WORKSHOP
Requested by the DEVE committee

European Parliament

Tied aid and strategic procurement

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Directorate-General for External Policies of the Union

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DIRECTORATE-GENERAL FOR EXTERNAL POLICIES
EXTERNAL POLICIES ANALYSIS AND SUPPORT UNIT

WORKSHOP

Tied aid and strategic procurement

ABSTRACT

In June 2025, the European Commission published its proposal for the Global Europe Instrument – the principal financial instrument for external actions under the 2028-2034 Multiannual Financial Framework. The proposal foresees possibilities to restrict access to procurement under the instrument, provide direct support to European private companies and support to EU Member States' Export Credit Agencies.

The workshop provided analysis of these issues from the perspective of development cooperation. Analysing the consequences of the proposed provisions from the perspective of tied aid and aid effectiveness, the workshop outlined opportunities and challenges of the current proposal for EU development cooperation.

The workshop featured the presentation of preliminary findings of two papers for the DEVE committee on 'Eligibility restrictions and strategic procurement: Could European preference in the Global Europe proposal lead to tied aid?' and 'European preference and competitiveness in the Global Europe proposal: opportunities and challenges for development effectiveness'.

EP-EXPO/2023/OP/0001/DEVE/LOT4/2/C/8
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- Briefing 1: 'Eligibility restrictions and strategic procurement: Could European preference in the Global Europe proposal lead to tied aid?'

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- Briefing 2: 'European preference and competitiveness in the Global Europe proposal: Opportunities and challenges for development effectiveness'

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OpenAI's ChatGPT 5.5 was used to improve the readability of the text and as an additional source of critique for the briefing on the 'European preference and competitiveness in the Global Europe proposal: Opportunities and challenges for development effectiveness'. Any AI-generated content in this text has been reviewed by the authors.

Transcribetotext.AI was used to transcribe audio to text, and ChatGPT was used to shorten interventions and improve the readability of the workshop proceedings. AI-generated content in this text has been reviewed by the authors.

Table of contents

DIRECTORATE-GENERAL FOR EXTERNAL POLICIES
EXTERNAL POLICIES ANALYSIS AND SUPPORT UNIT

WORKSHOP PROCEEDINGS

Tied aid and strategic procurement

EP-EXPO/2023/OP/0001/DEVE/LOT4/1/C/8
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LICENCE

Table of contents

List of abbreviations

DEVE	European Parliament's Committee on Development
ECA	Export credit agency
EU	European Union
GEI	Global Europe Instrument
MEP	Member of the European Parliament
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
DG INTPA	Directorate-General for International Partnerships

1 Workshop programme

For the Committee on Development (DEVE)

WORKSHOP ON

Tied aid and strategic procurement

Tuesday, **14 April 2026 – 17:30-18:30**

Interpretation: DE, EN, FR, IT, ES, PT, SV, LT, HU, PL

Brussels, **SPINELLI 1G2**

PROGRAMME

Introductory remarks

- **Barry ANDREWS**, Chair, Committee on Development (DEVE)

Presentations by the authors of the upcoming briefings

Eligibility restrictions and strategic procurement:
Could European preference in the Global Europe proposal lead to tied aid?

- **Annamaria LA CHIMIA**, Professor, University of Nottingham, United Kingdom

European preference and competitiveness in the Global Europe proposal:
Opportunities and challenges for development effectiveness

- **Lukas SCHLÖGL**, Senior Researcher, Austrian Foundation for Development Research, Austria

Debate with Members

Concluding remarks

2 Introduction

The workshop titled **'Tied aid and strategic procurement'** was organised for the European Parliament's Committee on Development (DEVE) by the External Policies Analysis and Support Unit of the Directorate-General for External Policies. It took place on 14 April 2026 and was chaired by Barry Andrews, (Renew Europe Group, IE, DEVE Chair) and Isabella Lövin (Greens/European Free Alliance, SE, DEVE Vice-Chair).

The Chair recalled two main specific aspects of the Global Europe Instrument (GEI) that were the topics of the two papers being presented at the workshop: European preference and eligibility restrictions. He stressed the importance of considering what opportunities and challenges these new provisions present for development cooperation. On one hand, the opinions are very vocal regarding taxpayers' money benefiting contractors from Europe. He emphasized that on the other hand, some of the provision look like the reintroduction of tied aid and that there is an abundance of evidence that tied aid is less efficient than untied aid.

Chair Andrews highlighted that another novelty connected to GEI is a more direct role for European Union (EU) Member State export credit agencies (ECAs). He stressed the need to assess whether such instruments are compatible with the core objective of EU development policy, namely, poverty eradication. In this regard, he questioned whether development assistance tools can be used appropriately to pursue broader strategic or investment objectives within the next Multiannual Financial Framework.

Finally, the Chair noted that the two briefing papers discussed during the workshop were still in draft form but underlined that the discussion would nevertheless contribute to shaping the European Parliament's position and invited the authors of the briefings to share their preliminary findings.

3 Presentations by the experts

3.1 Annamaria La Chimia, Professor, University of Nottingham, United Kingdom

Prof Annamaria La Chimia presented the preliminary findings of the briefing on 'Eligibility restrictions and strategic procurement: Could European preference in the Global Europe proposal lead to tied aid?'.

Her intervention served as an analysis of the eligibility restriction rules present in the European Commission's GEI proposal, focusing on Article 20 and the implications it might have for access to EU-funded procurement.

Prof La Chimia started by examining the overall design of GEI and the nature of the eligibility restrictions in it. She highlighted the main feature of GEI, noting that Article 20 presents selective eligibility criteria, which restrict access to EU-funded procurement opportunities to certain suppliers only. She mentioned that, in certain circumstances, it is also foreseen to further restrict access to EU aid to EU suppliers and goods only (including 'Buy European' restriction through derogation of the general rules).

Prof La Chimia explained that as the GEI consists of six different pillars, with different eligibility requirements for each. This could result in a patchy framework of eligibility rules, making access to EU-funded procurement opportunities quite complex and selective. She explained that this patchy and complex system of eligibility rules — different for each Pillar — can create problems for suppliers, leading to the perception that EU aid is *de facto* tied, even when it is not.

Prof La Chimia continued by highlighting that the situation is complicated further by the presence of a broad exception in Paragraph 10 of Article 20, which allows to restrict the eligibility requirements further. She mentioned that the scope of the exception is broad and its governance system remains unclear — it is not clear how eligibility will be restricted once the exception is invoked. She listed some of the questions that remain unanswered by the way the current exception is framed, such as: Who will invoke the exception? Will it be the European Commission? Will it be the management unit that deals with the procurement? Who will the access be restricted to? Will it be the EU Member States only or will it include the European Economic Area? Will the recipient be included in the restriction? Will it be open to all the developing countries?

Prof La Chimia further discussed the potential consequences of these restrictions. She mentioned that vagueness regarding the above-mentioned questions is problematic because it could be open to abuse and misuse, as it could be invoked by any entity or unit that manages EU funds without clear restrictions. She highlighted that even the justifications for calling the restrictions are broad, simply mentioning European interests without a clear definition of what these interests entail. She noted that this is problematic, as it will lead to the aid being tied and tying aid has been proven to lead to an increase of costs by 15-30 %, to a lack of ownership and most importantly to a lack of coordination between donors and therefore incoherence of the EU aid. She further observed that the restriction on participation would lead to not just a lack of competition but also fewer suppliers applying and therefore a greater probability for the aid and the procurement opportunity to be prone to abuse and corruption, further limiting the effectiveness of EU aid.

She also challenged the assumption that limiting the procurement to EU suppliers would benefit all Member States equally. She clarified that in practice, only companies from Member States with strong political, economic and historical ties with the recipient countries would be likely to be capable of participating, as with the aid being delivered abroad in remote areas, this is a complicated process. As a result, all Member States would bear the increased cost, but only certain ones would benefit.

She proceeded to the practical challenges connected to the implementation of the eligibility restrictions. These include: difficulties in verifying the true ownership of the companies, as foreign companies could buy shares of local companies, particularly in the absence of the requirement to disclose beneficial ownership, as well as challenges in enforcing 'Buy European' restrictions in foreign countries, as this would require cooperation with local customs unions and there are risks of label counterfeiting as well.

Finally, she placed GEI in the international context. While acknowledging that the EU's approach is partly motivated by existing similar practices along with other donors and she highlighted her belief that while the eligibility rules within the GEI for accessing EU-funded procurement are not *a tout court* endorsement of tied aid, the problem emerges with how the exception is framed. She warned that the current design of GEI could lead to a *de-facto* system of tied aid, potentially breaching international commitments endorsed by the EU, such as Organisation for Economic Co-operation and Development (OECD) recommendations on untying aid.

In light of these findings, Prof La Chimia outlined several recommendations that could make the provisions more aligned with international commitments the EU has made:

- Clarification and narrow definition of the scope of the exception, limiting its application to well-justified cases (for example, where harm has been proven to the EU economy).

- Ensuring coherence of internal and external EU policies by aligning GEI to internal instruments such as the European Procurement Instrument and the Foreign Subsidy Regulation.
- Insertion of mitigating measures to protect recipient countries, for example, by ensuring that local suppliers could participate at least as a subcontractor.
- Ensuring that the restrictions only apply to grants as opposed to grants and soft loans, as for the latter it increases the debt of recipient countries.
- Linking the eligibility of the suppliers to knowledge sharing and transfer of skills and technology with developing countries.
- Clarification of the governance of the exception — how and when will the exception apply and by whom, what are the criteria used for ensuring that there are safeguards in place when the exception is applied.
- Conduct an impact assessment to understand how the eligibility restriction in the paragraph 10 exception could lead to tied aid.

3.2 Lukas Schlögl, Senior Researcher, Austrian Foundation for Development Research, Austria

Dr Lukas Schlögl presented the preliminary findings of a second briefing on 'European preference and competitiveness in the Global Europe proposal: Opportunities and challenges for development effectiveness', focusing on support side channels in the European Commission proposal for a new GEI, mainly in Article 23 and related provisions, especially direct support to EU-based private entities and the possible role of ECAs.

He structured his intervention around the central question of how far GEI can move towards a European preference and strategic competitiveness without weakening development effectiveness.

Dr Schlögl outlined the key provisions that are the most relevant to this question. He identified Article 23(4)(E) as the clearest novelty, allowing direct grants without a call to private law entities effectively established in Member States, where this is considered necessary and duly justified and where the investment is considered to be in EU's strategic interests. He noted that Recital 70 shows intended focus on strategic sectors such as critical raw materials, climate resilience and digital infrastructure, often in integrated packages. He highlighted that Article 23(7) keeps a strong European focus in implementation, while Article 25(3) widens the room for private law bodies to implement financial instruments or manage guarantees, which is relevant to ECAs. He also mentioned Recital 56 that places this within the broader 'Team Europe' logic.

Dr Schlögl proceeded to present three sets of constraints and areas of commitment:

1. EU primary and secondary law — Article 208 of the Treaty on the Functioning of the EU (making poverty reduction the primary objective of development cooperation) and Article 21 of the Treaty on EU places development policy within the wider external action goals.
2. OECD framework — The Arrangement on Officially Supported Export Credits restricts the use of tied aid for commercially viable projects and it is binding within the EU. The OECD Development Assistance Committee Recommendation on untying official development assistance (ODA), while softer in legal terms, has political importance and promotes broader untying, greater transparency and more scope for local and regional procurement.

3. Wider development effectiveness agenda — agreed at international summits in Paris, Accra and Busan, these commitments are not hard law but they remain an important benchmark, emphasising principles such as ownership, results, inclusive partnerships, transparency and mutual accountability.

Dr Schlögl reviewed the empirical evidence on tied aid and development effectiveness. He highlighted that tied aid indeed tends to raise costs, by 15–30 %, according to OECD, for food aid in particular. He explained that the reason behind the historical separation between aid and trade was to prevent the concessional public finance from being used to subsidise donor exporters and commercially viable projects, which weakens additionality and distorts priorities and prices.

He continued by providing an overview of current EU practice. While all EU institutions currently report very high levels of untying when it comes to ODA, there is a substantial share of external action spending that runs through indirect management and European or multilateral implementing partners. He noted that this points to some degree of *de facto* European preference. However, GEI would expand the channels through which a European preference can be applied, not only regarding the procurement in the classical sense, but this also concerns direct awards, indirect management, project preparation and financial intermediation upstream.

Dr Schlögl analysed the envisaged role of ECAs. He mentioned that the European Commission's impact assessment presents a larger role for ECAs as part of a toolbox for mobilising private finance and making funding possible under more difficult conditions. He noted several concerns. One is that export credit and development logics differ fundamentally, as ECAs are designed to support exporters competing abroad and they are not direct foreign investment, they can be very risk-averse and do not follow classical ODA logic. Second difficulty concerns additionality, particularly in commercially attractive sectors where it is difficult to show that public support is addressing a genuine gap rather than subsidising activity that would have taken place anyway. Another issue that he highlighted concerns governance challenges due to differences between national ECAs and potential benefits likely being unevenly distributed across Member States.

Finally, he identified the main trade-off within GEI. On one hand, there are clear possible gains as it may enable faster project preparation, tighter packaging of grants, technical assistance and stronger delivery capacity arguably in strategic sectors. On the other hand, there are risks of weakening partner country ownership, difficulty in proving additionality in commercially attractive sectors, difficulty of scrutiny and loss of influence for local firms, civil society actors and non-European partners.

In light of these findings, Dr Schlögl outlined several policy options and recommendations for the European Parliament:

- Application of the principle of proportionality — prioritising softer tools such as quality criteria, Environmental Social and Governance standards and improved call/tender design.
- Keeping direct awards exceptional — tightening or capping Article 23(4)(e).
- Strengthening transparency and audit — European Parliament could insist on detailed reporting and Court of Auditors rights.
- Keeping ECA involvement selective and justified — not becoming a privileged default implementation route for ODA.
- Protection of compatibility with multilateral development banks and consortial co-financing.

- Testing wider economic and ecological effects before broadening strategic preference — risk of higher costs and of feeding subsidy races.
- Including a review clause to assess political payoff for aid from these changes.

Dr Schlögl concluded by recommending a cautious approach, keeping the instrument structurally open, allowing deviations from the default only in narrowly defined and reviewable cases.

3.3 Intervention from the Committee Chair

DEVE Chair Barry Andrews (Renew Europe Group, IE) acknowledged the complexity of the discussions and noted that the proposed approach may advantage Member States with established ECAs and development finance infrastructures, while others lack such capacities.

While expressing broad support for exploring more innovative approaches under the Global Gateway initiative, including the use of ECAs, the Chair stressed that these mechanisms represent a trade finance response to development challenges and therefore require careful safeguards. The chair emphasised that this issue is of major importance for the DEVE Committee, particularly regarding the risk of development funds being used to support commercially viable projects that may have proceeded without aid financing.

The Chair emphasised the importance of stronger governance arrangements, clearer eligibility rules and more precise safeguards within the GEI, especially concerning the use of scarce development funds for investment protection purposes rather than poverty reduction objectives.

The Chair concluded by thanking the experts for their valuable contributions and stressed the importance of continued expert guidance to support the Committee's work on strengthening the proposal and clarifying its governance framework.

Taking over the Chair, **DEVE Vice-Chair Isabella Lövin (Greens/European Free Alliance, SE)** thanked the experts for providing concrete recommendations and precise observations on the proposed GEI, which she considered essential for ensuring a debate grounded in evidence and practical experience.

She stressed the importance of maintaining a strong focus on the Paris Declaration, aid effectiveness principles and the lessons learned from longstanding development cooperation practice. She then proceeded with the meeting agenda, opening the floor for interventions from Members of the European Parliament (MEPs) before turning to the Commission representative for further remarks.

3.4 Questions from MEPs

MEP Robert Biedroń (Progressive Alliance of Socialists and Democrats in the European Parliament, PL) opened by thanking the experts for their presentations and acknowledged both the complexity of the subject and the clarity with which it was explained, as well as the importance of such insights for the MEPs in understanding the implications of GEI.

He noted that as a rapporteur on this subject, he had recently finalised the draft report with the co-rapporteur from the Committee on Foreign Affairs. He emphasised that this is only the beginning of the work and in this context, he stressed the relevance and importance of expert input. He went on to clarify that this is a joint work between DEVE and Committees on Foreign Affairs and Budgets and some Articles mentioned, such as 23, 24 and 25 are exclusive competencies of Committee on Budgets.

MEP Biedroń expressed agreement with Dr Schlögl regarding the role of ECAs and the risks associated with concessional public finance potentially subsidising donor export and commercially viable projects. He revealed that the draft report on the GEI already introduces stronger wording on additionality, requesting that the Commission demonstrate it better in its financing instruments. Furthermore, he acknowledged concerns about the competitiveness of Member states with some of them having an advantage in expertise, historical ties and economic capacity.

Finally, he raised a broader question of excluding some non-EU countries from participation in EU-funded projects. While acknowledging concerns regarding strategic dependence, he asked how the EU should respond to arguments that limiting participation from highly competitive global actors could increase costs and reduce the financial efficiency of development assistance.

MEP Charles Goerens (Renew Europe Group, LU) started his intervention by questioning whether the principle of untied aid can still be effectively upheld in today's geopolitical context. Referring to the OECD recommendation adopted in 2001, he noted that development policy is increasingly influenced by strategic and economic interests, including competitiveness, access to raw materials and rivalry with actors such as China and the United States of America.

He expressed concern about the complexity of the GEI governance structure and doubted whether the European Parliament would be able to effectively monitor implementation and prevent potential abuses. He also highlighted tensions between maintaining open procurement principles and responding to strategic concerns, particularly in sectors such as digital infrastructure, where lower-cost suppliers may raise security or data protection concerns.

In this context, MEP Goerens questioned whether favouring European companies in certain strategic sectors should be regarded as tied aid or as a legitimate effort to uphold European standards and values. He concluded by stressing the need for clearer guidance on how these principles should be applied in practice.

DEVE Vice-Chair Isabella Lövin (Greens/European Free Alliance, SE) expressed support for private investment in developing countries, while stressing that the key condition for attracting such investment is legal certainty, including strong institutions, rule of law and stable investment conditions. She argued that development cooperation should therefore prioritise institution-building and the creation of an enabling environment for investments.

She also reiterated concerns about tied aid, noting that it has repeatedly been shown to be less effective for development cooperation and its aim of poverty reduction or poverty eradication. She noted that this might undermine local ownership when donor interests take precedence over local needs.

Finally, MEP Lövin asked whether ECAs could be involved without relying on development budgets, suggesting that support for risk-sharing mechanisms should not come at the expense of development funding.

3.5 Remarks from the European Commission representative

Mr Nicolas Stoetzel (Deputy Head of Unit, D3 Coordination & Oversight of the Financing Instruments, Directorate-General for International Partnerships (DG INTPA), European Commission) started his intervention by acknowledging the technical complexity of Article 20 and explained that the Commission had sought to establish a balanced eligibility framework under the proposed GEI. He noted that, while the eligibility rules from the Neighbourhood, Development and International Cooperation Instrument and

Instrument for Pre-Accession Assistance III are broadly maintained, the Commission would now be able to introduce restrictions on a case-by-case basis where justified by the strategic interests of the EU.

He clarified that implementing partners under indirect management would generally continue to apply existing eligibility rules, although additional restrictions could be imposed when necessary. Compared to more restrictive approaches adopted under the facilities for Ukraine, Moldova and the Western Balkans, he argued that the GEI represents a more open approach and remains aligned with the EU's commitment to development effectiveness principles.

Mr Stoetzel stressed that any restrictions must take into account the interests of the partner countries and support mutually beneficial partnerships. At the same time, he raised broader strategic questions, including whether EU funding under Global Gateway should support companies from third countries in sensitive sectors. In this view, this requires a flexible case-by-case assessment, as certain sectors may justify openness while others may call for stronger reliance on European providers.

Regarding beneficial ownership, he clarified that although disclosure is not required under the default rules, Article 20(10) allows for such requirements to be introduced where necessary. He also emphasised that selecting European implementing partners should not automatically be equated with tied aid, as these partners act on behalf of the Commission in implementing EU funds.

On ECAs, Mr Stoetzel noted that they are already eligible implementing partners under the current framework and that pilot cooperation has begun. However, he stressed that their involvement is intended to complement, rather than replace, traditional development actors. He further underlined that actions aimed primarily at promoting European competitiveness should not be financed through the GEI but through other EU instruments instead.

