Eurodad submission to the OECD DAC Senior Level Meeting, October, 2014

The ongoing discussion at the OECD DAC on whether the ODA concept should be modernised provides an opportunity to refine existing rules and ensure that they are fully focused on supporting the achievement of developmental goals. The current ambiguity of the OECD DAC reporting system has given rise to mixed reporting practices by donors that undermine the credibility of the reporting process. The discussion at the OECD DAC should ensure that any measure assessing aid quantity is aligned to aid quality. This submission to the OECD DAC Senior Level Meeting on October 7th and 8th will focus on the issue of concessionality and is complementary to other submissions made by CSO groups.

On the process

Discussions should be transparent and all stakeholders should be represented on equal terms so that both civil society groups and partner country governments can contribute to the discussions in order to optimise the developmental impacts of the reform. We welcome the significant progress made since the beginning of the process in terms of transparency and access to documents. We would also like to thank the OECD DAC secretariat, and in particular the chair Eric Solheim, for significantly scaling up outreach and engagement with partner countries and CSO groups. ODA represents a promise to the poor of the world and they should not be cut out of discussions determining its composition. Through bringing in partner countries and CSO groups from the South, the DAC can ensure that the types of flows valorised are aligned to their needs.

On Concessionality

Scaling up concessional loans raises concerns that the poor will be short-changed if the new rules do not incentivise donors to provide fresh grant money or consider the debt sustainability implications of concessional lending more carefully.

The current rules on determining loan concessionality are unclear, open to abuse and are not based on developmental logic. It is crucial to ensure that concessionality conditions and reporting rules are revised in a way that is truly developmental and not intended to report loans more easily as ODA. Both the quantitative and qualitative tests need to be refined to guarantee that these flows are truly concessional and complementary to achieving development goals.

Interest repayments should be deducted from net ODA flows so that figures of net aid provide a genuine representation of flows to and from developing countries. Payments on interest represent public resources that cannot be utilised by partner countries to achieve development objectives and provide public services. As these returns can be utilised by donors to create new ODA flows there is no negative incentive in deducting returns on both the principle and interest of loans from net ODA figures.

Only the grant element should be counted as ODA. The basis of determining the grant element should ensure that donors issue loans with the highest degree of concessionality and represent actual donor efforts in providing these funds. Only the concessional component of a loan - represented by the grant element - should be reported as ODA. Safeguards should be put in place to ensure that any grant element calculation does not allow for high interest loans to partner countries. Debt relief, while crucial for partner countries, should not be reported as ODA and in turn default risk should not be factored into any grant element calculation.

The 10% reference rate should be replaced with a more relevant benchmark in determining the grant element of ODA. Assessing a donor's opportunity costs on the basis of a 10% reference rate created in the 1970s does not reflect the current economic environment. This rate has allowed loans provided at higher interest rates than commercial loans from multilateral institutions to count as ODA, which overvalues their concessional element. To prevent problematic reporting practices any new benchmark for assessing loan concessionality should be aligned to interest rates that reflect the environment in donor countries, such as the Differentiated Discount Rate (DDR) used to assess the concessionality of export credits. In order to differentiate concessional loans from export credits they should be fully untied and complementary to the principles of development effectiveness.

Specify in the revised rules that ODA loans should include a budgetary effort in the form of an official subsidy to qualify as ODA. As grants represent a 100% budgetary effort from donors, concessional loans should also include a budgetary effort to qualify as ODA. The "concessional in character" requirement should specify this explicitly to prevent donors from relending at higher rates money that was initially borrowed from markets without adding an official subsidy, and still count these loans as ODA.

A debt sustainability criterion should be added to ensure that concessionality requirements are tailored to the debt situation of borrowing countries. There is a growing consensus that record levels of debt combined with sluggish growth indicate that a new debt crises is likely to emerge in the near future. Concessional loans should be used with the greatest caution as they threaten to reverse the sustainable levels of debt achieved in many developing countries and increase their vulnerability to future crises. Concessionality requirements should not be uniform but should be determined in collaboration with borrowing countries cognisant of their own debt situation.

Concessional loans, as well as all other flows reported as ODA, should be fully untied. Recommendations on untying aid should explicitly cover all aid modalities in all countries. Tied aid should not be reported as ODA as it is not complementary to development effectiveness and does not directly support economic development and welfare of partner countries. Efforts should also be scaled up to stop informally tied aid practices which de facto exclude entrepreneurs in partner countries from winning ODA funded contracts.

For more information or clarification please contact:

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The European Network on Debt and Development is a specialist network analysing and advocating on official development finance policies. It has 47 member groups in 19 countries. Its roles are to:

- research complex development finance policy issues
- synthesise and exchange NGO and official information and intelligence
- facilitate meetings and processes which improve concerted advocacy action by NGOs across Europe and in the South.

Eurodad pushes for policies that support propoor and democratically-defined sustainable development strategies. We support the empowerment of Southern people to chart their own path towards development and ending poverty. We seek appropriate development financing, a lasting and sustainable solution to the debt crisis and a stable international financial system conducive to development.

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