DAC Recommendation on Untying Official Development Assistance

OECD Legal Instruments
Date(s)

Adopted on 25/04/2001
Amended on 15/03/2006
Amended on 25/07/2008
Amended on 21/07/2014
Amended on 22/10/2018

Background Information

The Recommendation on Untying Official Development Assistance was adopted by the OECD Development Assistance Committee (DAC) on 25 April 2001. The Recommendation invites DAC Members to untie their bilateral official development assistance to the Least Developed Countries (LDCs) as a means to foster co-ordinated, efficient and effective partnerships with developing countries; strengthen the ownership and responsibility of partner countries in the development process; demonstrate responsiveness to the requests from partner countries and others to increase the use of untied aid in order to promote aid effectiveness; and contribute to broader efforts with partner countries to promote their integration into the global economy. The Recommendation was amended on 21 July 2014 to extend its country coverage to non-LDC Heavily Indebted Countries (HIPC). The revised Recommendation also introduced provisions (i) inviting non-DAC donors to untie their aid in parallel with DAC Members and (ii) inviting those responsible for procurement to promote respect for internationally agreed principles of corporate social and environmental responsibility. On 22 October 2018, the Recommendation was further amended to extend its country coverage also to Other Low-Income Counties (OLICs) and IDA-only countries and territories.
I. Objectives and Principles

1. Members of the OECD’s Development Assistance Committee (DAC) agree to the objective of untying their bilateral Official Development Assistance (ODA) to the Least Developed Countries (LDCs), Heavily Indebted Poor Countries (HIPCs), Other Low-Income Countries (OLICs), and IDA-only countries and territories (hereafter referred to, collectively, as ‘countries and territories covered by the Recommendation’), as a means to:

   ● foster co-ordinated, efficient and effective partnerships with developing countries;
   ● strengthen the ownership and responsibility of partner countries in the development process;
   ● demonstrate responsiveness to the requests from partner countries and others to increase the use of untied aid in order to promote aid effectiveness; and
   ● contribute to broader efforts with partner countries to promote their integration into the global economy.

2. This Recommendation reflects the results of discussions in the DAC to respond to the mandate provided at its 1998 High Level Meeting (see Annex III). It also reflects the subsequent decisions by the DAC to revise the Recommendation. In 2008, the DAC agreed to extend the country coverage of the Recommendation to non-LDC HIPCs (the list of non-LDC HIPCs as of 1 January 2014 is provided in Annex II), to introduce provisions inviting non-DAC donors to untie their aid in parallel with DAC Members and inviting those responsible for procurement to promote respect for internationally agreed principles of corporate social and environmental responsibility. In 2018, the DAC agreed to extend the country coverage of the Recommendation also to OLICs and IDA-only countries and territories. The shared intentions of DAC Members are to:

   ● untie their ODA to the countries and territories covered by the Recommendation to the greatest extent possible;
   ● promote and sustain adequate flows of ODA in terms of quality, volume and direction, in particular to the countries and territories covered by the Recommendation and ensure that ODA to these countries will not decline over time as a result of the implementation of this Recommendation;
   ● achieve balanced efforts among DAC Members.

3. The report “Shaping the 21st Century: the Contribution of Development Co-operation”, set out the relative dependence of LDCs on aid and their relative need for accelerated progress towards the International Development Goals. However, HIPCs, Low-Income Countries (LICs) and IDA-only countries and territories not part of the LDC group are also aid dependent and need to make progress towards these same goals. Therefore, this initiative aims to capture, for all these countries, the benefits of open procurement markets.

4. In promoting the above objectives, the DAC considers that reinforcing partner country responsibility for procurement, with appropriate guarantees for effectiveness, accountability, probity and transparency is intrinsic to this initiative. Similarly, promoting local and regional procurement in partner countries is a shared goal. DAC members will work with partner countries to identify needs and to support efforts in both areas.

5. This Recommendation does not restrict the prerogative of DAC Members to untie ODA to a greater extent than set out herein. DAC Members are invited to continue to provide untied ODA in areas not covered by the Recommendation when they already do so, and to study the possibilities of extending untied aid in such areas. Neither does this Recommendation pre-empt positions that DAC Members may take in discussions on related issues in other fora.

6. Promoting effort-sharing among DAC Members is an integral part of this Recommendation. Variations in the structures and geographical orientations of DAC Members’ aid programmes, together with the coverage provisions of this Recommendation, can result in sizeable differences in the extent to which their ODA to the countries and territories covered by the Recommendation is presently untied, and in respect of their aid performance in these countries more generally.
This Recommendation sets out objectives, principles and procedures for DAC Members untying aid in order to increase the effectiveness of that aid. In a global market for procuring aid funded goods, services and works, these good practices have a broader applicability and interest beyond DAC Members and have reference for all other countries providing aid to the developing countries. Accordingly, non DAC donors are also invited to consider the provisions concerning untied aid set out in this Recommendation and to take them into the fullest account possible in their aid relations with developing countries.