3.6 Responses from the experts

Responding to questions from MEPs, **Prof La Chimia** started by addressing concerns regarding the potential increase of costs resulting from the exclusion of certain countries. She acknowledged that such concerns are legitimate and noted that the Commission's approach to look case-by-case is intended to mitigate this. She referred to Article 20(11) that allows for flexibility where eligibility rules would point to a project being not viable. She expressed hope that similar safeguards could be clarified and rephrased to a certain extent when it comes to the exception clause.

At the same time, Prof La Chimia encouraged broader reflection on the sources of cost differences and she questioned whether the costs are increased due to violations of human rights, labour standards or sustainability rules. In her view, such externalities should systematically be factored in while making procurement decisions. She highlighted that the OECD Recommendation's 2026 version allows Member States to include sustainability and human rights considerations in procurement; therefore such a possibility should be contemplated by the EU to strengthen adherence to human rights and in light of the fact that this would not result in a breach of international commitments to untie aid.

She continued by suggesting that the EU could strengthen its position by reinforcing the OECD framework and adopting targeted approaches. Here she noted as an example that the EU could exclude suppliers from countries that have not made any commitment to untie aid or to make aid more effective, such as China, which is not a member of OECD, without breaching any of the commitments endorsed with the OECD Recommendation. Nonetheless, she noted, the broad language used now for the derogation would not allow such focused restrictions.

Next, she turned to a broad question of ensuring compliance with international principles in a global environment where we see declining compliance among major global actors. However, she framed this as an important choice for the EU between leading by example, respecting international commitments or choosing instead to follow a trend of weakening standards. She emphasised that even when it comes to soft law and policy commitments, they remain politically significant even if not legally binding.

Responding to the questions from MEPs, **Dr Lukas Schlögl** started by emphasising that preferential conditions in aid giving are not the right tool to rectify imbalances in the global trade system.

He mentioned as an example that China is not part of the OECD agreement and there had been a long-standing effort to integrate it in a similar framework internationally. He noted that a working group had existed for this purpose but the process was not successful. Nevertheless, he highlighted that there is no general unwillingness, in principle, from BRICS countries to become part of an architecture of global economic governance and the same goes for the World Trade Organization.

Dr Schlögl argued that attempting to fix these structural problems with procurement fixes is uneasy and ineffective. He agreed on the issue of capacity building and mentioned that it is arguably an even stronger argument for untying aid than the cost issue, as it gives more ownership and channels money through local institutions, thereby building them up. He noted that earlier aid effectiveness agenda was focused on budget support directly administered to partner country governments, though practice has not lived up to the promise.

Regarding the use of non-ODA funds for ECAs, he noted that, in fact, that would be the preferred source. He referred to a previous paper written for the European Parliament's Committee on International Trade on questions of aligning ECAs with EU policy goals, which is not an easy agenda. He mentioned that there ideas for European-level reinsurance mechanisms had existed previously at the European Commission but he acknowledged that such ideas are difficult to pursue as Member States often compete amongst each other in this domain. He added that these are chiefly questions of European industrial policy and not as much of aid policy.

Addressing the issue of China, Dr Schlögl, using the example of solar panel imports, highlighted the risks that are associated with restrictive European preference in the sense of 'Buy European', such as being a danger to the goals of furthering the green transition.

He concluded by saying that this is not a black and white question of tied or untied and that there is a grey area. He emphasised that Europe is on a slippery slope and needs to carefully consider limits and safeguards.

Annex 1 — Speakers' bios

Prof Annamaria La Chimia is a Professor of Law and Development at the University of Nottingham. There she also serves as the Director of the Public Procurement Research Group, a leading global centre for procurement law and policy. She holds a Research Fellowship at Stellenbosch University. She is an internationally recognised authority on International and European Procurement Law and Development with over two decades of experience in research, teaching, and high-level policy advising. She designed and taught courses on Sustainable Public Procurement for international organisations. She has served as Procurement Special Advisor to the European Union Capacity Building Mission in Somalia and as Senior Legal Consultant for the World Bank, where her work on gender-responsive procurement has been officially endorsed. Her research explores the intersections of law, sustainable development, human rights, climate change, environmental justice and gender justice, with a particular focus on using public procurement as a lever for development and the advancement of social and environmental goals. She has led or co-led major research initiatives totalling over GBP 2.1 million and has published extensively, including the first monograph on development aid procurement and tied aid, as well as several edited collections spanning the topics of aid effectiveness, emergency procurement and procurement reforms. Her research spans continents, from Europe to Africa, Latin America, and Asia and continues to shape both academic discourse and international policy reform in sustainable procurement and development.

Dr Lukas Schlögl is a social scientist specialising in development policy, development financing, and the impact of technological change on development. He is a Senior Researcher at the Austrian Foundation for Development Research. His recent research focuses on development finance and policy, green finance, and issues of industrial and technology policy.

Annex 2 — Photos from the workshop

European Parliament

BRIEFING

Eligibility restrictions and strategic procurement: Could European preference in the Global Europe proposal lead to tied aid?

ABSTRACT

This briefing considers the possible costs and consequences of the new eligibility restrictions set out in Article 20 of the Commission's proposal for the Global Europe Instrument, introduced as part of the 2028-2034 Multiannual Financial Framework. The briefing also reflects on the compatibility of the proposed rules with the international commitments to untie aid and make aid more effective, made by the European Union (EU) and its Member States over the past 25 years. These include endorsement of various initiatives: the Organisation for Economic Co-operation and Development's Recommendation on Untying Aid; the Paris Declaration on Aid Effectiveness; and more recently, the Seville Compromise. This briefing concludes that while the proposed EU measures are not a blank, *tout court* introduction of tied aid, they nonetheless result in a complex and patchy system for accessing EU-funded aid procurement opportunities that could compromise the effectiveness of EU aid. In addition, paragraph 10 of Article 20 contains a broad and unclear 'Buy European' derogation from the general eligibility rules laid down in Article 20, which, together with a lack of clarity regarding the scope of the derogation, its governance system and mode of implementation, further compromises the coherence of EU aid policies, thereby jeopardising the success and impact of EU aid policies and projects in general. Ultimately, this could diminish the EU's credibility as a global development actor. The briefing suggests ways to improve the Commission's proposal in line with Europe's strategic interests and international commitments.

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Table of contents

List of abbreviations

AAA	Accra Agenda for Action
ADB	African Development Bank
DAC	Development Assistance Committee
EU	European Union
EEA	European Economic Area
FSR	Foreign Subsidies Regulation
GEI	Global Europe Instrument
GPEDC	Global Partnership for Effective Development Cooperation
HIPC	Highly indebted poor countries
IDA	International Development Association
IPA	Instrument for Pre-accession Assistance
IPI	International Procurement Instrument
LDC	Least developed country
NDICI	Neighbourhood, Development and International Cooperation Instrument
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OLICs	Other low-income countries
TFEU	Treaty on the Functioning of the European Union
UK	United Kingdom
USA	United States of America

List of tables and figures

Executive summary

This paper is one of two key analytical contributions commissioned by the European Parliament's Committee on Development to support its work on evaluating a legislative proposal by the European Commission to establish a Global Europe financial instrument. This will become the main financial Instrument for the European Union's (EU) External Action in the 2028-2034 budget, replacing previous financial instruments such as the Neighbourhood, Development and International Cooperation Instrument — Global Europe (NDICI — Global Europe) and the Instrument for Pre-accession Assistance III.

The study is based on an extensive review of sources investigating the costs, rationales, as well as the geopolitical and development implications of eligibility restrictions and strategic procurement in development aid procurement (that is, the procurement process linked to the spending of aid funds). The focus here is specifically on aid-tying, namely, when procurement opportunities for aid-financed goods and services are reserved for suppliers and goods from the donor country, or for a restricted number of countries that do not include all developing countries.

Tying aid has significant implications for the costs and effectiveness of the aid provided. Tied aid increases the prices of goods and services purchased by 15-30 % and distorts the nature of aid because donors tend to prefer funding projects that could benefit their companies rather than those that would be most beneficial to recipient countries. It leads to a lack of coordination among donors and compromises alignment between donors and recipient countries' development policies. Ultimately, tying aid renders aid ineffective. To tackle this problem, various policy initiatives have been undertaken at the international level, encouraging donors to untie aid. These initiatives include: the OECD/Development Assistance Committee (DAC) Recommendation on Untying official development assistance (referred to as the Recommendation); the Paris Declaration on Aid Effectiveness; and the Seville Compromise. The EU and its Member States have endorsed all these initiatives and have played a key role in advancing the aid effectiveness debate.

Against this background, the question assessed here is whether the eligibility restrictions on participation in EU-aid-funded procurement opportunities foreseen by the proposed Global Europe Instrument (GEI) risk running counter to international policy commitments to untie aid and enhance aid effectiveness.

Main findings:

With the GEI proposal, the Commission is reinforcing its commitment to using development and external assistance programmes to further Europe's interests and sustainable development, as well as leveraging or mobilising private investment through official development assistance. New eligibility rules proposed by the Commission in the GEI proposal are complex. Different rules apply depending on the geographic pillars in which the Instrument is structured (Article 20).

Access to EU-funded projects is fully untied for projects falling under the Global Pillar (Article 3) and for crisis, peace and foreign policy needs (Article 20(3)), unless Article 20(10) is invoked. The eligibility rules for projects falling into the other five Pillars (Article 3) vary, imposing specific limitations on suppliers' eligibility based on nationality and establishment. Participation in EU-funded procurement opportunities is restricted to certain suppliers only. For actions financed under the Europe Pillar, as default options, the rules maintain some of the restrictions currently in place in the Neighbourhood, Development and International Cooperation Instrument (NDICI), as well as the Instrument for Pre-accession Assistance III (Article 20(1) and (2)). These projects, therefore, remain partially tied.

The eligibility rules for projects financed under the other Pillars (that is, Article 3(1)(b-e)) are quite restrictive: projects are open without conditions only for nationals of or effectively established in: a Member State; an overseas country and territory linked to a Member State; an European Economic Area and acceding/candidate/potential candidate country; a developing country not member of the Group of 20; a partner country in the Neighbourhood South region (as listed in annex 1 of GEI); and the beneficiary of the action funded. Nationals of or effectively established in the Group of 20 countries are generally excluded from participation in EU-funded projects. However, exceptions to this rule exist where, for example, a reciprocity agreement on access to external funding exists with a third country (Article 20(1)(f)) or where a third party provides financing to a trust fund established by the Commission or through externally assigned revenues (Article 20(8)).

In partial alignment with existing commitments to untie, access to EU-funded projects covered by Article 3(1)(b-e) is also granted to nationals of or effectively established in OECD countries where the aid is implemented in a least developed country (Article 20(1)(g)). However, to ensure full alignment of this provision with the Recommendation's commitments, this requirement would need to be extended to: projects implemented in highly indebted poor countries; other low-Income countries; and International Development Association-only countries to which the OECD/DAC Recommendation also applies.

Extensions to the eligibility rules are possible on an *ad hoc* basis in cases of urgency or unavailability of eligible participants in the markets of the countries and territories concerned (Article 20(11)).

It is possible to restrict eligibility requirements further and limit access to EU-funded procurement opportunities (paragraph 10 of Article 20). These further restrictions can be applied on a case-by-case basis when certain, unclear conditions are met (Article 20(10)). Among the reasons justifying restrictions are security concerns, the Union's interests and measures adopted in response to acts of economic coercion by third states. However, the circumstances and modalities of these restrictions are not well defined. For example, it is not clear whether participation will be restricted to EU/European Economic Area suppliers or whether other countries will be allowed to participate. For instance, the recipient country where the funds are disbursed, or other countries, such as some or all developing countries. The duration of restrictions is not specified, and it is uncertain if they apply to single tenders or the entire aid-cycle. Such restrictions can be imposed on implementing partners at all levels of implementation (Article 20). The Governance system for such measures is also unclear. For example, Article 20 does not specify whether implementing units will have discretion to invoke the paragraph 10 exception. While the EU measures are not a *tout court* imposition of tied aid restrictions, they result in a complex and patchy qualification system.

The exception in paragraph 10 of Article 20 could lead to unrestricted implementation of tied aid practices, given the broad, generalised terms in which it is framed and the lack of clarity regarding its governance. This exception further complicates eligibility requirements in Article 20, creating uncertainties that could lead to abuse. Possible negative impacts are further exacerbated by the absence of mitigating measures to ensure that any restriction imposed will not harm recipient countries' economies or the effectiveness of aid provided. While an impact assessment of the GEI exists, it does not specifically address whether the new restrictions in paragraph 10 of Article 20 could harm developing countries' development interests. This omission could result in a breach of Article 208 of the Treaty on the Functioning of the EU.

It might be assumed that, unlike aid tied bilaterally by a single donor, aid tied by the EU and open to nationals of at least 27 Member States will ensure an adequate level of competition. In practice, though, competition is neither guaranteed nor necessarily adequate. It is not certain that many European businesses can participate in aid tenders, particularly given the challenges of operating in remote regions where aid is often delivered. As a result, some Member States, especially those with longstanding development experience, historical ties with developing countries, or strategic interests, are better positioned to secure EU-funded contracts. This risks favouring only a subset of Member States, while all bear the costs of tying.

The EU proposal for restricting access to EU-funded opportunities in certain cases is motivated by a need to protect its interests and companies/goods from unfair subsidies and trade restrictions imposed by other countries. However, it is questionable whether imposing such strict eligibility restrictions and opening the possibility of tying aid on a case-by-case basis could yield substantial benefits for the EU economy. It is also questionable whether the draft rules are fully compatible with the spirit of commitments endorsed by the EU and its Member States to make aid more effective.

Ultimately, the new eligibility measures could have shortcomings, *inter alia*: implementation difficulties; limited benefit for the wider EU economy, helping only those companies that will be awarded aid contracts; and detrimental to the coherence and impact of EU aid policies, undermining aid effectiveness and compromising the EU's role as a global development actor.

1 Introduction

The European Union (EU) and its Member States are the largest providers of official development assistance (ODA)[1], with aid being distributed across a broad range of sectors and countries. Following adoption of the EU Global Gateway Strategy in 2021, EU development and external policies have undergone a significant transformation, allowing Europe to respond to global economic and political upheavals while safeguarding Europe's interests[2]. The Global Gateway Strategy emphasises smart investment in high-quality infrastructure that meets the highest social and environmental standards, in alignment with the EU's interests and values[3]. Under this strategy, the Commission advocates a more strategic use of loan-and-grant blending facilities to boost investments in partner countries, with the explicit aim of countering geopolitical competitors such as Russia and China[4].

In June 2025, the Commission proposed the Global Europe Instrument (GEI, hereinafter referred to as GEI or Instrument), which will be the primary financial tool for the EU's External Action as part of the 2028-2034 budget[5], replacing the previous Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI – Global Europe) and the Instrument for Pre-accession Assistance (IPA) III.

The GEI proposal contains provisions such as Article 20, which, under specific conditions, grant preferential treatment to European goods, services and suppliers. In Article 23, the (draft) GEI also anticipates the possibility of directly awarding contracts to European companies.

Within the international development sector, the practice of restricting access to aid-funded procurement opportunities to goods, services and suppliers is known as 'tied aid'. The Organisation for Economic Co-operation and Development (OECD) defines formal tied aid as 'aidwhere procurement of the goods or services involved is limited to the donor country and/or to a group of countries which does not include substantially all aid recipient countries[6]'.

Aid is considered **formally tied** when the recipient country has no option but to fulfil donors' conditions to receive the aid. Aid is **informally, or *de facto*, tied** when there are no explicit conditions to buy from the donor, but aid contracts tend to be awarded to suppliers from donor countries either due to informal pressure to purchase from donors or because there are no transparent procurement procedures or open competition. Aid is **partially tied** when eligibility for the procurement process is restricted to suppliers and goods from specific countries, usually including the donor and all developing countries. **Aid is untied** when

[1] Financial assistance to developing countries is classified as ODA when the money is disbursed by governments and/or officials government agencies and institutions, for development purposes and when certain concessionally terms are met. See OECD, Recommendation on Terms and Conditions of Aid, OECD/LEGAL/5006, 28 February 1978, which commits DAC Members to ensure a minimum concessionality for their ODA commitment. For EU ODA data see OECD, Official development assistance on a grant equivalent basis from DAC Members in 2023 and 2024, nd.
[2] U. von der Leyen, Europe's Choice: Political Guidelines for the next European Commission 2024-2029, *European Commission,* 18 July 2024; Council, 'Council approves conclusions on the mid-term evaluation of the NDICI-Global Europe external financing instrument', Press Release, 24 June 2024.
[3] European Commission, 'Global Gateway overview', webpage, nd.
[4] A. Hancock, 'EU should combat "plundering" China as "lifestyle superpower", says aid chief', *Financial Times,* 10 October 2025.
[5] This is part of the package of legislative proposals released with the proposal for the EU's next Multiannual Financial Framework. See: European Commission, Communication on the road to the next multiannual financial framework, COM/2025/46 Final, 11 February 2025.
[6] OECD, 'Untied aid', webpage, nd.

there are no geographical restrictions on the origins of goods or services to be procured, or on the eligibility of suppliers[7].

1.1 Objective and scope

The scope of this paper is to examine whether there is a risk that the instrumental use of development aid, as outlined in the GEI proposal and the possibility it offers to restrict access to EU aid opportunities solely to EU nationals and companies, could result in tied aid. This would run counter to international policy commitments to untie aid and enhance aid effectiveness endorsed by the EU and its Member States, through various international initiatives. These include the OECD Development Assistance Committee (DAC) Recommendation on Untying Aid[8], the Paris Declaration on Enhancing Aid Effectiveness[9] and the recently endorsed Sevilla Commitment[10].

Drawing on existing literature and available data on aid financing, the paper particularly focuses on the costs and reasons for tying aid, the effects that tying aid and preferential aid policies could have on aid effectiveness and development outcomes, as well as the coherence of the (draft) GEI with international and regional initiatives aimed at enhancing aid effectiveness.

1.2 Methodology

Analysis here has primarily relied on desk-based research[11], encompassing a wide range of literature and information. Sources include: academic research (papers in international journals, edited collections, monographs); together with reports from civil society and international organisations (policy reports, government aid studies and other documents commissioned by international institutions) covering aid, tied aid, development aid effectiveness, impacts of tied aid on aid effectiveness and local development[12]. Reports and short articles by non-governmental and civil society organisations have also been consulted.

Data available on the OECD/DAC website regarding development aid and tied aid has also been consulted and analysed to establish correlations between the nationality of suppliers and countries providing aid. This aims to understand the relationships between aid disbursed, the tender awarded and possibly tied aid or other preferential conditions applied. Reference has primarily been made to the OECD/DAC repository on development aid statistics[13], the OECD/DAC tied aid bulletin board and the OECD/DAC tied aid webpage[14] as well as the latest OECD/DAC 2022 Report dealing with Implementation of the DAC Recommendation on Untying ODA, which is the most recent OECD/DAC report on tied aid. Publicly

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[7] This definition of untying aid is broader than the definition provided in the 2026 text of the OECD/DAC Recommendation, which now defines untie aid as 'loans or grants which are freely and fully available to finance procurement from substantially all aid recipient countries and territories and from Adherents' see OECD, DAC Recommendation on Untying Official Development Assistance, OECD/LEGAL/5015, Adopted on 25 April 2001, Amended on 28 January 2026.
[8] OECD, Untying Official Development Assistance, OECD/LEGAL/5015, Adopted on 25 April 2001, Amended on 28 January 2026.
[9] OECD, Paris Declaration on Aid Effectiveness, 2 March 2005.
[10] UN, Outcome document of the Fourth International Conference on Financing for Development, 30 June 2025.
[11] The review of the literature draws on extensive previous work published by this author, as well as more recent publications which emerged during the desk review conducted for this assignment, including an analysis of the new text of the OECD Recommendation adopted in 2026. See: OECD, Untying Official Development Assistance, Adopted on 25 April 2001, Amended on 28 January 2026.
[12] Examples of such studies included European Commission, Study of options and recommendations from promoting participation of local and regional contractors in EC procurement, Framework contract for the implementation of external aid 2018, nd; P. Trepte, The Localization of Aid-Funded Procurement: Final Report, *Joint SDG Fund/OECD*, 6 December 2024. The inclusion in the desk review of studies on local suppliers' participation in aid-funded procurement have allowed to recognise the indirect impact of tying aid on local development.
[13] OECD, Official development assistance on a grant equivalent basis from DAC Members in 2023 and 2024, nd; OECD Data Explorer, 'Receipts by country and region', webpage, nd.
[14] OECD, 'Untied aid', webpage, nd.

available data published by multilateral development banks, such as the World Bank and the African Development Bank (ADB), have also been consulted for reference and comparison.

