

1.2 Recommendation on Terms and Conditions of Aid (1978)

(See the 1978 DAC Chair Report on Development Co-operation)

PREAMBLE

The Development Assistance Committee, having reviewed the Recommendation on Terms and Conditions of Aid adopted by the DAC at its High Level Meeting on 16th to 18th October, 1972,

Approving the progress made towards fulfilling or surpassing the objectives set out in this Recommendation, and noting the favourable average terms of aid provided by DAC Members as a group,

Recognising the desirability for further improvement in the financial terms of Members' programmes of Official Development Assistance, considered not only as a whole but also in their application to the specific needs of individual developing countries,

Reaffirming that equal attention must also be given to the provision of an adequate and sustained volume of Official Development Assistance,

Recognising that the continuing differences in the terms provided by Member countries impair the spirit of the common effort and render more difficult the maintenance of the most liberal standards of terms,

Bearing in mind the special needs of the least-developed countries,

Renewing its resolve to seek appropriate ways and means of advancing towards untying national aid programmes and urging its Members in the meantime to mitigate as much as possible the adverse effects of aid tying,

Adopts - one country having reserved its position¹ - the following Recommendation which supersedes that of 1972:

I. Coverage of the Terms Objectives

1. The objectives of this Recommendation apply to Official Development Assistance (ODA) commitments, made on and after the 1st of January, 1978. ODA is defined as those flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests:

- a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and
- b) it is concessional in character and contains a grant element² of at least 25 %.

¹ Italy lifts its reservation in 1993.

II. Objectives for Financial Terms

2. In order to achieve a further softening of overall financial terms of ODA, Members should endeavour fully to maintain or achieve as soon as possible an average grant element in their ODA commitments of at least 86 per cent. In this connection the special value of grant assistance is recognised.

3. Countries whose ODA commitments as a percentage of GNP are significantly below the DAC average will not be considered as having met the terms target.

III. Recognition of Circumstances of Individual Recipient Countries and Harmonisation of Terms

4. Members should relate the terms of aid on a case-by-case basis to the circumstances of each developing country or group of countries. In particular, Members should provide a substantial part of the assistance given to developing countries with the severest economic problems in the form of grants or on very soft terms. Member countries which already extend a large proportion of their assistance on soft terms, but concentrate it on a limited number of recipients, should aim to grant increasingly soft terms also on their assistance to other recipients whose circumstances also call for soft terms.

5. The Development Assistance Committee will continue to review the current position and prospects regarding the income level, the development performance, the balance of payments, the debt servicing burden, etc. This should assist individual donors in formulating their terms policies and may provide the basis for a common view on the terms appropriate to individual developing countries or group of countries.

6. Members should make concerted efforts to harmonise terms at the level of the recipient country. They should make use of consortia, consultative groups or other concerted aid operations, where these exist, in co-operation as appropriate with the international bodies involved, in order to reach a common view as to the appropriate terms at which assistance should be provided. Where no such co-ordinating arrangements exist, terms harmonisation should be sought through an appropriate form of consultation, the nature of which might be the subject of an exchange of views in the DAC.

7. The absence of harmonisation of donors' aid terms is liable to be particularly harmful to poorer developing countries. In extending aid to such countries Members should not only take account of the circumstances of the country itself but also be guided by the terms of the donors extending their aid at soft terms to that country. Members who hitherto have provided funds on harder terms, should do their best to come as close as possible to the average terms of all bilateral DAC donors to the individual country.

IV. Special Terms for Least-Developed Countries

8. A group of least-developed countries has been identified by the UN for which, apart from any other special measures, the softest possible terms of aid are appropriate. Official Development Assistance to these countries should be essentially in the form of grants and, as a minimum, the average grant element of all commitments from a given donor should either be at least 86 per cent to each least-developed

² "Grant element" is the difference between the face value of a financial loan commitment and the discounted present value (using a 10% discount rate) of the service payments to be made by the borrower during the lifetime of the loan, expressed as a percentage of the face value.

country over a period of three years, or at least 90 per cent annually for the least-developed countries as a group.

9. DAC Members should endeavour fully to extend their ODA commitments to other countries whose needs are the greatest on the best grant element possible.

V. Regular Review of Implementation

10. The achievements of individual Member countries in implementing the agreed objectives set out above will be regularly appraised in the DAC as part of the Aid Reviews. In addition, the DAC will review each year the progress under the various provisions of this Recommendation.

VI. Need for Non-Project Assistance and Local Cost Financing

11. While acknowledging the advantages of the project approach, Members recognise that it is necessary to consider the overall needs of the developing country as well as its balance of payments and other factors, and that it may be appropriate to provide aid to finance general import costs or local costs of development, or both. With respect to local cost financing, Members shall take into account the Guidelines on Local Cost Financing adopted by the DAC on 27th October, 1977.

VII. Review of Other Officially Extended or Supported Flows³

12. The objectives of the Recommendation apply to Official Development Assistance. In addition, however, other officially extended or supported flows are of continued importance as a source of finance. DAC Members, therefore, agree to review more fully, in consultation with other interested Committees of the OECD, their basic approaches to extending such flows to developing countries, and their relationship to aid and development considerations. Further, the DAC will keep itself informed of the incidence of other officially extended or supported flows and their geographic distribution, especially with respect to those developing countries with severe external debt situations.

³ Including officially extended and officially guaranteed private export credits as well as officially guaranteed private foreign investment.