the same time, the amount of ODA loans (in gross value, *i.e.* before repayments) was reduced from US\$ 2.4 billion (1990) to US\$ 1.5 billion (1995), resulting in a fall of 48% (in real terms).

This relative maintenance of loan financing nevertheless shows that their usefulness is based on a strong contractual logic, more decisive than the only budgetary leverage effect.

Logic of linked or untied loans

At the same time, participants in the Helsinki Agreement shall periodically monitor the effect on the loans covered by the Agreement. There has been a steady decline in their amounts. In 1997, the aid loans referred to were only 35.9% of the overall 1991 level (85.5% of the 1996 level) and this trend continued at the beginning of 1998. There was also a high concentration among countries reporting credits:

- 77% of the loans covered by the Arrangement came from Spain, France, Austria and the Netherlands;
- 86% of the other amounts were notified by Japan, France and Germany.

In fact, the logic of the Arrangement strongly encourages the untying of aid. Thus, while France remains a major provider of loans, all the constraints applying to this type of operation have contributed to a significant reduction in the overall amount of financial assistance granted by the Ministry of Economy. These rose from 13.5 billion FF in 1989 to 7.1 billion FF in 1993 and 3.1 billion in 1997.

Indeed, linked aid loans remain contested because of the additional costs that they still sometimes authorize through calls for tenders restricted to suppliers from some countries. These additional costs would prevent recipients from getting the best bang for their buck, while, by trying to kill two birds with one stone, donor countries would not provide quality aid or truly effective trade promotion.

However, such a measure could play an unexpected role, contrary to the expansion of loan aid. It should indeed be possible to verify that untying well induces a logic of the instrument better able to serve its purpose: an effective aid.

In fact, a review of untied aid loans shows that their logic is not fundamentally different from that of tied ODA loans: over 90% of Japanese aid comes from untied loan declarations, while the beneficiaries are mostly Asian countries - where Japanese companies are well established and introduced commercially. The sectors benefiting from this untied aid are increasingly made up of the extractive and manufacturing industries - not the social sectors targeted by the DAC strategy for the 21st century.

Above all, a possible untying of the aid could result in a decrease in the liberality included in the loans. Indeed, as long as interest rates remain low – below 10% – the *concessionality criterion appears to be more demanding* (due to the calculations described above). Untying the aid would prevent donors from having to submit to this calculation, which would in fact mean abandoning the reference to market rates. It would suffice in the future to verify that a loan has a grant element of 25% (calculated in relation to the fixed rate of 10%), whereas today, the concessionality calculation forces countries to an annual readjustment of their rates (in the light of changes in the reference discount rate) and therefore to maintain a certain level of subsidy.

Such a reduction would therefore risk going in the opposite direction. However, it would remain tolerable if it were to be accompanied by a specific reinforcement of quality requirements. This increased quality in the use of public expenditure would compensate for the overall decrease in financing (which is now subject to strong competition from other public expenditure, as well as pressure to reduce public deficits). But this strengthening of the quality requirement would require a significant increase in the resources available to the Cooperation and a simultaneous increase in the degree of definition of *ex post* evaluations.

Finally, on the French side, other mechanisms of evolution are at work: the decision of France to no longer indebt the States of the LDCs does not prohibit the allocation of non-sovereign assistance, intended for entities of private law (without guarantee of the State). An increasing number of aid loans – in LDCs as elsewhere – are therefore granted to operators driven by a private management logic, subject to effective profitability requirements. However, for the latter, the use of heavy purchasing processes, involving an international tender, does not always seem justified. The G8 summit in Birmingham in 1998 put the issue of untying in favour of LDCs on the agenda; this requires the use of international tenders. In order for it to really benefit private stakeholders in terms of the quality of aid, support means will have to be devised.