2 Costs and rationales for aid tying

As extensively demonstrated in the literature, tied aid undermines aid effectiveness not only by increasing the costs of goods and services purchased but also by distorting the nature of aid[15].

As OECD studies have shown, tying aid, by limiting competition to goods and services from the donor country and limiting the pool of suppliers able to bid for aid-funded projects, raises aid costs by 15-30 %[16]. Furthermore, because tied aid operates in contexts where competition is already limited or difficult, due to the challenges of operating in remote regions, where aid is often delivered, existing competitive constraints are exacerbated.

Tied aid also increases maintenance costs because of the more limited options for sourcing the aid goods. Tied aid distorts the nature of aid itself because donors prefer to secure projects where home companies can win lucrative aid contracts[17].

Tied aid might also hamper donors' coordination of aid funds and undermine alignment of development funds with recipients' priorities and objectives. It might also run counter to legitimate partners' development objectives linked to the development of local companies together with Small and Medium Enterprises, such as those endorsed by African countries through the Accra Reset Initiative[18], ultimately compromising ownership and effective partnership between donor and recipient countries[19]. Tied aid might also lead to a lack of transparency in aid granting, thereby exacerbating exposure to corruption and malpractice.

The literature, including contributions by this author, has also shown that restricting purchases of goods and services to those originating in the donor country risks limiting the prospects of developing countries[20] and undermining the principles of ownership, partnership, alignment and effective results. Tied aid is especially damaging for the recipient's local companies, particularly small and medium-sized enterprises, who are barred from bidding for the aid contract, which jeopardises aid's potential to strengthen the recipient country's domestic market and foster trade between developing countries. For many, public bodies, in particular aid-financed projects, are potentially major outlets for trade between neighbouring

[15] OECD, Untying Aid to the Least Developed Countries, Policy Brief, July 2001, p. 2. A. La Chimia, *Tied aid and Development Aid Procurement within the Framework of EU and WTO Law: The Imperative for Change*, Hart Publishing, Oxford, 2013, from the same author see more recently A A. La Chimia, 'L'attribution des marchés de l'aide au développement et l'aide liée dans les pays d'Afrique francophone: réflexions sur les évolutions récentes' [The awarding of development aid and tied aid contracts in Francophone African countries: reflections on recent developments] in M. Aïdara et L. Folliot Lalliot (Eds), *Droit de la Commande publique en Afrique [Public Procurement Law in Africa]*, LGDJ, Paris, 2026.
[16] OECD, Untying Aid to the Least Developed Countries, Policy Brief, July 2001, p. 2.
[17] The literature presents examples in abundance of 'bad aid'. For one of the first extensive accounts of the effects of tied aid see C. J. Jepma, *Inter-Nation Policy Co-ordination and Untying of Aid*, Ashgate Publishing Company, Brookfield, 1994; since then, a wealth of literature has addressed this topic. See: N. Baird 'Tied to the Hand That Feeds', *New Scientist,* 12 October 1996; J. Chinnock and S. Collinson, *Purchasing Power: Aid Untying, Targeted Procurement and Poverty Reduction*, ActionAid, London, 1999; L. Tajoli, 'The Impact of Tied Aid on Trade Flows between Donor and Recipient Countries', *Journal of International Trade and Economic Development,* Vol 8, No 4, 1999, p. 374. More recently: P. D. Ganga and D. M. Girod, 'Ties That Bind: The Impact of Tied Aid on Development', *Semantic Scholar*, 2019.
[18] F. Kumah-Abiwu and J. Haynes, 'Is the Accra Reset Initiative the answer to Africa's underdevelopment?', *London School of Economics and Political Science*, 12 February 2026.
[19] See: OECD, Paris Declaration on Aid Effectiveness, 2 March 2005.
[20] P. D. Ganga and D. M. Girod, 'Ties That Bind: The Impact of Tied Aid on Development', *Semantic Scholar*, 2019.

states[21]. Furthermore, the effects of tied aid are not limited to the original aid projects but often extend to the post-project phase, when recipients must spend their own money to undertake maintenance contracts linked to the original goods/services purchased.

In the context of requirements aimed at favouring local companies or companies owned by certain groups (for example, formerly disadvantaged groups), the literature has demonstrated that third-country suppliers can circumvent nationality restriction rules by purchasing shares or otherwise investing in eligible companies[22]. It has been suggested recently that it would be possible to ascertain the true nationality of big corporations beyond corporate veils only by disclosing beneficial ownership[23]. Yet this is seldom done in the development context. Furthermore, nationality restrictions may be difficult to implement in contexts where skilled suppliers are scarce. Aid projects tend to be implemented in such contexts and hence limiting participation to aid-funded procurement opportunities can result in a less-than-optimal reduction in the pool of suppliers available to tender.

Similarly, rules on the origin of products might be very difficult to implement, especially in the aid context. Here, markets might be more restricted, the circulation of goods might be more limited and monitoring of the origin requirements — including ensuring labels on the origin of products are not counterfeited — might be excessively burdensome[24]. Implementing place-of-origin requirements might be especially difficult if the monitoring of such requirements relies entirely on the recipient country's customs controls and rules.

Findings on the negative consequences of tying aid align with the broader economic literature that warns about the costs of protectionism. More recently, following the 'buy European' proposals pushed forward by the European Commission in its (draft) Industrial Accelerator Act, initial findings by economists suggest that the proposed EU protectionist policies risk having negative effects on production and prices[25]. Economists suggest that binding 'Made in Europe' criteria should be adopted with caution, as EU companies might not be able to respond to production needs[26]. Similar considerations are relevant in the aid sector, where the negative consequences of protectionism risk being exacerbated by the limited aid market and negative repercussions for aid effectiveness and sustainable development, as explained above.

Given the costs, why do donors tie aid? The literature has long debated this question and studies have found that donors tie aid for various reasons, including: 'visibility' within the recipient country, securing support at home for development aid policies[27] and offsetting aid outflows in their balance of payments by guaranteeing some immediate return to their economy. Donors also use aid to subsidise their exports and incentivise trade flows with the beneficiary country[28], including helping national companies to penetrate foreign markets. This latter argument has been put forward more recently by political leaders. For example,

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[21] A. La Chimia, *Tied aid and Development Aid Procurement within the Framework of EU and WTO Law: The Imperative for Change*, Hart Publishing, Oxford, 2013; More recently see: La Chimia, 'The Echternach Procession of Untying Aid' in A. La Chimia and P. Trepte (Eds), *Public Procurement and Aid Effectiveness: a Roadmap under Construction*, Hart Publishing, Oxford, 2019; and P. Trepte, The Localization of Aid-Funded Procurement: Final Report, *Joint SDG Fund/OECD*, 6 December 2024.

[22] This conclusion is reported by Trepte in the context of measures aimed at favouring local companies. See P. Trepte, The Localization of Aid-Funded Procurement: Final Report, *Joint SDG Fund/OECD*, 6 December 2024.

[23] Open Contracting Partnership, 'Beneficial ownership and open contracting', webpage, nd.

[24] More generally on the difficulties of applying and identifying rules of origins see: S. Schoenmaekers, '"Made in Europe" and "Buy European": From gentle branding to bold commanding?', Inaugural Speech, *Maastricht Law Series,* Vol 8, 2026.

[25] A. Wolf, The Economics of 'Buy-European', *CEP*, March 2026.

[26] A. Wolf, The Economics of 'Buy-European', March 2026.

[27] European Commission, Responses to the challenges of Globalisation: A study on the International Monetary and Financial System and on Financing for Development, SEC(2002) 185 final, 13 February 2002, p. 62.

[28] A. La Chimia, Conquering the last frontier of protectionism: the legality of tied aid under the EC Treaty internal market rules, *European law review*, No 4, 2007.

in the aftermath of Brexit, the former United Kingdom (UK) secretary for development cooperation, Priti Patel, maintained that UK aid should be used to 'promote a new round of trade deals between the UK and other countries' to help UK industries find new export markets[29]. Similar arguments have been put forward more recently by the United States of America's (USA) Secretary of State.[30]

However, both political and economic arguments have been amply disproven by the literature. Economists have long considered it very unlikely that tying aid benefits the donor economy and that other, more effective trade policy measures could be implemented to support national companies[31]. Economists have also questioned whether tying aid creates additional trade flows or diverts resources. Tying aid by making aid less effective also risks disenfranchising people in donor countries from supporting aid policies, hence achieving the opposite result of finding support for aid policies at home. In the recipient country, tying aid also undermines donors' credibility.

Jepma explains that the tied aid phenomenon might also be due to the so-called prisoner's dilemma: donors do not want to untie aid because they fear their companies would be disadvantaged in two respects, namely by withdrawing aid while still competing against suppliers who receive support from their own countries. Hence, international collaboration is key to ensuring all donors are on an equal footing and untie aid.

3 International policy commitments to make aid more effective

The most significant international multilateral initiative to untie aid was undertaken in 2001, under the auspices of the OECD DAC. This concerned adoption of the Recommendation on Untying Aid to Least Developed Countries (LDCs). This Recommendation came into effect on 1 January 2002. It covered aid to LDCs and excluded aid granted to all other countries. Since 2008, the Recommendation's coverage has been progressively expanded to include first aid to highly indebted poor countries (HIPCs) and ten years later in 2018 aid to other low-income countries (OLICs)[32] along with the International Development Association (IDA)-only countries and territories[33].

In March 2026, a new version of the Recommendation was adopted, which includes important new provisions on localisation, sustainable procurement and responsible business. Exceptions to the untie aid principle can be foreseen which 'may not apply to individual aid offers, in exceptional circumstances, in situations where Adherents believe it to be justified on the basis of overriding, non-trade related,

[29] D. Maddox, 'REVEALED: Priti Patel ready to use £11BN foreign aid to build host of historic trade deals', *Express*, 1 August 2016; A. La Chimia, 'The Echternach Procession of Untying Aid' in A. La Chimia and P. Trepte (Eds), *Public Procurement and Aid Effectiveness: a Roadmap under Construction*, Hart Publishing, Oxford, 2019.

[30] US Department of State, 'Priorities and Mission of the Second Trump Administration's Department of State', Press Statement of Marco Rubio, Secretary of State, 22 January 2025.

[31] O. Morrisey and H. White, 'Evaluating the concessionality of tied aid', *The Manchester School,* Vol 64, No 2, 1996, pp. 208–226; L. Tajoli, 'The impact of tied aid on trade flows between donor and recipient countries', *Journal of International Trade and Economic Development*, Vol 8, No 4, 1999, p. 374.

[32] See: OECD, Revised DAC Recommendation on Untying Official Development Assistance, DCD/DAC(2018)33/FINAL, 24 January 2019. According to the OECD/DAC 'For the purposes of the Recommendation, 'other low-income countries (OLICs)' mean low-income countries or territories that are included neither in the LDC group nor in the HIPC category'. See: OECD, 2022 Report on the Implementation of the DAC Recommendation on Untying Official Development Assistance, DCD/DAC(2022)/34/FINAL, 5 September 2022.

[33] According to the OECD/DAC Recommendation 'IDA-only countries and territories refers to countries and territories that are only eligible to financing from the International Development Association according to the World Bank operational lending categories and that do not have LDC, HIPC or OLIC status' see: OECD, DAC Recommendation on Untying Official Development Assistance, OECD/LEGAL/5015, Adopted on 25 April 2001, Amended on 28 January 2026.

development interests. Such Adherents must inform the DAC of such derogations through the relevant review procedures[34]'.

Food aid and free-standing technical cooperation were, and continue to be, excluded from the Recommendation's coverage. The new text adopted in 2026 makes clear that humanitarian aid is also excluded from its coverage.

As argued by this author previously, the importance of such a Recommendation goes beyond its scope and coverage: it is official recognition that tying aid is harmful to development and undermines aid effectiveness[35]. The Recommendation places all DAC donors on an equal footing, creating a level playing field for suppliers and companies in the development aid procurement field.

Since adoption of the Recommendation, many other important initiatives have been undertaken, reaffirming both a general commitment to make aid more effective (for example, Monterrey in 2002 and Paris in 2005) and a specific commitment to untie aid.

In Monterrey, donors recognised that pursuing their political and economic interests when granting aid funds seriously compromises aid success[36]. Similar recognition and a general commitment to enhance aid effectiveness, by promoting ownership, alignment and effective partnerships, have been made by the 2005 Paris Declaration on Aid Effectiveness, the Accra Agenda for Action (AAA) (2008) and the Busan Partnership for Effective Development Cooperation (2011), which followed suit. After Busan, the Global Partnership for Effective Development Cooperation (GPEDC) was established which led to aid effectiveness discourse being merged with the broader debate on enhancing development effectiveness[37].

Untying aid is a specific commitment within the 2005 Paris Declaration on Aid Effectiveness[38], the 2008 AAA[39] and the 2011 Busan Partnership Agreement. Both the Paris Declaration and the AAA recognised that untying aid increases its effectiveness, hence exhorted donors to continue making progress on untying aid (paragraph 31 of the Paris Declaration and paragraph 18 of the AAA). Indicator 8 of the Paris Declaration, dedicated to untying aid, identifies it as a means of achieving better value for money. In Busan, countries recognised that untying aid not only serves value-for-money objectives but can also promote local trade and businesses. The level of untied aid remains one of the indicators used to monitor donors' implementation of commitments towards more effective development within the GPEDC framework. Untying aid has also been linked to sustainable development, under both the Millennium Development and Sustainable Development Goals.

More recently, donors met in Seville for the Fourth International Conference on Financing for Development (2025). In the adopted declaration, the Seville Compromise, donors committed to using aid funds effectively, having regard to achieving the highest possible development impact.

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[34] OECD, DAC Recommendation on Untying Official Development Assistance, OECD/LEGAL/5015, Adopted on 25 April 2001, Amended on 28 January 2026.
[35] A. La Chimia, *Tied aid and Development Aid Procurement within the Framework of EU and WTO Law: The Imperative for Change*, Hart Publishing, Oxford, 2013.
[36] UN, Monterrey Consensus of the International Conference on Financing for Development, March 2002.
[37] See the Outcome Document of the meeting (Busan Partnership): Para 3, OECD, Busan Partnership for Effective Development Co-operation, 1 December 2011.
[38] The level of aid untied is one of the indicators for measuring aid effectiveness used by the Paris Declaration. See: OECD, Paris Declaration on Aid Effectiveness, 2 March 2005.
[39] Untying is one of the four issues considered by donors in Accra (the other three are predictability, country systems and conditionality).

However, as this author has argued elsewhere, because all untied aid initiatives are expressed in soft law rather than binding commitments, their implementation is left to the goodwill of states[40]. Moreover, untied aid commitments beyond the Recommendation's scope, such as those endorsed by the GPEDC's Paris Declaration, are framed in terms of generic, progressive realisation[41] and acceleration of progress, without specific or binding timelines and targets. Hence, holding donors accountable is difficult. Ultimately, this might undermine aid effectiveness efforts, weakening the international commitments to untie aid.

The volatility and precarity of the aid effectiveness debate are evident in light of recent events. The current geopolitical turmoil puts these efforts at risk. The rise of trade wars and increased use of subsidies is jeopardising international collaboration, even within the aid sector. There is a risk that aid will be used more aggressively than ever before to advance donors' trade interests in response to and in retaliation against other countries' aggressive trade and subsidy policies, rather than to promote recipient countries' development efforts.

4 Tied aid data: Progress and setbacks

The international initiatives mentioned above have led to a substantial increase in aid provided untied. However, as explained below, data show that some donors, including EU member states, still tie a significant share of aid covered by the OECD Recommendation. This is problematic, especially given that the level of aid granted by donors is decreasing rapidly and thus the need for effective aid is ever more urgent.

The DAC *Glossary of Development Terms* defines 'aid Activity' as including 'projects and programmes, cash transfers, deliveries of goods, training courses, research projects, debt relief operations and contributions to non-governmental organisations'. ODA flows can be provided as grants or soft loans; the latter must have a significant concessional level to be classified as aid.

Source: DAC Glossary of Development Terms[1].

For example, existing data show that the total level of ODA (in grant equivalent terms) from DAC member countries amounted to USD 223.3 billion in 2023. It decreased to USD 214.6 billion in 2024, marking a 6.0 % decline in real terms from 2023[42].

Data on the type of disbursement — as grants or as soft loans — is fragmented. For 2023, the OECD reports that about 8 % of ODA was disbursed as loans, with significant variations amongst OECD DAC members[43]. Japan disbursed 57 % of its ODA as loans, South Korea 32 % and France 19 %. The EU institutions disbursed 35 % of its ODA as loans — driven by sharply increased lending to Ukraine in 2023[44]. The granting of aid as soft loans could be especially problematic when the aid is tied, given that soft loans, albeit at a concessional level, still need to be repaid by the recipient country and therefore increase the recipient's debt level. In 2023, the USA, Germany and Japan were the top three donors, with USD 66.0 billion, USD 37.6 billion and USD 19.6 billion, respectively.

[40] As this author has argued elsewhere, aid is currently outside the scope of existing international binding commitments on public procurement see A. La Chimia, 'Cui Bono? Scope, Rationales, and Consequences of the Exception for Development Procurement in the Revised Text of the GPA', *Trade, Law and Development*, Vol 7, No 1, 2015, pp. 156-184.
[41] OECD and UNDP, Making Development Co-operation More Effective, 2016.
[42] OECD, Official development assistance on a grant equivalent basis from DAC Members in 2023 and 2024, nd.
[43] OECD, ODA Levels in 2023 – preliminary data: Detailed summary note, DCD(2024)31, 20 November 2024, p. 2.
[44] OECD, ODA Levels in 2023, DCD(2024)31, 20 November 2024, p. 2.

As far as tied aid is concerned, an elaboration of OECD/DAC data conducted by Eurodad shows that 'since 2012, upwards of 16 per cent of DAC Countries' ODA has been considered tied, on average, amounting to around USD 175 billion[45]'.

The latest OECD/DAC report on aid tying dates back to 2022 and shows that the volume of aid tied decreased considerably in 2018 and 2019[46], amounting to more than 90 % of ODA covered by the Recommendation on Untying ODA (USD 24 billion)[47]. However, the OECD/DAC data included in the 2022 report do not include humanitarian aid, food aid, or technical cooperation. Furthermore, the report does not include aid donated by non-DAC members, such as China.

It is also important to note that donors enjoy significant flexibility over whether to report aid as tied and, as Clay *et al.* have argued, this might lead to a conflated level of untied aid[48].

Some donors continue to tie aid despite having international policy commitments to untie (see Chapter 3). For example, the USA ties more than USD 4.3 billion covered by the Recommendation[49]. In 2019-2020, the USA untied only 71.8 % of aid granted to countries covered by the Recommendation; this implies that nearly 30 % of the USA's aid which should have been untied, as covered by the Recommendation, was in fact tied. The EU remains the third largest provider of tied aid for Recommendation ODA, with USD 469 million still tied[50].

The OECD/DAC 2022 report shows that amongst EU Member States, the countries that tied their bilateral aid most as covered by the Recommendation in 2020 were: the Slovak Republic, Austria, Poland, followed by Portugal and Slovenia.

Aid granted by the EU Institutions to Recommendation-covered countries is 96 % **untied**. However, the OECD/DAC 2022 report shows that USD 469 million granted by EU institutions in 2019-2020 is still tied or partially tied. The channels through which tied aid provided by EU institutions is delivered are: donor government (48.5 %); recipient government (16 %); developing country-based non-governmental organisations (12.5 %); private sector in the provider country (10 %); and third-country government (Delegated co-operation) (5 %). The sectors are Multisector aid (49 %), education (14 %), environment protection (9 %), energy (5.5 %) and health (5 %).

Table 1 below presents data on ODA's tying status as covered by the Recommendation in 2024, including the level and share of aid which is untied and aid commitments. Figure 1, which follows, reports the share of bilateral ODA covered by the OECD Recommendation that was untied by OECD/DAC members (as published on the untying bulletin board). It is important to note that not all countries report tied aid data in the same way. For example, some report only procurement contract opportunities, while others include data on grants. Figure 2 and Table 2 instead present data beyond the Recommendation's coverage.