II. Implementation

a) Coverage

8. Untying is a complex process. Different approaches are required for different categories of ODA, and actions by DAC Members to implement the Recommendation will vary in coverage and timing. Bearing this in mind, DAC Members will untie their ODA to the countries and territories covered by the Recommendation to the greatest extent possible and in accordance with the criteria and procedures set out in this Recommendation:

i) DAC Members agreed to untie ODA -- to the Least Developed Countries by 1 January 2002, to non-LDC Heavily Indebted Countries by 1 October 2008, and to Other Low-Income Countries and IDA-only countries and territories by 1 January 2019 -- in the following areas: balance of payments and structural adjustment support; debt forgiveness; sector and multi-sector programme assistance; investment project aid; import and commodity support; commercial services contracts, and ODA to Non-Governmental Organisations for procurement related activities.

ii) In respect of investment-related technical co-operation and free standing technical co-operation, it is recognised that DAC Members’ policies may be guided by the importance of maintaining a basic sense of national involvement in donor countries alongside the objective of calling upon partner countries’ expertise, bearing in mind the objectives and principles of this Recommendation. Free-standing technical co-operation is excluded from the coverage of the Recommendation.

iii) In respect of food aid, it is recognised that DAC Members’ policies may be guided by the discussions and agreements in other international fora governing the provision of food aid, bearing in mind the objectives and principles of this Recommendation.

b) Effort-Sharing

9. Promoting a more balanced effort-sharing among DAC Members is a necessary process. Pursuant to paragraphs 2, 5, and 6 of this Recommendation, DAC Members agree to undertake their best endeavours to identify and implement supplementary effort-sharing actions in accordance with the mechanism set out below.

Mechanism

10. To this end, DAC Members should apply the following reference indicators matrix and procedures:

   ● Reference indicators matrix

11. The situations of DAC Members and their evolution over time with respect to initial positions and reference points will be set out in a reference indicators matrix (see Annex I). The elements of this matrix will be used in conjunction with DAC Member performance profiles (see below) to monitor and assess the progress made by DAC Members towards more balanced effort-sharing.

   ● DAC Member performance profiles

12. DAC Members will prepare annual country profiles setting out their positions in respect of the reference indicators matrix and, on that basis, identify initial and medium term supplementary actions to promote effort-sharing. Peer review of these profiles by the DAC will be used to help DAC Members
identify and undertake supplementary actions in furtherance of a more balanced effort-sharing in respect of the reference indicators matrix.

13. The implementation of this part of the Recommendation will be assessed as part of the annual reports covering all aspects of this Recommendation. These reports will be considered by the DAC High Level Meeting, which may recommend further actions, as well as in the peer reviews of individual DAC Member’s development co-operation policies. An overall review of the effort-sharing mechanism and procedures was conducted in 2009 which confirmed that a more balanced effort-sharing had been achieved.

c) Procurement regime

14. The procurement of goods and services covered by this Recommendation should follow the DAC’s Good Procurement Practices for Official Development Assistance.

15. In conducting procurement of aid-supported goods and services, and in partnership with developing countries, DAC Members should apply relevant commitments and guidance such as:

- The Recommendation of the Council for Development Co-operation Actors on Managing the Risk of Corruption [OECILegal/0431];

16. Those responsible for procurement should promote respect from suppliers with agreed international standards of corporate social and environmental behaviour. This could be done through reference to environmental and social considerations in tendering procedures.

d) Transparency

17. For untied aid offers covered by this Recommendation, DAC Members should, and in collaboration with partner countries as appropriate, provide or ensure ex ante notification. This provision does not apply to activities with a value of less than SDR 700,000 (SDR 130,000 in case of investment related technical co-operation).

18. DAC Members should respond promptly and fully to requests by other DAC Members for further information on, or clarification concerning untied aid offers covered by this Recommendation.