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[45] M. Simonds, 'Exposing Tied Aid: Preventing donor countries from getting rich on their own aid', *Eurodad,* 4 April 2024.
[46] OECD, 2022 Report on the Implementation of the DAC Recommendation on Untying Official Development Assistance, DCD/DAC(2022)/34/FINAL, 5 September 2022.
[47] As explained in the previous chapter, the Recommendation foresees that aid to LDCs, HIPCs, LOICs and IDA-only countries should be untied.
[48] E. Clay et al., Untying Aid: Is it working? An evaluation of the Implementation of the Paris Declaration and of the 2001 DAC Recommendation of Untying ODA to the LDCs, *Danish Institute for International Studies*, February 2009.
[49] OECD, 2022 Report on the Implementation of the DAC Recommendation on Untying Official Development Assistance, DCD/DAC(2022)/34/FINAL, 5 September 2022.
[50] OECD, 2022 Report on the Implementation of the DAC Recommendation on Untying Official Development Assistance, 5 September 2022, p. 7.

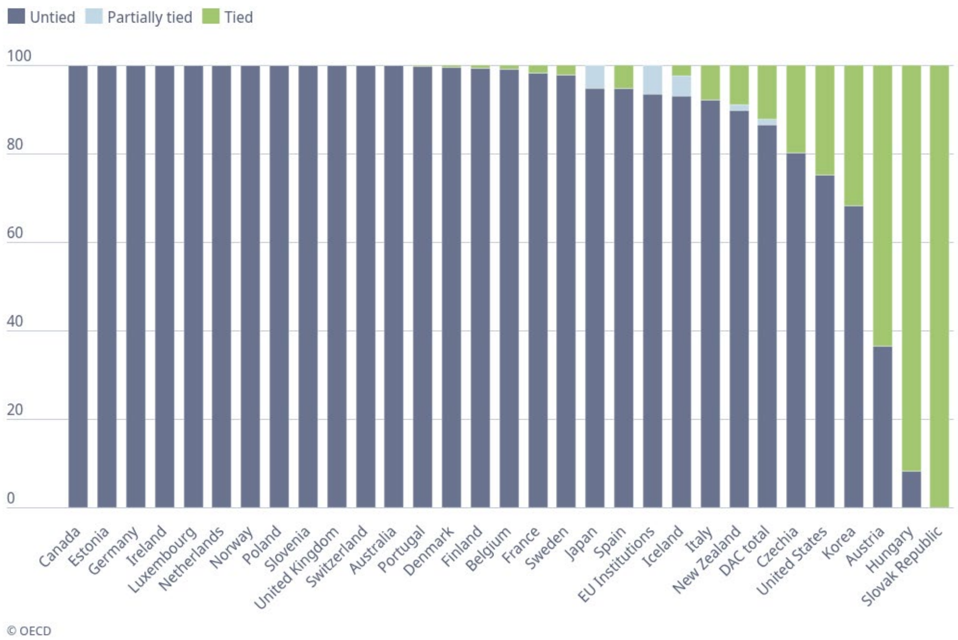
Table 1: Tying status of ODA covered by the Recommendation in 2024

Donor	Untied (USD million)	Share untied (%)	Commitments (USD million)
Australia	615.9	100	616.0
Austria	6.6	36.4	18.2
Belgium	252.9	99.1	255.2
Canada	203.0	100	203.0
Czechia	11.8	80.3	14.6
Denmark	374.6	99.5	376.3
Estonia	0.4	100	0.4
EU Institutions	3 178.4	93.4	3 403.4
Finland	49.0	99.3	49.3
France	2 100.8	98.2	2 138.5
Germany	1 750.3	98.8	1 772.4
Hungary	0.8	8.7	8.8
Iceland	19.5	93.1	20.9
Ireland	142.0	100	142.0
Italy	383.1	92.2	415.5
Japan	1 453.6	94.9	1 532.4
Korea	906.7	68.2	1 330.3
Lithuania	0.01	100	0.01
Luxembourg	51.9	100	51.9
Netherlands	337.7	100	337.7
New Zealand	112.0	91.1	123.0
Norway	357.1	100	357.1
Poland	2.3	100	2.3
Portugal	57.6	99.7	57.7
Romania	–	–	0.05
Slovak Republic	–	–	0.1
Slovenia	2.0	100	2.0
Spain	200.4	94.7	211.6
Sweden	251.6	97.9	257.1
Switzerland	500.6	100	500.6
United Kingdom	954.3	100	954.3
United States of America	7 348.6	75.2	9 776.6

Source: Author's own compilation based on the data made available by the OECD/DAC Untying Aid Team[51].

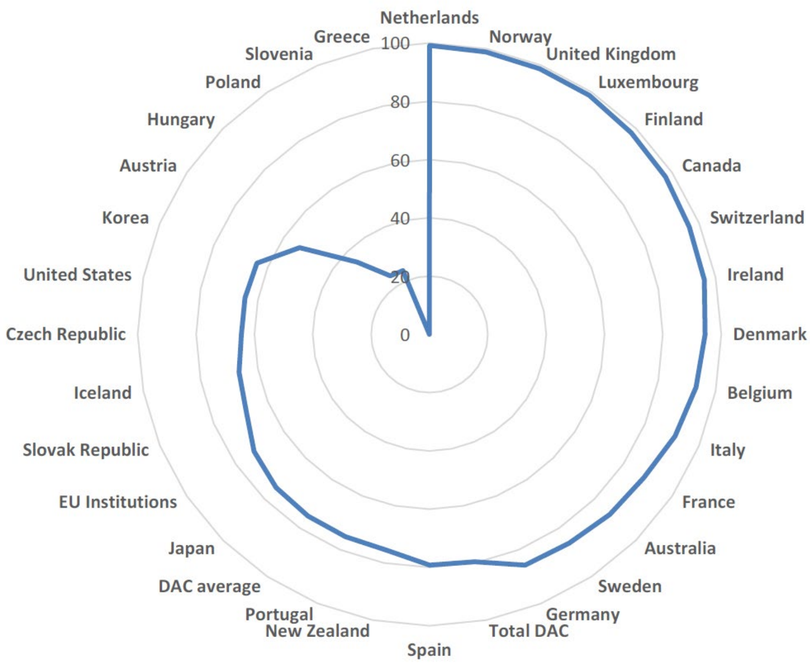
[51] Tying status of ODA by individual DAC member countries, coverage of the Recommendation on Untying ODA, 2024 (excluding administrative costs, scholarships and student costs in donor countries, development awareness and in-donor refugee costs). The data was made available by the OECD/DAC Untying Aid Team.

Figure 1: The Share of bilateral ODA untied by DAC donors in 2024 based on the coverage of the Recommendation



Source: OECD webpage on untied aid[52]

Figure 2: Share of bilateral ODA (beyond the Recommendation coverage) reported as untied by DAC members, 2019–20 average



Source: OECD report on the implementation of the DAC recommendation[53]

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[52] OECD, 'Untied aid', webpage, nd.

[53] Share of bilateral ODA reported as untied by DAC members, 2019-20 average. Beyond the Recommendation, all recipients and all sectors. Source: OECD, 2022 Report on the Implementation of the DAC Recommendation on Untying Official Development Assistance, DCD/DAC(2022)/34/FINAL, 5 September 2022. Note: Excludes in-donor refugee costs and administrative costs on which the tying status is not reportable.

Data from the OECD/DAC on the share of untied ODA over total bilateral ODA donated by DAC members, namely, ODA commitments beyond the coverage of the Recommendation (all sectors and all ODA recipients), show that in 2020, EU institutions untied 72.3 % of their ODA. So nearly 30 % of all EU aid remained tied in 2020. In 2024, the percentage of aid untied increased to 75.6 %, while the percentage of aid tied decreased to below 25 % (see table 2 below).

Overall, recent data suggest that formal tied aid is decreasing. A comparison between data published by the OECD for 2020 and 2024 shows that progress in untying aid has been made by some donors. The share of untied bilateral aid granted by EU Member States **beyond the scope** of the Recommendation varied significantly across Member States. The EU/ European Economic Area (EEA) Member States that untied the most of their total bilateral aid in 2020 were Ireland (96.6 %), Norway (97.7 %) and Switzerland (96.9 %). Other Member States still recorded a very low share of untied aid in 2020; for example, Austria unties only 62.5 % of total bilateral aid, the Czech Republic 60.1 %, Hungary 48.2 % and Slovenia 21.5 %. In 2024, Austria untied 83.4 % of aid, the Czech Republic 65.4 %, Hungary 47.7 % and Slovenia 73.1 %. It is important to note that OECD/DAC data do not include in-donor refugee aid, which is by definition tied. The USA continues to register low levels of untied aid (lower than the EU and its Member States), with only 68.0 % of aid untied in 2024. Only Poland and Greece performing worse.

It is important to keep in mind that the OECD collects aid data only for OECD/DAC members. Significant new donors of aid, such as China, India, Brazil or the Gulf Cooperation Council, do not disclose how much aid they donate, whether their aid is granted in grants or soft-loan forms, or whether it is tied or untied.

A key finding from the 2022 OECD/DAC report is that tied aid in the form of soft loans, which the recipient country must repay, is on the rise. As previously mentioned, tied aid in the form of soft loans may worsen its negative effects by increasing the recipient country's debt; hence, ensuring its effectiveness is vital when such aid is provided in this way. The OECD/DAC report also states that '99 % of tied aid provided by Austria and Denmark and 62 % of tied aid provided by Belgium, was through interest subsidies. Portugal provided tied aid credits for import support[54]'.

The UK, a former EU Member State, untied 98.7 % of its aid in 2020 and 99.7 % in 2024. As explained below, though, *de jure* untying does not necessarily correspond to *de facto* untying. Many studies show that although aid is formally untied, *de facto* aid contracts might be tied. The extent of informally tied aid remains uncertain.

As Meek and Craviotto argue, tying aid 'is just the most visible part of a wider problem. Even where DAC members do not formally tie their ODA, procurement processes — the purchasing of goods and services by governments to implement public projects or provide public services — can still create informal barriers that make it difficult for suppliers outside the DAC member country to access contract opportunities[55]'.

[54] OECD, 2022 Report on the Implementation of the DAC Recommendation on Untying Official Development Assistance, 5 September 2022, pp. 8.
[55] P. Meeks and N. Craviotto, Strings still attached: Unmet commitments on tied aid, *Eurodad,* November 2021.

Table 2: Tying status of ODA by individual DAC member countries, beyond coverage of the Recommendation on Untying ODA, 2024

Donor	Untied (USD million)	Share untied (%)	Commitments (USD million)
Australia	2 680.1	99.6	2 690.9
Austria	360.2	83.4	432.1
Belgium	872.6	99.2	879.8
Canada	3 300.1	97.5	3 383.4
Czechia	43.5	65.4	66.5
Denmark	1 943.6	94.7	2 052.4
Estonia	27.8	97.8	28.4
EU Institutions	31 853.7	75.6	42 110.9
Finland	366.9	89.2	411.2
France	7 909.4	90.1	8 783.2
Germany	16 198.	87.9	18 427.4
Greece	10.2	61.0	16.8
Hungary	21.2	47.7	44.4
Iceland	57.5	89.7	64.1
Ireland	637.0	99.7	639.2
Italy	1 790.1	93.6	1 912.6
Japan	10 682.0	75.4	14 161.3
Korea	4 062.3	70.5	5 764.2
Latvia	4.2	48.2	8.8
Lithuania	71.4	97.4	73.3
Luxembourg	337.6	89.2	378.5
Netherlands	2 568.2	100	2 568.2
New Zealand	445.9	80.8	551.7
Norway	2 447.1	98.8	2 476.2
Poland	95.9	60.7	157.9
Portugal	120.6	94.6	127.5
Romania	–	–	19.1
Slovak Republic	23.4	72.6	32.2
Slovenia	20.3	73.1	27.8
Spain	1 055.8	88.6	1 191.4
Sweden	1 250.3	86.0	1 454.5
Switzerland	1 973.3	97.7	2 020.1
United Kingdom	8 485.1	99.7	8 514.4
United States of America	32 489.0	68.0	47 777.2

Source: Author's own compilation based on the data provided to her by OECD/DAC Untying Aid Team[56]

[56]Table 2 excludes administrative costs, scholarships and student costs in donor countries, development awareness and in-donor refugee costs). Data provided to the author by the OECD/DAC Untying Aid Team.

4.1 Nationality of suppliers winning aid contracts

While official data show that formal tied aid is decreasing, the level of aid that is informally *de facto* tied remains uncertain[57]. Data on the award of public contracts show that most procurement opportunities linked to aid funding still overwhelmingly benefit suppliers from the donor country[58]. A recent study reports that 'Suppliers from covered countries and territories were awarded 41 % of the total number of contracts, although these represented only some 7 % in terms of value[59]'.

Data on the awarding of public contracts show that most aid procurement opportunities still predominantly benefit suppliers from the donor country[60]. Although data on the nationality of suppliers awarded aid contracts are often used to suggest that aid was tied, this author has warned previously and others have found in recent studies[61] that such assumptions can be misleading. The fact that aid is awarded to donors' suppliers may stem from a variety of factors, including the competitiveness of donors' suppliers and their familiarity with donors' rules, as well as the transparency of the procedure and complexity of the requirements imposed[62]. A more accurate approach would be to gather data on suppliers' participation in aid procurement opportunities. This would allow us to understand whether foreign and local suppliers seek access to donors' markets and identify potential capacity constraints that prevent local suppliers from winning aid contracts[63].

Data on the nationality of suppliers awarded contracts in the aid sector are scarce and difficult to obtain, especially for bilateral aid contracts. Even when available, such data are often difficult to compare and triangulate. Furthermore, information about their accuracy is scarce. While donors have committed to report to the OECD data on contract awards covered by the Recommendation, there are discrepancies in how they do it: some donors, for example, report data on both procurement contracts and grant awards, while others report only on procurement contracts. This might result in significant differences between donors. In addition, some donors include data on contracts awarded beyond the scope of the Recommendation in their reports; others, such as the EU, report only data on contracts awarded in countries covered by the Recommendation.

However, some limited information does exist, published by the OECD and multilateral development banks. Data on suppliers' nationalities from two international organisations, the World Bank and the ADB, have been included in this section, which aims to provide examples of the nationality of suppliers that win untied aid contracts funded by international development institutions.

Figure 3 below shows data published on the OECD untied bulletin website, covering awards linked to ODA contracts covered by the Recommendation in 2023[64].

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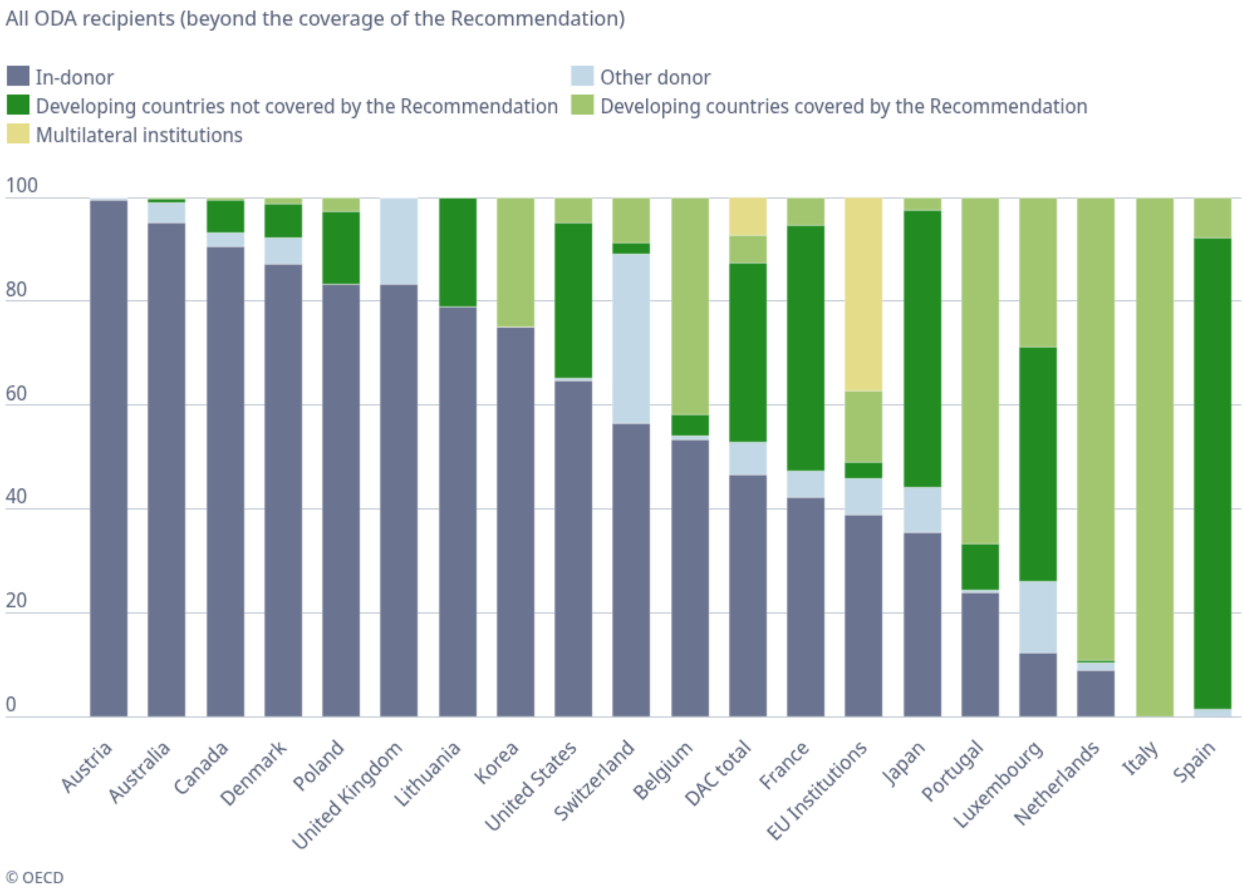
[57] P. Trepte, The Localization of Aid-Funded Procurement: Final Report, *Joint SDG Fund/OECD*, 6 December 2024.
[58] OECD, 2022 Report on the Implementation of the DAC Recommendation on Untying Official Development Assistance, DCD/DAC(2022)/34/FINAL, 5 September 2022.
[59] P. Trepte, The Localization of Aid-Funded Procurement: Final Report, *Joint SDG Fund/OECD*, 6 December 2024.
[60] P. Trepte, The Localization of Aid-Funded Procurement, 6 December 2024.
[61] P. Trepte, The Localization of Aid-Funded Procurement, 6 December 2024.
[62] A. La Chimia, *Tied aid and Development Aid Procurement within the Framework of EU and WTO Law: The Imperative for Change*, Hart Publishing, Oxford, 2013; P. Trepte, The Localization of Aid-Funded Procurement: Final Report, *Joint SDG Fund/OECD*, 6 December 2024.
[63] A. La Chimia, *Tied aid and Development Aid Procurement within the Framework of EU and WTO Law: The Imperative for Change*, Hart Publishing, Oxford, 2013. Trepte also suggest to look at the concentration of the market to understand whether it is open to competition see P. Trepte, The Localization of Aid-Funded Procurement: Final Report, *Joint SDG Fund/OECD*, 6 December 2024.
[64] OECD, 'Untied aid', webpage, nd.

Figure 3: Breakdown of untied ODA contracts by supplier origin in 2023 (value of contract)



Source: OECD webpage on untied aid[65]

It is evident from the Figure above that most aid covered by the Recommendation granted to EU institutions goes to either companies/nationals based in EU member states or to multilateral institutions, with a significant share of aid going to countries covered by the Recommendation (hence, excluding China, Turkey, India and so on). Data for aid covered by the Recommendation, thus aid that is (or should be) untied, show that 516 aid contracts by the EU institutions were awarded to suppliers from the donor country (namely EU Member States) for a value of USD 379.097 million, while 26 contracts for a value of USD 10.280 million were awarded to other donors. The available data also show that 17 contracts for a value of USD 11.886 million were awarded to developing countries not covered by the Recommendation and that a significantly high number of 271 contracts for a total value of USD 105.534 million were awarded to developing countries covered by the Recommendation (so LDC, HIPC, OLIC, IDA-only). The remaining 15 contracts were awarded to multilateral organisations for a value of USD 7.174 million[66].

The data show that, despite the high level of untied aid, EU companies still benefit the most from EU aid. Importantly, the data also show that untying allows companies in the poorest countries (those covered by the Recommendation) to compete for and win EU-aid-funded contracts. Hence, if the EU were to return to aid being tied, these countries would suffer a significant economic loss not only in terms of more expensive goods/services and less effective aid, but also in terms of business opportunities for local

[65] OECD, 'Untied aid', webpage, nd.

[66] Data collected and published by the OECD/DAC and in possession of the author, thanks to the kind assistance of the OECD/DAC Untying aid team.

companies**.** Consequently, tied aid exceptions need to be carefully designed to avoid the poorest countries becoming the hardest hit.

Data on contract awards for aid donated by other countries show donors' companies still benefit the most from donors' aid. For example, the UK, which unties 100 % of aid covered by the Recommendation, still awards most of its aid contracts to UK suppliers for a value of USD 61.749 million, with only 2 contracts for a value of USD 111.933 million, awarded to other donors' companies. No contracts were awarded to suppliers from developing countries.

Table 3: Untied ODA contract awards, coverage of the DAC Recommendation on Untying ODA, 2023

Donor	Within the donor country itself	Other donor countries	Developing countries not covered by the Recommendation	Developing countries covered by the Recommendation
Australia	17	0	0	15
Austria	0	2	0	1
Belgium	9	1	1	19
Canada	0	0	0	1
Denmark	38	8	4	18
EU Institutions	516	26	17	217
France	39	9	6	27
Germany	1	1	0	0
Italy	0	0	0	1
Japan	9	0	5	5
Korea	12	0	0	7
Luxembourg	14	58	13	504
Netherlands	10	0	2	9
Poland	11	0	0	28
Portugal	430	7	3	2594
Spain	0	109	0	22
Switzerland	8	3	0	1
UK	6	2	0	0
USA	8	0	0	0

Source: Data collected and shared by the OECD/DAC Untying Aid team

Multilateral development banks such as the ADB and the World Bank publish some data on suppliers' nationalities. World Bank data show that since 2020 the two supplier countries/economies that win the most contracts are China (USD 20.4 billion) and India (USD 10.2 billion), followed by various international institutions, Turkey and Pakistan[67].

[67] World Bank Group, 'Top 10 Supplier Countries / Economies (Since FY2020)', webpage, nd.

A study conducted by Bakhshi *et al.*, analysing trends in public procurement suppliers using World Bank project data from 2000 to 2021 confirms this, revealing that Chinese companies capture an increasing share of the public procurement market in developing countries[68].

The ADB provides clearer information on contract awards and the nationality of suppliers[69]. Their data show that Chinese contractors secured over 31.36 % of all ADB contracts from 2020 to 2025 (with most Chinese contracts won in the works sector). Other countries included Nigeria 5.76 %, India 5.34 %, Senegal 4.9 %, Tunisia 4.58 % and Germany 1.93 %.

However, as a word of caution, the accuracy of published information could not be verified. It is not clear, for instance, if suppliers won most contracts predominantly in their own countries. Hence, the data needs to be taken at face value only.

5 Analysis of the Global Europe proposal

The proposed GEI will be the main financial Instrument for the EU's External Action within the 2028-2034 budget. It is part of the package proposal for the EU's next Multiannual Financial Framework.

Through the GEI, the Commission continues to reinforce its commitment to using development and external assistance programmes to promote sustainable development. The instrument would simultaneously promote Europe's values and interests through development cooperation (Article 4 GEI) and also leverage and mobilise private investment through ODA. Importantly, significant general principles underpin the GEI, such as democracy, good governance, the rule of law, respect for human rights, fundamental freedoms, gender equality, together with girls' and women's empowerment (see Article 9).

Unlike previous instruments, though, the proposed GEI emphasises the geopolitical use of development funding. It also stresses the need to enhance coherence between the EU's internal and external action. This is done with a view to tackling the 'unprecedented polycrisis[70]' that has faced the global economy in recent years. This is a polycrisis which began in 2020 with the Covid-19 pandemic and has been exacerbated by Russia's unlawful invasion of Ukraine, the conflicts in the Middle East and the USA's unilateral increase of tariffs. Within the development context, the situation has been aggravated by the USA's withdrawal of external aid.

The GEI consists of six different Pillars (Article 3(1)), namely: (1) Europe, (2) Middle East, North Africa and the Gulf, (3) Sub-Saharan Africa, (4) Asia and the Pacific, (5) the Americas and the Caribbean and (6) Global.

The proposed GEI foresees complex eligibility rules for participation in EU-funded tenders, grants and prizes, based on participants' nationality or effective establishment. Eligibility rules vary depending on the Pillar in which the development action falls.

These rules maintain some of the restrictions currently in place under the NDICI/IPA III financial instruments (Article 20(1) and (2)). It should be noted that IPA III is reported as tied by the Commission, given that eligibility is restricted to Member States, EEA, IPA and neighbourhood countries (Article 11(1)). Importantly, under IPA III, restrictions are permitted only for grants and extensions to the eligibility

[68] J. Bakhshi et al., 'Procurement practices in international development projects: trends, networks and performances', *Journal of Public Procurement*, Vol 23, No 1, 2023, pp. 321-343.
[69] Available at ADB Group, 'Procurement statistics', webpage, nd.
[70] World Trade Organisation, 'DDG Ellard addresses the role of multilateralism in a world of polycrisis', 24 June 2022.

requirements are permitted only if the eligibility restrictions would render the project difficult to implement.

According to Article 20(1) of GEI, subject to the exceptions in paragraphs 10 and 11 of the Article, 'participants to procurement, grant and prize award procedures for actions financed under Article 3(1), first subparagraph, points (b) to (e)' — that is Middle East, North Africa and the Gulf; Sub-Saharan Africa; Asia and the Pacific; Americas and the Caribbean — is open to nationals of or effectively established in a Member State, an overseas country or territory linked to a Member State, or a member of the EEA; an acceding country, a candidate country or potential candidate.

Projects in this category are also open to a developing country or territory that is not a member of the Group of Twenty (hence excluding countries such as South Africa, Argentina, India, China, Brazil and Mexico). Similarly, access to this category of projects is open to a partner country in the Neighbourhood South region (as listed in Annex I[71]) and any other partner country, when it is a beneficiary of the action financed under this Instrument (that is, the recipient of the aid).

A potential conflict exists when a country falls simultaneously in more than one category under Article 20(1), with one rendering them eligible and the other ineligible. For example, Turkey is a developing country member of the Group of Twenty (therefore excluded from participation) and an EU candidate country (included in the list of eligible countries). Clarification on potential conflicts between eligibility categories is necessary to avoid contradictory solutions by contracting authorities.

Participation is also open to 'a country for which reciprocal access to external funding is established by the Commission' (Article 20(1)(f)).

When projects are implemented in LDCs, participation in procurement opportunities is also open to OECD member countries. This latter provision is a clear attempt to align with the scope and objectives of the OECD/DAC Recommendation on untied aid. However, the Recommendation also covers HIPC, OLICs and IDA-only countries, which, as the Article is currently drafted, do not appear to be within the scope of Article 20. It would therefore seem appropriate to recommend broadening the scope of Article 20(1)(f)) to include HIPC, OLIC and IDA-only countries.

Full untying aid is also foreseen for aid granted via the Global Pillar and for crisis, peace and foreign policy needs (Article 20(3)), unless Article 20(10) is invoked to restrict eligibility (see below).

Paragraph 5 of Article 20 foresees that 'Subject to paragraph 10 of this Article, all products financed under the Instrument may originate from any country or territory'. This is an important provision that helps avoid many difficulties in determining the origins of the goods purchased, constraints that, as explained in Chapter 1, might lead to inefficiencies as well as problems with market availability and production capacity. However, the potential benefit of such a provision is curtailed by uncertainty surrounding the derogation measures set out in paragraph 10 of Article 20 (see below). It would therefore seem necessary to clarify the boundaries of the exception in paragraph 10 regarding the origins of the goods purchased.

As anticipated, paragraph 10 of Article 20 (invoked in almost all paragraphs of Article 20) allows, under certain unclear conditions, restriction of the eligibility rules laid down in the previous paragraphs of Article 20. Such restrictions can be imposed on implementing partners at all levels of implementation (Article 20). The reasons for invoking the restriction are framed in very broad, poorly defined terms. Among the reasons justifying the implementation of these restrictions are 'the specific nature or objectives of the

[71] These are: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Occupied Palestinian Territory, Syria and Tunisia.

activity', the application of 'Union restrictive measures', and 'the strategic interests of the Union'. Eligibility restrictions shall apply to 'high-risk suppliers, for security reasons'. The Article further states that eligibility rules may be restricted in response to 'measures adopted under the Regulation on the protection of the Union and its Member States from economic coercion by third countries'.

The exact scope of this exception is unclear because the Article does not specify what the restrictions should encompass. For example, whether participation is available only to EU and/or EEA countries, or extends to the recipient country or any other country. The paragraph also does not specify how long the derogation would be effective for and how many tenders it would affect: for example, if the suppliers from certain countries would be excluded for x months/years, for the entire aid cycle to a recipient country, for multiple tenders, or for a single tender.

One might think that, because when aid is tied at EU level, nationals and companies established in at least all EU Member States would be able to participate in the EU-funded tender, a minimum level of competition would be guaranteed. This should be enough to ensure that costs are not unduly inflated and that the cost of tying would not be as high as it would if the aid were to be tied bilaterally by a single donor (and hence only companies from that donor would be allowed to participate in tender opportunities). But in fact, not all companies in all EU Member States would have the capacity to bid for and participate in an EU-funded project in a developing country. Tenders for aid-funded projects have certain peculiarities (the project needs to be carried out in another, often remote, country, say) that render the tender suitable only for certain suppliers. These are usually those with experience and adequate qualifications to tender for aid projects and they often already have economic links in the recipient country. Hence, it is possible that companies from those EU Member States with long-established economic and political ties to developing countries (including for colonial and other historical reasons) would be better positioned to take advantage of the EU-tied aid opportunity. Consequently, EU aid tying could end up favouring certain EU Member States only at the expense of others. By contrast, the economic, political and transparency risks of tying aid would be borne by all EU Member States.

As clarified above in Chapter 1, rules on the nationality of suppliers might be circumvented by third-country companies which purchase shares or otherwise invest in eligible companies (for example, local companies). Such rules might be difficult to implement in contexts where the availability of skilled suppliers is limited by the specific context in which the aid operates — for example, a remote region or a limited market.

The Article does not expressly mention 'buy European' restrictions either, often referring to suppliers only. Hence, it might be questioned whether the derogation also covers rules on the origin of goods and services. An affirmative answer to this question seems likely given the broad language of these provisions. The Article refers broadly to 'eligibility rules laid down in this article', so includes those linked to the origin of goods. Moreover, paragraph 10 is recalled by paragraph 5 on the origins of goods. Clarity on this issue would be beneficial. As was mentioned earlier regarding the difficulty in identifying the nationality of suppliers, it is important to bear in mind that rules on the origin of products might be very difficult to implement[72], especially in the aid context, where markets might be more restricted. Furthermore, monitoring of origin requirements depends on customs controls and rules implemented by other countries. Labels might be counterfeit and fraud might be difficult to detect.

[72] On the rules of origin see: S. Inama, *Rules of Origin in International Trade*, Cambridge University Press, Cambridge, 2022.

If restrictions on the origins of goods are covered by paragraph 10, it would be important to identify clear instances in which the exception can be invoked, limiting such exception to well-defined cases where 'damages' to the EU economy have been ascertained, rather than maintaining a broad scope that could be abused and be impractical to implement. For example, in addition to the cases already identified by the norm, such as those concerning economic coercion by third states, application of the exception in paragraph 10 could be limited only to those cases where foreign goods have been subject to EU 'sanctions' under the International Procurement Instrument (IPI) or the Foreign Subsidies Regulation (FSR). Limiting the broad scope of exceptions would help avert abuses and unnecessary trade restrictions. The proposed approach would also enhance coherence between internal and external EU measures. Exceptions to the restriction rule, though, would need to be factored in for cases in which implementing the restrictions would damage the recipient economy or compromise the project's success.

The vagueness and ambiguity of the text prevent an evaluation of how much more aid could be tied under the new proposal, compared with the possibilities under current programmes, such as NDICI. It would be important to clarify the scale of the potential tying of aid and to assess the impact the proposed changes could have on aid untying. It would also be significant to assess which developing countries would be most affected and to what extent. The impact assessment could examine whether the proposed EU measures would negatively affect developing countries that currently enjoy a relative share of success in accessing EU aid contracts. As explained in the previous section, OECD data show that while most EU-funded contracts are still awarded to EU companies (for a value of USD 379.097 million), a healthy percentage of EU aid contracts goes to suppliers based in developing countries and in countries covered by the Recommendation. Hence, new EU-tied aid measures could affect developing countries' economies and local development. While a general impact assessment of the proposed GEI has been published by the Commission in 2025,[73] this assessment does not include a specific evaluation of the possible tied aid repercussions of the eligibility rules.

A careful impact assessment of the proposed eligibility measures should be conducted and mitigating measures should be put in place to ensure EU-tied aid does not harm partner countries. The impact assessment should focus specifically on the potential impact of the derogations foreseen in paragraph 10 of Article 20 and the effects it could have on developing countries' development interests. The assessment should also address how the derogation affects the overall coherence of the development cooperation policy. Conversely, the measure risks breaching the obligations imposed by Article 208 of the Treaty on the Functioning of the EU (TFEU)[74]. It is recommended that careful impact assessments be conducted before the derogation is applied, to ensure that developing countries' interests are not undermined and that the implementation of the measure does not breach the core objective of the EU development cooperation policy, namely, poverty eradication.

As the Article 20 of GEI is currently drafted, no measures are foreseen to ensure that any potential restrictions do not harm developing countries or conflict with their development interests. This might be at odds with GEI's core principles and objectives as laid down in Article 4 and might breach Article 208 TFEU. The measure might also lead to abuses and corruption in favour of *ad hoc* suppliers. This situation is worsened by the absence of an obligation to conduct market analysis or put in place any other

[73] European Commission, Staff working document: Impact Assessment Report, SWD(2025) 552 final, 16 July 2025.
[74] For an explanation of the obligations under Article 208 TFEU on the Union competences in the field of development cooperation see: L. Bartels, 'Policy Coherence for Development Under Article 208 of the Treaty on the Functioning of the European Union – Towards a Complaints Mechanism', *University of Cambridge Faculty of Law Legal Studies Research Paper Series,* Vol 7, No 6, 2016. Here the author explains that Article 208 also requires 'ongoing monitoring and evaluation'.

mitigating measure before derogations to the eligibility requirements are applied to ensure that restrictions are compatible with the recipients' development interests and the market's capacity to supply the aid goods, including making sure that there are enough (EU) suppliers to compete.

It seems, therefore, important to limit the broad scope of paragraph 10's exception to well-defined cases. Some suggestions have been made above on how the scope of this exception could be restricted in relation to the origin of the goods (namely, only in cases where a measure has been taken under the IPI or FSR, in addition to cases of economic coercion). Similar well-defined cases could be drawn for restrictions linked to the nationality of suppliers — for example, against other donors who systematically tie aid and preclude access to suppliers in EU and developing countries in their aid tender for the recipient country. In all instances, the interests of recipient countries should be duly taken into account.

Finally, when this exception is implemented in countries classified as LDCs, HIPC, OLIC and IDA-only countries — namely, those that fall within the scope of the Recommendation on untied aid — a conflict might arise with commitments to untie aid under the OECD/DAC Recommendation. Derogations on the eligibility requirements could be better aligned with the exception permitted under the Recommendation by providing clarification on the terms for their implementation.

Extension to the eligibility requirements (in other words, those aimed at broadening the pool of suppliers eligible to participate in tenders) is foreseen in Article 20(11) in cases of urgency or the unavailability of eligible partners.

Under Article 23, the GEI also provides for the direct award of contracts to European companies[75]. This latter provision has attracted harsh criticism by the European Court of Auditors for not 'clearly stating the specific reasons for the use of a direct award', not spelling out 'the criteria that should guide such a decision' and not foreseeing a 'financial ceiling for its application[76]'. The Court raised doubts about its compatibility with the principles of competition, transparency, non-discrimination and equal treatment of suppliers.

While the EU's plans for restricting access to EU-funded projects (Article 20) and grant preferences, including those via direct awards, to EU suppliers (Article 23) are motivated by the need to protect the EU's interests against a fast-changing international landscape, the exact boundaries of the proposed restriction, their governance system and their mode of application are still unclear. The result is a patchy framework of eligibility conditions that could create confusion, thereby deterring collaboration among aid agencies and donors. Wider negative consequences could also be associated with the new policies, such as EU aid being perceived as a short-term economic tool to protect only the EU's interests rather than a sound and coherent development instrument. Ultimately, these risks undermine aid effectiveness and run counter to international initiatives aimed at fostering aid success.

[75] This provision is analysed in the second briefing commissioned by the European Parliament and will therefore not be analysed further here.

[76] See European Court of Auditors, Opinion concerning the proposal for a Regulation of the European Parliament and of the Council establishing Global Europe, COM(2025) 551 final, July 2026.

6 Recommendations

Participation in EU-funded procurement opportunities is subject to a complex eligibility system based on suppliers' nationality and the place of their effective establishment. A more streamlined approach to eligibility requirements across all EU-funded actions would simplify access to EU-funded opportunities, in line with the GEI objectives. Potential conflicts between different eligibility categories might arise when countries could fall in more than one category (i.e. the case of Turkey).

The existing commitment to untie aid to LDCs in Article 20(1)(g) should be extended to HIPC, OLIC and IDA-only countries in compliance with the commitments endorsed in the OECD Recommendation on untied aid.

The GEI measures in Article 20 would benefit from further clarification of their scope and governance, especially in relation to Article 20(10) — that is, the derogation from the eligibility rules that allows further restrictions on participation to be implemented on a case-by-case basis. In this respect, it would be beneficial to indicate clearly the scope and duration of the restriction, limiting the cases in which such derogations could be applied, especially in relation to the origin of goods and services. This is necessary to avoid the market being unfairly and arbitrarily restricted, thus favouring *ad hoc* suppliers and goods. Specific suggestions on how the scope of this exception can be restricted have been made in Chapter 4.

In addition to limiting restrictions to cases of economic coercion, as it is currently provided, European Parliament could suggest limiting the case-by-case restriction under Article 20(10) to cases of illicit subsidies and unfair competition ascertained under the IPI and the FSR. This would clarify and limit the broad scope of the exception in Article 20(10), while ensuring alignment between the GEI, the IPI and the FSR, thereby guaranteeing coherence between the EU's internal and external action.

It would be beneficial to insert, within the wording of Article 20(10), an express commitment to take into account the interests of recipient countries when implementing restrictive eligibility measures in accordance with Article 20(10). For example, the measure could include an express commitment not to compromise or harm the economy of recipient countries and their development interests. Similarly, an express commitment should be included to ensure that eligibility restrictions will not compromise aid effectiveness. European Parliament could also suggest that an impact assessment always precedes implementation of the paragraph 10 Article 20 exception to ensure that the restriction does not harm partner countries.

It would be important to ensure that the possibility of tying aid and further restricting access to EU-funded projects is limited to grants only, excluding soft loans from the scope of their application, especially in respect of the restrictions in Article 20(10).

European Parliament could also suggest introducing measures to encourage the localisation of aid and support for the local economy, in compliance with the new text within the OECD Recommendation adopted in 2026, for example, by encouraging local subcontracting or the employment of locals. This would be especially beneficial when further eligibility restrictions are implemented in accordance with Article 20(10). European Parliament could also suggest that the eligibility of suppliers for EU funds be linked to knowledge sharing and transfer of skills as well as technologies with developing countries.