19. DAC Members should ensure that the DAC will be provided with information on contract awards pertaining to the untied aid offers covered by this Recommendation.

e) Derogation

20. For individual aid offers, DAC Members may, in exceptional circumstances, take measures inconsistent with the terms of this Recommendation, in situations where they believe it to be justified on the basis of overriding, non-trade related, development interests. Derogations are to be justified in a letter to the Secretary-General of the OECD and to the DAC Chair and will be followed up in review procedures.

f) Monitoring and evaluation

21. The DAC will monitor all aspects of this Recommendation through a combination of different mechanisms:

- Annual reports covering all aspects of the Recommendation, as well as the experience in delivering its objectives. These reports, which will be reviewed by the DAC in time for its annual High Level Meeting, will, inter alia:
assess the impact of the Recommendation on the volume, quality and directions of ODA flows;
set out DAC Members’ policies in respect of investment-related technical co-operation and food aid;
review the implementation of this Recommendation with respect to promoting effort-sharing among DAC Members in accordance with the mechanism set out in section IIb above;
review DAC Members’ procurement practices and patterns for untied aid offers;
assess progress towards strengthening partner countries’ local procurement capacities and improving the access of partner countries’ enterprises to aid funded procurement;
address, in addition to the provisions for bilateral consultations set out above, specific concerns that may be raised by individual DAC Members in respect of the Recommendation.

- The annual reports will also provide input for the peer reviews of individual DAC Member’s development co-operation programmes.
- A comprehensive evaluation of its implementation and impact was carried out by the High Level Meeting in 2009. That evaluation concluded that DAC Members fully met the commitments in the Recommendation to untie agreed categories of ODA and that improvements in effort sharing were significant and sustained.
- At the scheduled review of the extension of the country coverage of the Recommendation to non-LDC HIPCs in 2018, the DAC decided to renew this extension for a further five years. In addition, the DAC has also agreed to extend the country coverage of the Recommendation to OLICs and non-LDC IDA-only countries and territories. The next review of the extension of the country coverage to non-LDC HIPCs, OLICs and non-LDC IDA-only countries and territories will take place in 2023, at which time a DAC Member may decide to use, after that date, tied aid as part of its ODA to non-LDC HIPCs, OLICs and non-LDC IDA-only countries and territories, in which case it is required to notify the country/ies concerned and the DAC Chair of its decision to do so.

22. DAC Members will work with stakeholders, particularly partner countries, to ensure the Recommendation delivers its objectives.

ANNEX I

OPERATIONAL PROCEDURES AND UNDERSTANDINGS

1. This Annex forms an integral part of the DAC Recommendation on Untying Official Development Assistance (hereafter the “Recommendation”). It details, where necessary, provisions concerning operational procedures and understandings related to the coverage and implementation of this Recommendation.

I. Definitions and coverage

2. Untied ODA refers to loans or grants which are freely and fully available to finance procurement from substantially all aid recipient countries and from OECD countries. DAC Members which have rules of origin, or minimum national content rules, should take any steps necessary to ensure that ODA untied in accordance with this Recommendation is both de jure and de facto untied.

3. This Recommendation applies to DAC Members’ bilateral ODA to the countries and territories covered by the Recommendation. The list of these countries (as may be periodically modified respectively by the United Nations and the World Bank and IMF) is set out in Annex II.

4. Definitions of the ODA categories addressed in this Recommendation are as set out in the DAC’s Statistical Reporting Directives [DCD/DAC/STAT(2018)9/FINAL].
Commercial services contracts

5. For the purposes of this Recommendation, commercial services contracts are defined as contracts let on a commercial basis to a company for the running or management of a utility or distribution network.

ODA provided for NGOs

6. ODA provided for non-governmental organisations’ (NGOs) activities is covered by this Recommendation only to the extent that NGOs are involved in procurement-related activities included in its coverage. Grants for the core support of development NGOs or their programmes are excluded.

Management services arrangements

7. Management services arrangements (i.e. “technical co-operation” provided by DAC Members primarily for the purpose of carrying out the administration of their own aid projects and programmes) are excluded from the coverage of this Recommendation.

II. Transparency

8. DAC Members recognise that efforts to promote partner country responsibility for procurement are intrinsic to this untying initiative. In situations where partner countries have responsibility for conducting procurement, some of the information requirements set out below may be available in the first instance from partner countries or their procurement agents. DAC Members should report in a timely manner the information required by the following provisions, or should work effectively with partner countries to do so.

i) Ex ante notification

9. Untied aid offers covered by this Recommendation which are above SDR 700,000 or SDR 130,000 in case of investment related technical co-operation, are to be notified ex ante. These notifications should include the following information:

- Notifying DAC Member, agency and contact point;
- Recipient country;
- Project description;
- Sector/activity and DAC purpose code;
- Project value (in donor currency and SDR);
- Bidding period (start and closing dates);
- Procurement regime (if not International Competitive Bidding, state regime and justification);
- Details of agency responsible for procurement and from which further information or details (e.g. bidding periods, procurement regime, bidding documentation) can be requested, and all other information that the DAC Member deems appropriate.