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European Parliament

BRIEFING

European preference and competitiveness in the Global Europe proposal: Opportunities and challenges for development effectiveness

ABSTRACT

The Global Europe proposal places EU external financing more explicitly in the service of strategic interests, competitiveness, and private-sector mobilisation. This briefing assesses what that shift means for EU development policy, with a focus on Article 23 and related provisions that would allow direct support to Union-based private entities and a wider role for export credit agency-linked financing. It situates these changes against the current NDICI framework, EU treaty obligations, OECD rules on ODA and export credits, and the development-effectiveness agenda. The analysis finds that Article 23 and related provisions do not, by themselves, amount to a return to classical tied aid. Instead, their significance lies in widening the scope for preferential channelling at earlier stages of the project cycle, especially through project preparation, direct grants, guarantees, financial instruments, and project-finance arrangements in large infrastructure, energy, digital, and industrial projects. This may support EU strategic and competitiveness objectives, but it also raises risks for additionality, partner-country ownership, competition, transparency, and subsidy dynamics. The briefing argues that any use of these preferential support channels should remain proportionate, evidence-based, transparent, and subject to strong development and audit safeguards.

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Table of contents

List of tables

List of abbreviations and acronyms

ASCM	WTO Subsidies and Countervailing Measures Agreement
DAC	Development Assistance Committee
DDR	Differentiated discount rate
DEVE	European Parliament Committee on Development
DFI	Development Finance Institution
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Export credit agency
EFSD+	European Fund for Sustainable Development Plus
EIB	European Investment Bank
EU	European Union
EUR	Euro
GE	Global Europe
HIPC	Heavily indebted poor country
IDA	International Development Association
IEA	International Energy Agency
IMF	International Monetary Fund
LDC	Least developed country
MFF	Multiannual Financial Framework
MPR	Minimum premium rate
NDICI	Neighbourhood, Development and International Cooperation Instrument — Global Europe
NGO	Non-governmental organisation
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PSI	Private sector instrument
SDR	Special drawing right
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
UN	United Nations

Executive summary

European development policy is increasingly being shaped by concerns about economic security, competitiveness, supply-chain resilience and investment mobilisation. The Commission's proposal for a Regulation establishing Global Europe (GE) reflects this shift by presenting the EU's future external financing instrument as part of a 'new economic foreign policy'. The proposed instrument would replace the current Neighbourhood, Development and International Cooperation Instrument (NDICI) after 2027. Like NDICI, it would be an instrument which integrates development aims with broader external action objectives, and it would continue to include a target for official development assistance (ODA) spending. The proposed instrument, however, would give even greater prominence to the Union's strategic interests and to support for European economic actors. This study examines whether competitiveness objectives and 'European preference', envisaged in the proposal, can be reconciled with the development mandate and the principles of development effectiveness.

Any European Union (EU) development instrument remains situated in the international legal, political and normative framework for development cooperation. This includes OECD Development Assistance Committee (DAC) rules on ODA, the EU Treaty requirement that poverty reduction remains the primary objective of EU development cooperation, and the development-effectiveness agenda built around partner-country ownership, results, inclusive partnerships, transparency and mutual accountability. However, a stronger link between EU development finance and European commercial or strategic interests puts the primacy of these objectives into question.

One concern in this regard pertains to whether the proposal could amount to a re-tying of aid. Tied aid is a form of ODA in which procurement is restricted to suppliers from the donor country or from a limited group of other countries. Decades of OECD work have sought to reduce such practices because they tend to increase costs, weaken partner-country ownership and shift aid towards donor priorities. The OECD has constrained these instruments, among others, through tied-aid rules in the Arrangement on Officially Supported Export Credits and DAC untying commitments. Since the Arrangement has been incorporated into EU law, these disciplines are applicable to any export credit agency-linked use of EU external financing.

The Global Europe proposal's possible role for export credit agencies (ECAs) must be assessed against this background. ECAs support national exports through guarantees, lending and other forms of officially supported export credit, but their core function differs from that of Development Finance Institutions (DFIs); they are hard to steer towards development priorities because their portfolios are shaped by exporter, buyer and bank demand. If ECAs are brought into Global Europe, they may remain concentrated in bankable transactions where development additionality is weak, or risk being pushed into more precarious markets without adequate control mechanisms. ECA-linked support could qualify as ODA only in limited cases, notably where tied aid credits are concessional, development-oriented and compliant with the relevant OECD and EU rules.

Beyond possible support to ECAs, the proposal contains several forms of 'European preference'. The term is used here to describe funding modalities that place European undertakings in a more favourable position than non-European actors, whether through eligibility rules, implementation channels, direct support or procurement conditions. This paper focuses primarily on direct support and, in that regard, the most important provision of the proposed Global Europe Regulation is Article 23(4)(e), which would allow direct grants to private-law entities effectively established in a Member State in order to facilitate investments that are in the strategic interest of the Union and support the objectives of the instrument. This marks a change from the current NDICI framework, where direct grants to companies are much more narrowly circumscribed.

In practical terms, Article 23(4)(e) could allow the Commission to support European companies, project developers or consortia in upstream activities such as feasibility studies, project preparation and investment packages in sectors of strategic interest such as critical raw materials, climate-change resilience, digital infrastructure and other infrastructure (cf. recital 70). This kind of support would not necessarily restrict downstream procurement, and thus, in a strict DAC sense, Article 23 does not, by itself, recreate formal tied aid, as it does not make partner-country procurement formally conditional on purchasing from EU suppliers. However, it may allow European entities to shape project initiation and create a practice of *de facto* preferential channelling.

The proposal could help the EU prepare and package strategic projects more quickly, combine grants, guarantees, technical assistance and financial instruments more effectively, and support European firms in sectors where the Union seeks to reduce dependencies or increase its global presence. These possible gains come with trade-offs. Preferential support for European entities may reduce competition, raise costs, weaken partner-country ownership, crowd out local private-sector development and bring reputational costs. It could also feed subsidy competition with other donors and concentrate benefits among firms and Member States already well positioned to use export-finance and investment-support instruments.

There are also governance risks. Key terms in Article 23(4)(e), especially 'strategic interest of the Union', are not clearly defined, while the requirement that direct awards be 'necessary and duly justified' also leaves room for discretion to the Commission. The absence of a financial ceiling and the limited transparency requirements for such direct awards could open a route for politicised, highly discretionary decisions, unless clearer criteria are set. Similar concerns arise in relation to Article 25(3), which would broaden the possibility for private-law entities to manage guarantees and financial instruments, including bodies that may be closely connected to export-credit activity.

The paper's policy conclusions focus on proportionality, legal clarity and development discipline. Parliament could favour softer approaches such as the inclusion of qualitative, environmental and social criteria, security-related requirements, or life-cycle costing in grant calls. If the objective is to address specific third-country distortions, such as subsidised competition, lack of reciprocity or sustainability and security concerns, criteria-based restrictions are more proportionate rather than a broad preference for European entities. Local and regional procurement in partner countries should remain the goal on aid-effectiveness grounds.

If Article 23(4)(e) is retained, it could be tightened. Direct awards to European private-law entities should remain exceptional and should require a demonstrated development rationale, a clear case of financial and developmental additionality, evidence of partner-country demand or alignment with agreed programming documents, and a justification for why the same objective could not be achieved through competitive procedures. Parliament could also introduce a financial cap, a review clause, stronger public reporting and a limitation of ECA-linked windows to defined sectors and cases.

The development-effectiveness risks associated with tied aid are well documented. Moreover, there is also no clear public evidence that Chinese firms are systematically capturing EU ODA grants. Current NDICI rules already allow China to be excluded from many procurement procedures, and the formal tying implications of excluding Chinese suppliers would further change if China were to graduate from the DAC list of ODA recipients. The burden of proof should, therefore, rest with those seeking to expand preferential support to European entities through an instrument meant to foster global development.

1 Introduction

1.1 Context

Over the past decade, European development policy has been increasingly shaped by agendas of economic security, strategic competition, supply-chain resilience and investment mobilisation. These agendas form part of a wider debate on competitiveness. The Draghi report on the future of European competitiveness and the European Commission's (EC) subsequent related work articulate concerns about productivity, energy costs, technological dependence, and Europe's industrial position more generally (Draghi 2024; EC 2025c).

Geopolitical rivalries, policies in the United States and China that are perceived as distorting competition in Europe, and the increasing threat of weaponization of economic dependencies have increased the importance of economic security (cf. von der Leyen 2024). This has turned competitiveness concerns into questions of control over strategic inputs, technologies and production networks. In this context, supply-chain resilience is understood as diversification away from excessive dependencies and as a need to retain European capacities in sectors considered strategic.

EU external-action instruments are also increasingly discussed in these terms, and external spending is now proposed to be framed as serving a 'new economic foreign policy' (EC 2025a). Thus, the language of European preference and 'buy European' approaches have entered the debate. In the Commission's view, existing instruments are only partly suited to the geopolitical task: standard programming, open eligibility rules and competitive calls may be too slow or too neutral where the Union seeks to assemble strategic investment packages around specific European capabilities or supply-chain objectives.

The issues addressed in this paper are thus situated within a broader context of shifts in EU development norms and practices (see Schlögl et al. 2026). They are currently at the centre of the European Parliament Committee on Development's (DEVE) scrutiny of the EC's July 2025 proposal for a new Global Europe Regulation for the 2028–2034 Multiannual Financial Framework (MFF). This proposal, hereafter referred to as the GE proposal, is intended to succeed the NDICI-Global Europe framework (hereafter: NDICI) established by Regulation (EU) 2021/947 (hereafter: NDICI Regulation) after 2027 and to merge several external action instruments, including the Instrument for Pre-Accession Assistance.

NDICI is the Union's main external financing instrument for neighbourhood, development and international cooperation. It already combines development aims with broader external action objectives and Union interests (Art. 3(1) NDICI Regulation; see Schlögl et al. 2026). The GE proposal (EC 2025a) places even greater emphasis on strategic interests and on support for European actors than NDICI does. Among others, Article 23 allows direct grants to private entities established in the Union under certain conditions. The resulting question is whether, and how, a stronger 'European preference' of such kind remains compatible with the Union's development mandate and the established principles of development effectiveness.

1.2 Key concepts

Several concepts need to be defined. First, 'European preference' is used here as an analytical umbrella term for funding modalities that place European actors in a more favourable position than non-European actors, whether through eligibility rules, implementation channels, direct support, or procurement conditions. The main focus of this paper is preference through support modalities rather than procurement restrictions *per se* (for a discussion on the latter, see La Chimia 2026).

Second, ODA refers to public flows to countries and territories on the DAC list of ODA recipients, and to eligible multilateral institutions, where each transaction is administered with the promotion of the economic development and welfare of developing countries as its main objective and is concessional, or 'additional', in character (OECD 2025a). ODA eligibility of spending is built into both the current NDICI, where 93 % of spending must be ODA, and the GE proposal, which contains a 90 % ODA target[1] (Art. 3(4) NDICI Regulation; Art. 6(5) GE proposal).

In connection with this, 'tied aid' means ODA for which procurement is restricted to the donor country or to a group of countries that does not substantially include aid recipient countries. Untied aid, in contrast, is aid that is freely available for procurement from all aid recipient countries and OECD countries (OECD 2025b). Tying may also be partial or indirect, with DAC members having spent decades attempting to reduce tied aid because of its effects of increased procurement costs, weakened partner-country ownership, and the shifting of aid towards donor priorities rather than local needs (OECD 2025b; OECD 2005). EU ODA is currently largely untied. The 2025 DAC peer review notes that the EU provides fully untied ODA to countries covered by the DAC Untying Recommendation. As of 2023, 95 % of overall EU ODA was untied (OECD 2025d). The concern in the present debate is that new preference modalities could functionally reintroduce tying.

The NDICI (and, in the future, the GE instrument) draws from a wide range of possible forms of Union funding, including grants, procurement, budget support, trust funds, financial instruments, budgetary guarantees, blending operations, debt relief and financial assistance (Art. 27 (1) NDICI Regulation; Art. 23(2) GE proposal). Among these, grants and procurement should be kept analytically separate. Procurement is used when the EU purchases works, supplies or services for a price usually determined through a competitive tendering process. A grant is a financial contribution intended to support an action or work programme that serves a policy objective and is not, in legal terms, payment for a service bought by the EU. Grants must generally be awarded through calls for proposals, except where the Financial Regulation (Regulation (EU, Euratom) 2024/2509) and sector-specific basic acts allow direct awards. They may also be implemented indirectly, for example, through partner-country bodies, international organisations, development banks or other entrusted entities.

Development 'additionality' is used in different ways across institutions. DAC work on so-called private sector instruments (PSI), distinguishes between *financial*, *value*, and *development* additionality. Public support should be financially and operationally additional, meaning that it addresses a gap that market finance or ordinary commercial instruments would not fill on comparable terms. It should also be developmentally additional, meaning that it contributes development value that would not arise otherwise, and that this value remains the main rationale for the intervention. Additionality, in these multiple forms, is considered a central safeguard against 'crowding out' of local finance, market distortion and use of scarce

[1] Note in this regard that the currently proposed provision in Article 6 (6) GE proposal allows the EC to derogate the ODA target in delegated acts; critically on this see Schlögl et al. (2026).

development resources for goals that have little development rationale (OECD 2025c). For the purposes of this paper, we draw on this DAC-oriented understanding.

Development effectiveness is used in this paper in the sense established in the Paris, Accra, and Busan processes. It refers above all to 'ownership' of development priorities by developing countries, a focus on results, inclusive development partnerships, transparency and mutual accountability (OECD 2005; OECD 2008; OECD 2011; OECD/UNDP 2019). These principles are part of the international political and normative framework against which development instruments have long been evaluated.

Finally, export credit agencies (ECAs) are public bodies, or private bodies acting on behalf of Member States, that provide officially supported export credits in support of national exporters competing for overseas business. This support may take the form of direct credits to foreign buyers, refinancing, interest-rate support, insurance, or guarantees (OECD 2026a). ECAs are therefore part of the trade and export-finance field, even if in some cases they intersect with development finance or with broader foreign-policy goals. Their core function is not development cooperation as such, and this is why their possible role under a development instrument requires careful legal delineation and raises questions about the proper scope of that instrument.

2 The boundary between aid and trade

2.1 The OECD framework and the historical separation of aid and trade

Under DAC rules, ODA flows must be provided by official agencies. Each transaction must have, as its main objective, the promotion of the economic development and the welfare of developing countries, and it must be concessional in character, i.e. have a minimum grant element (OECD 2025a). Nevertheless, that rule leaves room for some private-sector instruments (PSIs), which are non-concessional but meet 'additionality' criteria, i.e. enable financing or development impacts that would not be achievable without the PSI. Since 2018, the donor effort involved in ODA-eligible PSIs has been included in the grant-equivalent measure of ODA (OECD 2025a). Such PSIs are typically provided by bilateral development banks or so-called development-finance institutions (DFIs). Officially supported export credits extended by official agencies, by contrast, are typically classified by the OECD as 'other official flows' rather than ODA because they do not meet concessionality criteria and/or are primarily export-facilitating in purpose (OECD 2025b). A hybrid between export and development finance is found in tied aid credits or 'soft loans', which are concessional export credits rather than commercially viable ones. Because they are combined with public subsidies, they can provide favourable financing for selected public-sector projects in developing and emerging economies. For a summary of these concepts, see Table 1.

The OECD Arrangement on Officially Supported Export Credits (often simply referred to as 'the Arrangement') is a set of rules among participating countries that disciplines state-backed export finance (OECD 2026a), designed to limit subsidy races in export finance. Within the 'Arrangement', tied aid is treated as a special and more sensitive category. OECD guidance defines it as aid that is tied, in law or in fact, to procurement from the donor country or from a restricted group of other countries. The tied aid disciplines, agreed in 1991 and now set out in Chapter III of the Arrangement, rest on three pillars: country eligibility, minimum concessionality, and project eligibility. Tied aid provided in accordance with the

Arrangement must have a concessionality level[2] of no less than 35 % or, if the beneficiary is a least developed country (LDC), no less than 50 %. Exempt from this rule is technical assistance that amounts to less than 3 % of the total value of the transaction or projects worth less than 1 million SDR[3]. Neither high-income countries nor projects that are commercially viable or financed on market or Arrangement terms are eligible for tied aid.[4] Flanking the Arrangement, the 2004 Agreement on Untied ODA Credits Transparency was intended to prevent circumvention of the tied aid disciplines by using formally untied aid loans that, in practice, serve similar export-support purposes (OECD 2026b).

A complementary pillar in this architecture is the DAC Recommendation on Untying ODA. Adopted in 2001 and amended several times since, this Recommendation aims to untie bilateral ODA to covered countries and sectors in order to foster more efficient partnerships, strengthen partner-country ownership, and improve aid effectiveness. The current Recommendation covers LDCs, non-LDC heavily indebted poor countries (HIPCs), other low-income countries, and International Development Association (IDA)-only countries and territories[5], while excluding humanitarian assistance, food aid, free-standing technical cooperation, core support to development non-governmental organisations (NGOs), and certain management-service arrangements. The 2026 revision gives greater weight to sustainable procurement, seeks a fairer playing field for suppliers, places stronger emphasis on locally led development, clarifies scope, and strengthens transparency and reporting (OECD 2026c). Historically, both within the EU and beyond, the direction of travel has so far been towards broader untying, greater transparency, and more space for local and regional procurement.

The DAC Recommendation is concerned not only with formal tying, but also with *de facto* tying. Untied aid must be freely and fully available for procurement from eligible countries, and DAC members are expected to ensure that aid reported as untied is both *de jure* and *de facto* untied. The Recommendation therefore includes transparency provisions: *ex ante* notification of untied aid offers and *ex post* reporting on contract awards, including the country of incorporation of the contractor. These requirements are intended to detect informal barriers to competition, such as limited publicity, insufficient bidding periods, language barriers, restrictive tender design, or procurement patterns that systematically favour donor-country suppliers (OECD 2026c).

The historical rationale for the separation between development finance and export promotion is that the two fields pursue different primary purposes. ODA is meant to support economic development and welfare in developing countries, whereas export credit support is meant to assist national exporters abroad. Tied aid sits between the two and can therefore serve both purposes. As Fritz and Raza (2017) argue, tied aid credits have long been used by donors to support domestic firms while retaining a development label. The OECD response was to constrain such instruments: first through the 1991 tied-aid rules, subsequently through DAC untying commitments, transparency provisions, and related monitoring. These reforms responded to two main concerns. First, concessional public finance can fuel subsidy competition between donor countries. Second, the same finance can subsidise commercially viable projects, distort partner-

[2] Concessionality is calculated according to Article 36 of the Export Credit Arrangement, which uses the same method as for the grant element used by the DAC with the exception that the discount rate used to calculate the concessionality level of a loan in a given currency, i.e. the differentiated discount rate (DDR), is calculated using the average of the commercial interest reference rate using seven-year government bond yields plus a margin that is higher the longer the repayment term is.
[3] Special drawing rights (SDR) are an international reserve asset created by the IMF, whose value is based on a basket of major currencies. As of 24 June 2026, the IMF exchange rate was SDR 1 = EUR 1.193.
[4] Cf. exceptions in Article 35 of the Arrangement.
[5] The International Development Association (IDA) is a World Bank instrument which provides highly concessional finance.

country procurement, and weaken additionality where the development case is secondary or poorly demonstrated (Fritz and Raza 2017; OECD 2026b; OECD 2026c).

That said, the boundary between export credit support and development finance has become somewhat less clear-cut in recent times. Sustainability and anti-bribery requirements and broader assessments of country-level impacts have become more prominent in the ECA field. As one interlocutor from a Member State's Ministry of Finance put it, ECAs increasingly operate with a mindset closer to that of a DFI than to a purely trade-promotional institution. Conversely, development finance practices have arguably also moved into terrain that is more similar to commercial instruments through a greater role for DFIs, emphasis on private sector mobilisation and general trend to 'leverage' investment through guarantees. In practice, thus, the types of projects ECAs and DFIs support, especially in infrastructure, energy and other capital-intensive sectors, can sometimes be difficult to distinguish and, in some cases, ECAs and DFIs may 'compete' for similar projects. This gradual convergence helps explain why closer coordination between the two sets of institutions has become a policy issue.

Table 1: Key distinctions at the boundary between aid and trade

Concept	Definition	Purpose	Provider	ODA eligibility
Official development assistance (ODA)	Public flows to countries and territories on the DAC list of ODA recipients, or to eligible multilateral institutions.	The main objective must be the economic development and welfare of developing countries. The flow must also meet the relevant concessionality or additionality requirements.	EU institutions, Member State agencies, development banks, DFIs and other official bodies.	ODA by definition, if DAC criteria are met.
Private Sector Instruments (PSI)	Public financial support to private-sector operations, for example loans, equity, guarantees or other risk-sharing instruments.	Must demonstrate financial, value and development additionality. Public support should address a gap that market finance would not fill on comparable terms and should create development value that would not otherwise arise.	Usually development banks or DFIs, sometimes through blended-finance structures.	Can be counted as ODA under DAC rules where the relevant criteria are met.
Officially supported export credits / ECA support	Public guarantees, insurance, direct lending, refinancing or interest-rate support for export transactions.	The purpose is to support national exporters or cross-border business, usually by covering credit, political or commercial risk.	Export credit agencies or private bodies acting on behalf of Member States.	Usually not ODA. Ordinary export credits are generally classified as other official flows because their primary purpose is export promotion and/or because they do not meet concessionality requirements.
Tied aid credits / soft loans	Concessional export credits that are tied, in law or in fact, to procurement from the donor country or a restricted group of suppliers.	Combine a development label with export-support effects. They are subject to OECD Arrangement disciplines on country eligibility, project eligibility and minimum concessionality.	Often ECAs or other official export-finance bodies, sometimes in cooperation with development institutions.	May count as ODA if they are concessional, development-oriented and meet DAC and OECD Arrangement requirements.

A related development is a purported debate on the 'modernisation' of tied-aid disciplines under the OECD Arrangement, pursued by the EU (see Council 2026). Recent EU and OECD-level discussions suggest that this framework is now being reassessed in light of the competitive challenge posed by official financing practices outside of the Arrangement, including from non-OECD providers. The 2023 amendment mainly relaxed financial terms for export credits, especially for climate-friendly transactions. The same interlocutor mentioned above indicated that a further phase is now being discussed, including possible revisions of the tied-aid framework and additional flexibilities for non-concessional finance.

2.2 The current legal and policy framework in Europe

While the Export Credit Arrangement is a 'Gentlemen's Agreement', and therefore non-binding, it has nevertheless had far-reaching effects. On the one hand, this is because the WTO Subsidies and Countervailing Measures Agreement (ASCM) exempts the granting of export credits at rates compatible with the Arrangement from classification as prohibited export subsidies (Annex I (k) ASCM; Müller 2017). This has prompted even non-participants in the Arrangement to comply with its terms in order to ensure that their export credits comply with the ASCM (Levit 2004). On the other hand, participants have at least partially transposed the Arrangement's terms into their national laws (ibid.). The EU's transposition of the Arrangement through Regulation (EU) 1233/2011 makes application of the Arrangement as a whole binding within the EU[6].

Its rules apply to all government support for exported goods or services in the form of export credit guarantees or insurance, official financing support, direct credit, financing and refinancing, or interest-rate support with a repayment term of more than two years (Art. 5). The Arrangement also explicitly applies to tied aid, while applying only notification and information-exchange requirements[7] to trade-related untied aid. It prohibits support for certain types of endeavours and sets out detailed conditions for support in areas covered by one of the four sector understandings annexed to the Arrangement (Nuclear, Aviation, Shipping and Climate-Change-related activities). It also requires beneficiaries to finance a minimum share of the export contract value themselves, caps the maximum level of support relative to the export contract value, establishes maximum repayment terms, and lays out rules for the repayment of principal and the payment of interest. In addition to interest charges, participants must charge premiums for credit risk. The Arrangement further includes rules for calculating minimum premium rates (MPRs), requiring premia to reflect, among other factors, country risk and buyer risk. This risk-based pricing can make officially supported export finance costlier and, in practice, less accessible in high-risk contexts, including many low-income and fragile countries.

Similar to the relationship between the OECD Export Credit Arrangement and EU law, there is also an important link between international agreements and the EU legal framework for development cooperation. While the primary-law framework stipulates that EU development cooperation must focus on poverty reduction (Art. 208 TFEU), the regulatory framework for development cooperation is operationalised through the NDICI Regulation. By stipulating in Article 3(4) NDICI Regulation that at least 93 % of expenditure under the instrument must fulfil OECD DAC criteria for ODA, the NDICI Regulation creates a legal reference to the OECD DAC criteria, which is maintained in the GE proposal despite changes to the ODA thresholds. The present framework also prevents tying, among other means, by not allowing

[6] Later changes to the Export Credit Arrangement have also been transposed through delegated acts of the EC.
[7] These are the rules set out in Chapter IV of the Arrangement.

direct grants to companies except in extraordinary circumstances (cf. Art. 27(3) NDICI Regulation in connection with Art. 195 Regulation (EU, Euratom) 2018/1046).

2.3 The empirical record on the (un-)tying of aid

The legal disciplines discussed above are underpinned by a broader empirical and policy record on the effects of tied aid. The strongest finding in that regard concerns cost and allocative efficiency. OECD analyses continue to state that tied aid raises the cost of procured goods, services, and works by 15–30 % on average, and by 40 % or more in the case of food aid (OECD 2026c; OECD 2006). Those figures derive from a long line of empirical work and remain the standard reference point in the policy debate. A detailed OECD study on food aid reached a similar conclusion, estimating substantial efficiency losses for in-kind tied food aid and finding that cash grants or less-restricted sourcing often perform better (OECD 2006). It should, however, be noted that recent OECD data also show that, in 2022–2023, 47 % of the value of contracts under untied aid still went to suppliers from the donor country. The OECD further notes that roughly half of untied contract awards financed by EU institutions still went to European entities. Untying de jure, in other words, does not always produce openness (OECD 2026c; OECD 2026d).

A second recurring finding concerns ownership and the quality of partnerships. The updated DAC Untying Recommendation links untying to partner-country responsibility for procurement and to greater use of local and regional procurement. Beyond cost, there is therefore a broader development argument: the use of partner-country systems, local procurement channels, and local firms can help build administrative capacity, market knowledge, and productive capabilities. For public authorities, this includes experience in planning, tender design, contract management, audit and accountability. For local firms, participation in aid-funded contracts can provide references, technical learning, familiarity with public procurement rules and opportunities to meet quality, environmental and social standards. Such effects are difficult to capture through price comparison alone, but they are central to the principles of ownership and inclusive partnership that the EU has endorsed and that also form an integral part of the Paris–Accra–Busan aid-effectiveness agenda (OECD 2005; OECD 2008; OECD 2011; OECD/UNDP 2019; OECD 2026c; Fritz and Raza 2017).

A third theme is additionality. The tied-aid project-eligibility rule exists because aid is not supposed to subsidise commercially viable projects that private finance would support anyway. The same concern reappears in current work on blended finance and PSIs. The OECD DAC Blended Finance Guidance 2025 treats additionality as central to development finance and distinguishes between development, financial and value additionality (see Chapter 1.2). Without additionality, scarce development resources risk crowding out private finance, distorting markets and weakening accountability. The guidance also notes that establishing financial additionality is especially difficult in contexts with more developed markets, where the risk of crowding out is higher. Any move towards ECA-linked or firm-linked support under a development instrument would thus have to demonstrate added development value (OECD 2025c; OECD 2026b; Fritz and Raza 2017).

A qualification concerns implementation quality. Untying aid reduces one important source of inefficiency, but it does not by itself guarantee coherent, country-owned implementation. Empirical work on aid fragmentation shows that a proliferation of donors, projects and channels can increase transaction costs for partner administrations and thus weaken development outcomes (Acharya et al. 2006; Knack and Rahman 2007). The Paris Declaration monitoring process similarly found that donors had not met the target of reducing parallel project implementation units, which can undermine accountability and limit the use of partner-country systems (OECD 2011). EU experience with technical cooperation points in a similar direction. The implication is that untying should be treated as a necessary but insufficient condition for development effectiveness.

2.4 China, tying and competitiveness

It is worth adding a brief note, in this context, on tying and the role of China as it occupies a specific place in the current debate on tying, untying and European preference. China is not a participant to the OECD Export Credit Arrangement. So far, attempts to negotiate a broader framework covering major non-Arrangement providers through the International Working Group on Export Credits have not produced a comparable set of global rules. The Arrangement and DAC untying rules were designed for a context in which donor countries sought to limit subsidy competition among themselves. They do not fully address competition from providers whose export finance, industrial policy and overseas investment practices sit outside these disciplines. This creates a tension in the existing aid-trade architecture.

The concern has become salient in the EU's broader competitiveness and economic-security agenda. China is now discussed in European policy debates as a strategic competitor in sectors such as infrastructure, clean technologies, digital systems and critical raw materials (EC/HRVP 2019; EC 2022; EC/HRVP 2023; von der Leyen 2024). EU policy documents and recent analyses point to concentrated dependencies, Chinese industrial overcapacity, large-scale state support and pressure on European manufacturers (EC 2022; Draghi 2024; EC 2025c; EC 2025g). In that context, some policymakers ask whether strict adherence to traditional untying principles may disadvantage European firms when competitors benefit from state-backed finance or industrial policies not subject to equivalent disciplines.

Against this background, the question of formal tying calls for particular care. As mentioned earlier, under the DAC definition, untied ODA is aid that is available for procurement from all aid recipient countries and OECD countries. The DAC list of aid recipients consists of low- and middle-income countries, with countries graduating after being classified as high-income for three consecutive years. China is currently still classified by the World Bank as an upper-middle-income economy and thus remains on the DAC list of ODA recipients, though it is close to graduation. Once it graduates from that list, spending in China will no longer be reportable as ODA. Further, after graduation, excluding Chinese firms from grants or procurement would not, by itself, constitute tied ODA, provided that procurement remained open both to all other aid recipient countries and to OECD countries. In other words, EU development policy could then exclude China while still remaining formally untied (OECD 2025e; World Bank 2025a).

Further, under current NDICI eligibility rules, China can already be excluded from many EU-funded procurement procedures because participation under geographic programmes and several other windows is open only to those developing countries and territories included in the DAC list of ODA recipients that are not members of the G20 group. The 2025 OECD EU peer review similarly notes that NDICI procurement rules can exclude certain G20 members, including China (Art. 28 NDICI Regulation; OECD 2025d).

The frequently raised concern that EU grant money is being captured by Chinese firms should also be framed carefully. Though systematic accounts are unavailable, there is currently no evidence indicating large-scale Chinese capture across EU ODA as a whole. Individual procurement cases involving Chinese contractors, such as European Investment Bank (EIB) financing for the Bus Rapid Transit project in Dakar, have attracted political attention, but these examples concern project-specific procurement under open rules rather than the capture of EU ODA grants (European Parliament 2023). The more relevant issue is instead sector-specific: in infrastructure, digital, and green-technology markets, subsidised or low-cost suppliers from third countries may affect competition and the perceived strategic value of EU financing. It is in such sectors that projects shape technology standards, supply relationships and long-term maintenance dependencies beyond the individual contract.

3 Article 23 of the Global Europe proposal: Opportunities, risks and likely effects

3.1 What Article 23 changes compared with the current NDICI framework

The GE proposal states that the new instrument should promote ‘mutually beneficial partnerships’ that contribute simultaneously to the sustainable development of partner countries and to the Union’s strategic interests. It also links the instrument more explicitly to the Union’s trade, economic-security, and industrial policies and allows it to contribute to actions established under the future European Competitiveness Fund, Horizon Europe, and the Connecting Europe Facility, where those actions are in line with the instrument’s objectives (Art. 4(2), recitals 15, 32 GE proposal). Article 23 of the GE proposal regulates the implementation of GE and the use of Union funding for this purpose.

Against this background, the clearest legal novelty in Article 23 is the new derogation in Article 23(4)(e). Under the current NDICI, grants without a call for proposals are primarily reserved for urgent protection and civil society action in very difficult contexts. Article 23 of the GE proposal introduces a provision in Article 23(4)(e) allowing direct grants to legal entities governed by private law and effectively established in a Member State in order to facilitate investments that are in the strategic interest of the Union and support the objectives of the instrument. It must also be noted that the objectives of the GE proposal, as stated in Article 4 and Annex II, depart from those of the NDICI Regulation by omitting poverty reduction as the ‘primary objective’ of European development policy under Article 208 TFEU. Recital 70 provides an indication of the intended use of this derogation. It refers to investments or feasibility studies in areas such as critical raw materials, climate-change resilience, and digital and other infrastructure, especially as part of integrated packages intended to enhance the Union’s strategic autonomy.

To highlight the implications, consider the following illustrative example. Assume that the EU and a partner country identify a lithium-processing facility as a Global Gateway priority because it would support local value addition while also diversifying battery-material supply chains. Before the project is tendered or financed, the EC could award a direct grant to an EU-established battery-materials consortium to prepare the project. The grant could finance geological and technical studies, environmental and social assessments, plant-design options, grid-connection planning, offtake analysis and a financing package combining EU grant support, DFI lending and possible export-credit cover. The award would have to be justified as necessary to facilitate an investment in the Union’s strategic interest and to support the objectives of the instrument. Such an operation would not necessarily constitute tied aid in the strict DAC sense if later procurement remained formally open. Its significance would lie earlier in the project cycle.

Beyond Article 23(4)(e), Article 23 show greater continuity to the NDICI regulation, both in the range of Union funding forms and in their implementation. Both NDICI and the GE proposal provide that implementation under indirect management shall, whenever possible, be entrusted to the EIB, the European Bank for Reconstruction and Development (EBRD), or to a Member State organisation. Notably, Article 23(1) departs from the previous list of entities through which indirect implementation can take place (cf. Article 26(1) NDICI Regulation) by referring to Article 62(1)(c)(ix) Financial Regulation, which lists private-law bodies that are eligible to be entrusted with the implementation of EU funds or budgetary guarantees to the extent that they are controlled by public bodies of Member States (or the EU itself). This can include private-law, state-backed export credit agencies, or special vehicles organised as private-law subsidiaries of state agencies.

3.2 Channels of preferential support to European actors

Several channels of preferential support to European actors are introduced by the GE proposal (see Table 2 for a summary). The first is direct support to private entities established in the Union. Article 23(4)(e) allows the Commission to choose a beneficiary in advance and to finance that beneficiary without a competitive call. In practical terms, this could support European companies, project developers, and consortia in upstream activities such as feasibility studies, project preparation, or investment packages in the sectors named in Recital 70. This is a support-side preference that operates earlier in the project cycle and can therefore shape who initiates and structures projects before procurement begins. The same logic is also visible in the Global Gateway Investment Hub, launched in 2025, which is intended to serve as a single entry point for EU private-sector investment proposals and to connect such proposals with financial and non-financial support from the EC, the EIB, DFIs, ECAs, and national governments (EC 2025e). It illustrates a broader shift away from downstream participation in open tenders towards a more structured role for European actors in the initiation, preparation, and financing of Global Gateway projects.

Table 2: Channels of preferential support to European actors under the Global Europe proposal

Channel	Main provision	Nature of preference	Stage of the project cycle
Direct grants to EU-established private entities	Article 23(4)(e)	The EC may award a grant without a call for proposals to a private-law entity effectively established in a Member State, where this is necessary and duly justified to facilitate investments in the Union's strategic interest.	Project origination and preparation
Guarantees and financial instruments managed by private-law bodies	Article 25(3)	Private-law bodies of Member States may become eligible to implement financial instruments or manage budgetary guarantees, subject to financial-capacity requirements.	Financing and risk-sharing
Preferential implementation architecture	Articles 23(1), 23(7), 25(3) and 27	Implementation under indirect management continues to favour the EIB, EBRD and Member State organisations, while the proposal broadens the possible role of private-law entities and European development-finance actors.	Implementation and intermediation
Eligibility and procurement-related restrictions	Article 20 and related exceptions	Participation may remain broadly open, but the proposal allows restrictions in specific cases, including on strategic, security or policy grounds.	Calls, tenders and awards

The second channel runs through guarantees and financial instruments. Article 25(3) opens the possibility for private-law entities of a Member State to implement financial instruments or manage budgetary guarantees if they provide adequate assurance of financial capacity. That is relevant for ECAs because several of them are bodies governed by private law or operate through affiliated private-law structures.

The likely effect of the inclusion of ECAs through Articles 23(1) and 25(3) is a stronger role for institutions whose mandate, expertise, and project pipeline are closely linked to European export and investment interests. At the same time, the proposal does not confine eligibility exclusively to Union actors. Article 25(3) also covers certain partner-country private-law bodies, and Article 25(4) requires the Commission to ensure the effective, efficient, and fair use of available resources among eligible implementing entities and counterparts, taking account of capacities, added value, and experience.

The third channel concerns the position of European DFIs and the broader architecture of implementation. The current NDICI presents the European Fund for Sustainable Development Plus (EFSD+) as an 'open and collaborative investment architecture'. Article 20 of the GE proposal keeps procurement, grants, and prize awards open to a wide range of countries and organisations, and Article 27 allows capital contributions to European and other DFIs. Even so, the combination of Article 23(7), Article 25(3), and the strategic-investment logic in Article 23(4)(e) would likely shift the balance further towards privileging European institutions.

3.3 Could this amount to re-tying?

Whether Article 23 can be understood as a form of re-tying depends on the analytical perspective adopted. In the strict formal sense, tied aid refers to aid whose procurement is restricted to the donor country or to a limited group of other countries. Article 23 does not itself rewrite the proposal's general eligibility rules, and the proposal still provides broad eligibility for procurement, grants, and prize awards, including open participation without limitations for some categories and unrestricted origin of financed products, subject to the Regulation's own exceptions (Article 20 GE proposal). Taken on its own, Article 23 therefore does not constitute tied aid in the strict sense. The legal route to formal procurement tying lies more directly in the proposal's procurement provisions, which are analysed in La Chimia (2026).

That said, the proposal clearly widens the scope for *de facto* re-tying, which is also meant to be curtailed by the DAC Untying Recommendation. While Article 25(3) can place project initiation, structuring, and financial intermediation in the hands of institutions whose normal business model is closely linked to European firms and European capital, the direct-award mechanism in Article 23(4)(e) allows the EC to pre-select a Union-based beneficiary. Support can thus become more closely tied to European undertakings and institutions, even where downstream procurement formally remains open. The result could be a shift towards preferential channelling on the financing and implementation side.

The likely significance of this shift is uneven across sectors. It is probably most consequential in large, capital-intensive areas where project preparation is key and where European ECAs, DFIs, and firms have strong market positions (cf. recital 70 mentioning 'critical raw materials, climate change resilience or digital and other infrastructure'). The shift is likely to matter less in social sectors, governance programmes, human-rights support, or civil-society funding, where project structures differ and where direct awards to private-sector entities are less likely to be the preferred modality.

3.4 Quantitative implications in terms of budget allocation

Article 23(4)(e) is an enabling clause. A precise estimate of how much EU aid would become preferential under the proposed provision cannot be derived, as its effect depends on future implementing decisions by the EC. Public reporting also does not provide a single breakdown between grants, procurement, indirect management, and financial instruments that maps directly onto the proposed direct-award and

ECA-related provisions. Nevertheless, it is useful to recall some basic figures concerning the EC's ODA budget.

In 2024, EC-managed ODA amounted to EUR 23.3 billion in commitments. Social infrastructure and services accounted for EUR 7.6 billion, budget support, food aid, and food security for EUR 4.4 billion, and humanitarian aid for EUR 2.9 billion. These categories are not likely to constitute the main field for direct awards to Union-based private-law entities or ECA-linked investment packages. By contrast, economic infrastructure and services (EUR 2.6 billion), production sectors (EUR 2.3 billion), and multisector or cross-cutting operations (EUR 2.4 billion) are more plausible candidates for those parts of the portfolio where strategic investment packages may be relevant. Together, they amount to approximately EUR 7.3 billion, or roughly 31 % of 2024 ODA commitments. This figure should be understood only as a rough upper bound for potentially relevant sectors where direct awards or ECA-linked guarantees could play a role (EC 2025f).

3.5 Implications for EU strategic interests and competitiveness

The GE proposal gives the Commission more room to support projects in sectors that are important for the Union's economic security and industrial position. As laid out in Chapter 1, this reflects a broader policy debate on strategic autonomy, economic security, green industrial policy and geoeconomic connectivity (Steinbach 2023; EC/HRVP 2023; Draghi 2024; EC 2025c). In this view, external financing can serve development objectives while also helping the EU diversify supply chains, support European participation in strategic infrastructure and clean-technology projects, and reduce vulnerabilities in areas such as critical raw materials, digital connectivity and energy systems. The language frequently used in this context is that of 'mutual benefit' (for a discussion, see Schlögl et al. 2026). The Global Gateway also builds on this logic: it is presented as a strategy for sustainable and trusted connectivity, while also addressing competitiveness and security of supply chains and creating investment opportunities for EU businesses. Similarly, the Critical Raw Materials Act links partnerships with third countries, Global Gateway projects and possible export-credit support to the diversification of raw-material value chains (EC 2023; Regulation (EU) 2024/1252).