10. Notifications should be made to the Secretariat not less than 30 calendar days prior to the opening of the bidding period.

11. Bidding periods should ensure sufficient time to all suppliers to prepare and submit bids, while taking account of the circumstances of the procurement agent. Bearing this in mind, bidding periods should normally be not less than 45 calendar days, except for large projects (with a value of, or exceeding, SDR 50 million), where bidding periods should normally be not less than 90 calendar days.

12. Notifications should be made available to DAC Members and to potential suppliers through the DAC’s Untied Aid Bulletin Board of Business Opportunities’. DAC Members may also, in addition, wish to use their own facilities to publicise the aid offers contained in notifications.

ii) Exchange of information procedures
13. DAC Members which have received an enquiry from another DAC Member concerning individual untied aid offers covered by this Recommendation should respond promptly (i.e. within 14 calendar days) and fully, providing all information relevant to the request, including information concerning donor financing of services related to the design and implementation of the notified project. Such enquiries and responses should use electronic means of communication. The DAC Members concerned should, together, take all possible steps to clarify or resolve issues arising.

14. Where that latter is not possible, a DAC Member may, if it so wishes, broaden the initial bilateral exchange of information to other DAC Members, in order to solicit views on issues pertaining to the implementation of the Recommendation.

15. The periodic reviews of the implementation of the Recommendation will also address experience with these procedures.

iii) Information on contract awards

16. DAC Members should provide the Secretariat with information on contract awards pertaining to individual ex ante notifications. This information should include the name, address and country of incorporation of the firm awarded the contract (or the prime contractor, where a syndicate of firms is concerned). The above information should be provided on an annual basis and be reviewed in the context of the overall review procedures.

17. For activities with a value of less than SDR 700,000 or SDR 130,000 in case of investment related technical co-operation DAC Members should provide the Secretariat with annual aggregated overviews of the number and value of contract awards in their country, in other OECD Member countries, in developing countries and in Least Developed Countries.

III. Reference Indicators Matrix

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<tr>
<th>Members’ positions (1)</th>
<th>Reference point</th>
<th>Index (2)</th>
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<tr>
<td>I. Bilateral LDC/HIPC ODA untying ratio</td>
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<tr>
<td>II. Effort-sharing composite indicator (3)</td>
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(1) 5-year average.

(2) DAC Members’ positions as ratios of reference points.

(3) Calculated according to standing DAC practices as follows: (bilateral LDC - HIPC ODA/GNI times bilateral LDC - HIPC untying ratio) + multilateral LDC - HIPC ODA/GNI. The presentation of the composite indicator, and the reference indicators matrix more generally, will set out in full their component elements.

ANNEX II

Least Developed Countries (as of December 2018)

Afghanistan; Angola; Bangladesh; Benin; Bhutan; Burkina Faso; Burundi; Cambodia; Central African Republic; Chad; Comoros; Democratic Republic of the Congo; Djibouti; Eritrea; Ethiopia; Gambia; Guinea; Guinea-Bissau; Haiti; Kiribati; Lao People’s Democratic Republic; Lesotho; Liberia; Madagascar; Malawi; Mali; Mauritania; Mozambique; Myanmar; Nepal; Niger; Rwanda; Sao Tome and Principe; Senegal; Sierra Leone; Solomon Islands; Somalia; South Sudan; Sudan; Tanzania; Timor-Leste; Togo; Tuvalu; Uganda; Vanuatu; Yemen; Zambia.

Non LDC; Heavily Indebted Poor Countries (as of 1 January 2014)
Bolivia; Cameroon; Côte d'Ivoire; Ghana; Guyana; Honduras; Nicaragua; Democratic Republic of the Congo.

**Other Low-Income Countries (as of June 2018)**

Zimbabwe; Tajikistan.

**IDA-only countries and territories (as of June 2018)**

Kosovo; Kyrgyzstan; Maldives; Marshall Islands; Micronesia; Samoa; Syrian Arab Republic; Tonga.

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**ANNEX III**

**AID PROCUREMENT LIBERALISATION: 1998 DAC HLM MANDATE**

1. HLM participants mandate the Working Party on Financial Aspects to work on a Recommendation on untying ODA to the Least Developed Countries (LDCs), including the relevant implementation issues, with a view to presenting a proposed text to the HLM in 1999. A status report should be presented to the Senior Level meeting (SLM) of the DAC in December 1998.