Article 23 could therefore have practical advantages and also promises certain 'mutual benefits'. It could allow faster project preparation, more coherent packaging of grants, guarantees, technical assistance and DFI or ECA finance, and more active support for European consortia in sectors where early project design is commercially and strategically important. Such support may also help overcome coordination failures: individual firms may be reluctant to bear the cost of feasibility studies, regulatory engagement or consortium-building in high-risk markets, even where the wider project could support both partner-country development and EU supply-chain resilience. In blended-finance terms, the potential case for Article 23 is most compelling where public support is additional, helps mobilise private finance, and contributes to wider market-building rather than merely subsidising firms that would have invested anyway (OECD 2025c). Arguably, it could also make the instrument more politically defensible within the EU at a time when public budgets are under pressure and external financing is increasingly expected to visibly serve strategic purposes.

These gains, however, come with trade-offs. A system that channels more support through European entities may reduce competition, raise the risk of higher costs, and weaken the development impact of some operations if local private-sector development becomes secondary. It may also create external credibility costs. The EU has positioned itself as a standard setter on development effectiveness, untying, and rules-based partnership. A move towards preferential support for European companies may therefore be interpreted by partner countries and other donors as a partial return to donor-driven practice, even if the GE proposal stops short of formal procurement tying.

It should also be noted that the evidence on donor-side economic effects of a European preference remains fairly limited and indirect (for a recent study on linkages between strategic imports and tied aid, see Hayward et al. 2026; for the export side, see Martínez-Zarzoso et al. 2014). It is, generally, plausible that tied or preferential aid could create opportunities for donor-country firms by reserving contracts and reducing financing costs and risks. Such gains are most likely in sectors characterised by large projects, long tenors, and high entry costs, such as transport, energy, telecommunications, and industrial plants. This does not, however, amount to general proof that donor economies benefit in aggregate. Any benefits would likely be concentrated among firms and sectors able to make use of official support, while the fiscal cost, contingent liabilities, and possible reputational risks would be borne more widely.

Several risks should also be considered in this regard. First, a preference system could reward firms that are already well placed to use public schemes, thereby encouraging rent-seeking and dependence on public backing. Second, official guarantees and direct awards could draw firms into commercially or politically risky projects. While the public instrument may transfer some risk, it does not remove operational, environmental, social, or reputational exposure. Third, any donor-side benefits within the EU would probably be uneven across Member States, since ECA capacity and internationally competitive suppliers are concentrated in a relatively small number of countries and sectors. Fourth, if other donors respond with their own preference measures, the result may be a subsidy race rather than increased competitiveness (Fritz and Raza 2017; OECD 2025d; OECD 2026b).

3.6 Governance and implementation risks

The EC's Impact Assessment did not address concerns about how the GE proposal's direct-grant provisions could negatively affect competition, transparency, or equal treatment (cf. EC 2025a). In this respect, the concerns raised by the European Court of Auditors (2026) appear warranted. The Court warns in particular that direct awards for investments in the Union's strategic interest could undermine competition, transparency and equal treatment if not carefully delineated, and calls for safeguards including a cap on amounts to be directly awarded.

Article 192 of the Financial Regulation contains provisions intended to guarantee transparency regarding grants. It requires the publication of calls for proposals (although this requirement does not apply in cases of direct awards) as well as reporting by the EC to the European Parliament and the Council on various aspects of grants awarded. Article 192(3)(e) explicitly lists grants awarded to financial institutions, including the European Investment Fund or the EIB, in accordance with Article 198(1)(g). Under the GE proposal, however, no obligation has been proposed that would require the EC to publish lists of grants awarded under Article 23(4)(e).

Key terms in the new provision allowing direct grants to EU companies, such as 'strategic interest of the Union', also lack a legal definition. Recital 70 provides examples, not an exhaustive list or criteria to establish whether a project is in the EU's 'strategic interest'. The same is true of the requirement that direct awards be 'necessary and duly justified in the action plans and measures' undertaken by the EC under Article 18, GE proposal. The adoption of these acts takes the form of implementing acts (Article 19, GE proposal), meaning that neither the European Parliament nor the Council possesses veto powers. The imprecision of such key terms increases discretion and, consequently, the risk of ambiguity, politicisation, inconsistent treatment, and pressure to use development finance for industrial or geo-economic purposes that would be difficult to justify under a stricter development rationale.

A similar issue arises under Article 25(3) of the GE proposal, which concerns the implementation of budgetary guarantees or financial instruments through indirect management. The provision is broad enough to make virtually any adequately capitalised body governed by private law eligible, provided that the other conditions are met. The European Court of Auditors (2026) warns that this could expand the exposure of the EU budget to contingent liabilities and recommends limiting the use of such entities to cases where it is necessary and duly justified, for example where European DFIs or Member State development banks cannot operate on the ground.

4 The potential role of ECAs in aid delivery

4.1 European ECA landscape

The EC's review of Member States' annual activity reports on export credits shows that 21 Member States were able to provide officially supported export credits in 2024 and that these activities were managed through 27 bodies across the Union. All Member States with at least one active ECA, except Greece, provided 'pure cover', meaning guarantees and insurance within the meaning of Article 5.1 of the OECD Export Credit Arrangement. Twelve Member States also provided 'official financing support', such as direct credits, refinancing, or interest-rate support. A smaller number additionally reported tied-aid activity (EC 2025d).

In aggregate terms, the EU ECA landscape is both large and relatively concentrated. The EC's annual reviews show that total pure-cover exposure stood at EUR 340 billion in 2021 and rose to EUR 370.1 billion in 2024. Official-financing portfolios were smaller but still sizeable: EUR 92 billion in 2021, they rose to EUR 103.6 billion in 2024. Concerning sectoral structure, there is currently no single fully comparable EU-wide distribution across all ECA products. National annual reports nevertheless suggest that European ECA activity remains concentrated in large, capital-intensive sectors in which European firms hold strong market positions and where long maturities are common, such as shipping, civil aircraft, telecommunications, power and energy infrastructure, industrial plants, and related equipment (EC 2025d; Schlögl et al. 2023).

Export credits are not organised according to a single EU model. Some national systems are centred on insurance and guarantees, while others combine those functions with direct lending or refinancing. Several Member States also divide banking and insurance functions across separate institutions. Product ranges likewise differ. ECAs are therefore best understood as a family of related public export-finance instruments rather than as a uniform policy tool. They also differ from DFIs, which are expected to pursue development impact and additionality.

Because ECAs respond primarily to exporter or buyer demand and price risk, their portfolios are shaped by the projects brought to them by firms, banks and foreign buyers rather than by a development strategy for a partner country. They can be steered through eligibility rules, sectoral priorities, risk-sharing arrangements or dedicated facilities, but this steering operates within a mandate that remains centred on export and investment support. This makes ECAs harder to align with development, climate or broader external-policy priorities than institutions operating under an explicit development mandate and subject to additionality and impact requirements (Schlögl et al. 2023; Gerasimcikova 2024).

4.2 Implications for the Global Europe debate

The Commission's impact assessment accompanying the GE proposal stresses the need to involve ECAs in order to encourage private-sector participation and to include public-sector guarantees to ECAs in the financial toolbox as a means of incentivising investments by EU companies (EC 2025b). These changes are presented as relevant to European competitiveness. The EC impact assessment analysed different levels of flexibility for the new GE instrument and ultimately identified Option 2, which allows some flexibility within regional and global envelopes through indicative financial allocations, as most favourable. One argument against a lower-flexibility option was that it 'would not create an enabling condition for new tools such as guarantees for export credit agencies or direct support to the EU companies', which require a medium- to long-term horizon (EC 2025b). Option 2 was therefore assessed as enabling the provision of guarantees through ECAs (ibid.). One expected outcome is a reduction in the cost of capital, as the inclusion of ECAs as implementing partners for EU guarantees is expected to make funding available in contexts where it would otherwise remain inaccessible because of difficult market conditions (ibid.).

The EC therefore clearly anticipates greater involvement of ECAs as a means of strengthening European competitiveness and has taken serious steps to enable increased ECA involvement in the design of the GE instrument. However, doubts concerning both the feasibility of this objective and its implications for aid effectiveness remain insufficiently addressed (Fritz et al. 2014). Long-standing concerns about the tension between the nature of ECAs, which are oriented towards commercially and financially viable projects, and the objectives of development policy also remain unresolved, as do questions concerning how the additionality of ECA financing would be established and monitored (Gerasimcikova 2024).

The ECA route, however, depends less on Article 23(7) alone than on Article 25(3), which would allow, by derogation from the Financial Regulation, bodies governed by private law of a Member State, or of certain partner countries, that provide adequate assurance of their financial capacity, to become eligible where financial instruments or budgetary guarantees are implemented through indirect management. According to the European Court of Auditors, the impact assessment highlights that the management of guarantees could be entrusted to Member States' export credit agencies, while the EC also confirmed that commercial banks could be considered eligible. The Court further notes that a derogation of this kind already exists under the current MFF. What changes under the new proposal is therefore not the existence of this flexibility itself, but rather the policy setting within which it would operate: a more explicit competitiveness agenda, a new direct-award route for strategic investments, and a somewhat lower ODA floor (European Court of Auditors 2026).

Recalling the earlier discussion concerning the aid–trade boundary, there is currently an established division of labour between ECAs and development actors. DFIs and development banks are designed to pursue development impact, crowd in finance, and apply additionality tests. ECAs, by contrast, are designed to support exports and cross-border business through the coverage of credit and political risk. ECA project pipelines are shaped by the structure of national export sectors and by demand from exporters, buyers, and banks. If ECAs are expected to support Global Gateway or GE operations in riskier markets, they will require incentives, risk-sharing arrangements, and clear development screens. The EIB's Global Gateway ECA Financing Booster illustrates this policy direction: it is intended to free up capacity for new ECA-backed Global Gateway financing in energy, water, and transport projects while explicitly linking the operation to EU export competitiveness (EIB 2025). Without such safeguards, two risks arise: either ECAs remain concentrated in bankable transactions where the development additionality of public support is weak, or they are pushed into riskier operations without sufficient safeguards.

A second difference between ECAs and DFIs concerns the regulatory framework. ECAs operate under relatively strict rules, including limits on the financing terms they can offer (see Chapter 2) and, in many cases, requirements linking support to domestic content or national economic interest. DFIs usually have greater flexibility in structuring their support, at least where procurement and sourcing are concerned. In practice, the same type of project, such as a solar park, could potentially be supported through development finance or through ECA-backed commercial finance. The key difference would often lie in the financing and procurement conditions attached to it. At the same time, ECAs are generally subject to fewer explicit development-impact requirements than DFIs, even though environmental, social and governance standards have become more important in export finance. This helps explain both the growing overlap between ECAs and DFIs and the continuing importance of their distinct mandates.

The answer to whether ECAs can be supported through ODA is therefore necessarily qualified. Ordinary export credits are not ODA. Tied aid credits, by contrast, may count as ODA where they are concessional and development-oriented, but they are tightly disciplined for precisely that reason. Under current EU law, any attempt to finance ECA-related activity through a development instrument would therefore still have to satisfy the Treaty-based development mandate (Art. 208(1) TFEU), the ODA threshold (Art. 3(4) NDICI Regulation and Art. 6(5) GE proposal), and the OECD tests concerning concessionality, purpose, and project eligibility (transposed through Regulation (EU) 1233/2011).

To boost European competitiveness, two practical avenues were highlighted in interviews conducted for this study. The first concerns the allocation of project risk. National ECAs are often constrained in their ability to absorb the risks associated with very large infrastructure projects, not least because potential liabilities can exceed the capacity or risk tolerance of individual national schemes. From this perspective, a European-level risk-sharing or reinsurance mechanism could help support larger strategic projects that are difficult to finance through national export-credit systems alone. Existing European institutions do not currently perform this role in a straightforward way: the EIB, for example, operates primarily as a bank rather than as an export-credit reinsurer. This points to a possible gap in the European financing architecture, particularly for large-scale infrastructure projects.

The second issue concerns the role of general contractors. Large infrastructure projects often require a lead contractor willing and able to assume responsibility and liability for delivery across the full project cycle. In many cases, European firms may possess the relevant technical expertise but lack the scale, risk appetite or institutional support to act as general contractors in complex projects abroad. Some countries have therefore explored ways of strengthening general contracting capacity as part of their export-promotion strategy (e.g., SERV 2025). At European level, this could be addressed by supporting consortium-building, project-development platforms or dedicated facilities that help firms combine technical and financial capacities for large-scale projects.

Both approaches would strengthen European competitiveness by addressing concrete market and coordination failures, without relying on the preferential use of development funds for European firms.

5 Conclusions and policy options for the European Parliament

5.1 Overall conclusion

The analysis in the preceding chapters suggests that the GE proposal would move the instrument further towards a strategic and competitiveness-oriented model of external financing. The most relevant shift for consideration by the European Parliament, and particularly the DEVE committee, lies in the combination of a new direct-award route for EU-based private-law entities under Article 23(4)(e), a broader scope for private-law entities to manage guarantees and financial instruments under Article 25(3), and a stronger European lead in implementation.

In a formal legal sense, this does not amount to a full return to classical tied aid across the instrument, because the proposal's general eligibility rules remain broader than an EU-only regime and the standard route to procurement tying lies elsewhere, particularly in Article 20. Nor does it necessarily conflict with the OECD Export Credit Arrangement, provided that any ECA-linked support complies with the Arrangement's terms, tied-aid disciplines, and project-eligibility rules. The development-effectiveness issue is, however, distinct. The proposal widens the scope for *de facto* partial re-tying by giving European actors a stronger position in project preparation, financing, and implementation, especially in large strategic sectors where control over project pipelines can be decisive (EC 2025a; European Court of Auditors 2026).

The relative softness of some international disciplines may therefore leave legal room for more donor-linked support, but that room does not in itself resolve whether such support is necessary, proportionate, or advisable in policy terms. The historical record gives DEVE strong reason to remain cautious about any drift back towards a more supply-driven aid model, the costs of which were among the reasons DAC members progressively untied aid. The burden of proof should therefore remain with those seeking to move the instrument closer to donor preference (OECD 2025b; OECD 2026c; Fritz and Raza 2017).

5.2 Policy options for the European Parliament

Proportionality

A first option for Parliament is to favour softer and more proportionate tools before accepting direct support to pre-selected European firms or similar country-based preferences. Building qualitative, environmental, and social criteria, innovation, and life-cycle costing into grant calls, in parallel to the way Article 67 Directive (EU) 2014/24 incorporates these criteria into procurement, would be more consistent with an open development instrument and less likely to create tensions with the EU's own untying commitments (EC 2025c). If the goal is merely the exclusion of entities from specific countries — particularly China — Parliament could instead call for criteria-based restrictions linked to reciprocity, subsidy-related distortions, security sensitivity, serious sustainability concerns, or the absence of open procurement access for EU firms. Another option would be to favour local and regional procurement in partner countries or to treat upper-middle-income-country suppliers differently from suppliers in low-income or least developed countries, where local market development is itself an important development objective.

In other words, excluding or disciplining a specific problematic supplier category does not necessarily require preferential treatment for EU entities. Parliament should therefore be cautious of overshooting solutions that are difficult to reconcile with development-effectiveness. The European Economic and Social Committee has likewise raised concerns that a European preference should not exclude 'allies and trustworthy partners from third countries suppliers based in allied countries' (European Economic and Social Committee 2026, para. 4.15).

In a similar vein, a second option is to tighten Article 23(4)(e) so that direct awards under this provision remain exceptional. The European Court of Auditors has pointed to the lack of sufficiently specific criteria and the absence of a financial ceiling. Parliament could require that any such award be linked to several conditions: a demonstrated development rationale, a clear case of financial and developmental additionality, and a written explanation of why a competitive procedure would not achieve the same objective. A financial cap or review clause would further reduce the risk that an exceptional route quietly becomes a standard delivery channel (cf. MFF Hub 2025).

Accountability

A third option concerns transparency, accountability and audit. Parliament should consider insisting on a stronger public-reporting and scrutiny regime than the one currently envisaged in the proposal. Flexible implementation mechanisms, direct awards and broad strategic-investment clauses would concentrate significant discretionary authority in the EC, including over the interpretation of what counts as a Union 'strategic interest'. The key question is therefore how such interests should be defined and operationalised. Parliament could require the Commission to notify both the Council and Parliament of all uses of Article 23(4)(e), including the beneficiary, amount, sector, partner country and justification. It could request periodic aggregated reporting and audit, so that the use of these flexibilities can be assessed against development objectives (cf. European Court of Auditors 2026).

Additionality

Further, the risk that scarce development resources may be used to improve the financing terms of projects that are already commercially viable, or that primarily advance the interests of established European exporters, should be carefully balanced. As a fourth option, Parliament could therefore confine ECA-linked windows to narrowly defined sectors and cases while also requiring them to meet robust additionality tests (EC 2025d; Schlögl et al. 2023; OECD 2025c). A complementary recommendation would be to strengthen European competitiveness outside the development-budget logic by addressing practical bottlenecks in project delivery and risk absorption. This could include support for European consortium-building and general contracting capacity and could also include exploring a European-level risk-sharing or reinsurance mechanism for very large projects whose liabilities exceed the capacity of individual national ECAs (see also recommendations along similar lines in Schlögl et al., 2023).

Interoperability

A fifth option is to preserve compatibility with co-financed and consortial implementation. Article 23 would apply in a field where large infrastructure and industrial projects often involve multilateral development banks, European and non-European financiers, and mixed public-private consortia. These arrangements normally depend on open and interoperable rules concerning eligibility, procurement, and implementation. The World Bank procurement regulations, for example, allow eligible firms and individuals from all countries to participate and limit nationality-based exclusions to narrow cases (World Bank 2025b). A European-preference clause that is too rigid, even if it operates upstream through grants, guarantees, or project preparation rather than directly through procurement rules, could therefore make joint operations more difficult to structure or require parallel procedures. Parliament could address this by adding a safeguard specifying that any use of Article 23 to support European private entities must not undermine co-financing with multilateral institutions or partner-country-led implementation structures.

5.3 Concluding remarks

In addition to the policy options sketched out above, we recommend considering the wider geo-economic effects of strategic preference more carefully before broadening its use. The EU's competitiveness debate is closely linked to decarbonisation, critical raw materials, and reduced dependency. Yet the green transition itself depends on inputs and components sourced through global value chains. Work by the

International Energy Agency (IEA) shows that Europe will continue to rely on imported inputs and components across several clean-tech value chains, including photovoltaics. In this context, procurement or financing rules that move too far towards European preference may slow deployment in sectors where low-cost imported inputs remain essential to the green transition (IEA 2022; IEA 2026). The trade-off for preference rules that may support European industrial capacity is that they can also raise costs or delay projects where European supply is not (yet) available at sufficient scale or price.

The effects requiring consideration also include the risk of reinforcing wider subsidy competition and retaliatory dynamics. The EU's use of the International Procurement Instrument (Regulation (EU) 2022/1031) against Chinese medical-device suppliers (Commission Implementing Regulation (EU) 2025/1197), and China's criticism of that measure as protectionist, illustrate how quickly market-access concerns can develop into reciprocal procurement restrictions (Reuters 2025). Continued work on global export-credit and trade rules may address distortions more directly than preferential support for European firms under a development instrument. It is also worth noting that we do not find public evidence that would indicate significant Chinese capture across EU ODA as a whole. Moreover, under current NDICI eligibility rules, China can already be excluded from many EU-funded procurement procedures. If China graduates from the DAC list of ODA recipients, the (un)tying implications of excluding Chinese suppliers would also change accordingly.

Finally, the idea that a stronger European preference would make development spending more politically popular within the Union has gained salience, yet supporting evidence of a bargain of this kind remains elusive. The legislative case should therefore not be built on an assumed political payoff that has not been demonstrated. Existing Eurobarometer evidence, for example, shows that support for EU humanitarian aid is already very high without being linked to European commercial preference. Once direct grants, or other forms of subsidy, to large firms enter the picture, the politics may become more, not less, contested. A review clause could therefore require the Commission to report on whether preferential provisions have improved development outcomes, competitiveness outcomes, and political support, and at what cost (EC 2024; OECD 2025d).

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