2. Participants recognised that in order to arrive at an agreed text, the following issues, in particular, will have to be satisfactorily addressed:

   - The need for effective donor co-ordination and partnerships with developing countries that reflect responsiveness, efficiency and effectiveness of development co-operation.
   - Assessment of potential effects on the quality, volume and direction of ODA flows.
   - Helping develop the capacities of the private sector and procurement systems in partner countries.
   - The importance of maintaining a basic sense of national involvement in donor countries (especially in certain forms of technical co-operation) alongside the objective of calling upon partner countries’ expertise.
   - The need to take into account differences in the structures and starting points of Members’ programmes with respect to volume, ODA/GNP ratio, distribution and existing untying of aid.
   - Initiatives to enlist the understanding and involvement of the business community in Member countries and promote wide public information and support.
   - The impact of further procurement liberalisation on regional arrangements such as the Lomé Convention.
   - Thorough examination of the modalities involved in the untying initiative, including:
     - appropriate procurement modalities (including safeguards against corruption),
     - manageable thresholds, coverage and exclusions (including with respect to technical co-operation and promotion of procurement from local and regional sources in developing partner countries),
     - definitions and reporting arrangements on the tying status of ODA,
     - mechanisms for confidence building and transparency, including provision of relevant statistical information,
     - monitoring and peer review.

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1 For the purposes of this Recommendation, “Other Low-Income Countries (OLICs)” means low-income countries or territories that are included neither in the LDC group nor in the HIPC category.

2 As of June 2018, the low-income category, as defined by the World Bank, included also the Democratic People’s Republic of Korea. However, the classification of the Democratic People’s Republic of Korea as a LIC is not based on World Bank GNI data. Moreover, it has not been possible to identify verifiable income level data. The DAC has therefore decided that the Democratic People’s Republic of Korea
remains out of the scope of the Recommendation, until verifiable data is available, based on which the committee can take a decision on its inclusion.

3 According to the World Bank operational lending categories, “IDA-only countries and territories” are countries and territories that are only eligible to financing from the International Development Association.

4 DAC(86)22 (Corrigendum, 2nd Revision), also reproduced in ‘Development Assistance Manual: DAC Principles for Effective Aid. OECD 1992.

5 The 1996 DAC Recommendation on Anti-Corruption Proposals for Aid-Funded Procurement, previously contained in the Recommendation, was abrogated and replaced in 2016 by the Recommendation of the Council for Development Co-operation Actors on Managing the Risk of Corruption.

6 At the 2018 review, Japan notified the DAC that, in accordance with paragraph 20 of the Recommendation, it reserves the right to use tied aid as part of its ODA to all non-LDC HIPC, OLICs and non-LDC IDA-only countries and territories listed in Annex II. Accordingly, as of 1 October 2019, Japan may use tied aid as part of its ODA to all non-LDC HIPC, OLICs and non-LDC IDA-only countries in conformity with the Recommendation.


8 See above footnote 2.

9 The list includes countries and territories that are included in the IDA-only category but do not have LDC, HIPC or OLIC status.

10 This designation is without prejudice to positions on status and are in line with United Nations Security Council Resolution 1244/1999 and the Advisory Opinion of the International Court of Justice on Kosovo’s declaration of independence.
Adherents

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European Union
About the OECD

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD Member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

OECD Legal Instruments

Since the creation of the OECD in 1961, around 450 substantive legal instruments have been developed within its framework. These include OECD Acts (i.e. the Decisions and Recommendations adopted by the OECD Council in accordance with the OECD Convention) and other legal instruments developed within the OECD framework (e.g. Declarations, international agreements).

All substantive OECD legal instruments, whether in force or abrogated, are listed in the online Compendium of OECD Legal Instruments. They are presented in five categories:

- **Decisions**: OECD legal instruments which are legally binding on all Members except those which abstain at the time of adoption. While they are not international treaties, they entail the same kind of legal obligations. Adherents are obliged to implement Decisions and must take the measures necessary for such implementation.

- **Recommendations**: OECD legal instruments which are not legally binding but practice accords them great moral force as representing the political will of Adherents. There is an expectation that Adherents will do their utmost to fully implement a Recommendation. Thus, Members which do not intend to do so usually abstain when a Recommendation is adopted, although this is not required in legal terms.

- **Declarations**: OECD legal instruments which are prepared within the Organisation, generally within a subsidiary body. They usually set general principles or long-term goals, have a solemn character and are usually adopted at Ministerial meetings of the Council or of committees of the Organisation.

- **International Agreements**: OECD legal instruments negotiated and concluded within the framework of the Organisation. They are legally binding on the Parties.

- **Arrangement, Understanding and Others**: several ad hoc substantive legal instruments have been developed within the OECD framework over time, such as the Arrangement on Officially Supported Export Credits, the International Understanding on Maritime Transport Principles and the Development Assistance Committee (DAC) Recommendations.