Modernising Official Development Assistance (ODA)

Concessional loans before and after the HLM

(Following the OECD-DAC High Level Meeting of 15-16 December 2014)

WHY MODERNISE ODA?

The United Nations set a long-standing target for donors to allocate 0.7% of their GNI to Official Development Assistance (ODA). The international community expects the DAC to ensure the integrity of this important metric. **ODA reached an all-time high of USD 134.8 billion in 2013.** While considered by many to be "a drop in the bucket" when compared to other international financial flows, the reliance on ODA varies across developing countries – e.g. for least-developed countries ODA represents over 70% of available external finance, and more than one-third of total public revenue and expenditure.

While most ODA continues to be provided as grants, concessional loans provided to developing countries by bilateral and multilateral donors are an important and enduring feature of the development finance landscape. They will continue to play a key role in mobilising resources in support of the post-2015 SDGs, including in "blended finance" packages. The "concessional in character" criterion – which determined the extent to which loans can be scored as ODA – was open to interpretation and resulted in inconsistent reporting across DAC members. **All stakeholders agreed that clarification was needed**.

WHAT HAS CHANGED?

The new statistical framework **measures ODA loans more accurately and credibly**, while **incentivising more and better allocation of resources** necessary to implement the post-2015 agenda. By promoting **greater transparency** and **heightened accountability**, the new system will help to ensure that ODA goes where it is most needed and has the greatest development impact.

The revised system:

- ✓ has **marginal impact on overall ODA volumes**;
- ✓ does not include **private sector investment**;
- ✓ conveys a **fairer picture of provider effort** (ensures comparability of resulting statistics across providers);
- ✓ is adapted to today's **complex development co-operation landscape** (establishes a level playing field among the various instruments that make up the development finance toolbox);
- ✓ helps to ensure lending practices that are **aligned with developing countries' needs**, capacities and constraints in terms of volumes, concessionality levels and debt sustainability;
- ✓ strengthens the **credibility** and **integrity** of DAC statistics and **transparency** of development co-operation.

A FAIRER PICTURE OF PROVIDER EFFORT

Important improvements have been made to the system. Whereas in the past both grants and loans were included in ODA in their full face value, now only grants and the 'grant portion' of ODA loans are counted in ODA. This provides for a **more realistic comparison of loans and grants** and **encourages the use of grants and highly concessional loans**. The calculation of the grant portion is based on the recognition that lending to poorer countries involves greater provider effort and recipient benefit than lending to richer countries. The discount rate used in the calculation is differentiated by developing country groups – a loan to an LDC or other LIC will score more ODA than a loan at the same conditions extended to a MIC.

MORE AND BETTER CONCESSIONAL RESOURCES TO COUNTRIES MOST IN NEED

Furthermore, **higher concessionality thresholds have been introduced to fix softer terms and conditions to countries most in need**. In the past, the threshold for ODA eligibility was set at a grant element of 25%. Under the new system, loans to **LDCs** and other **LICs** must reach a grant element of at least **45%** to be reportable as ODA, while **LMICs** will require a 15% minimum grant element and **UMICs** a 10% minimum grant element. Particular emphasis is placed on **debt sustainability** – to be reportable as ODA loans will have to be consistent with the IMF Debt Limits Policy and the World Bank's Non-Concessional Borrowing Policy. Finally, the maximum ODA interest rates permitted have been **lowered** for all country categories and nearly **halved** for LDCs and other LICs.

Counting Loans in ODA: Before and After the Modernisation

	BEFORE: CASH FLOWS	**AFTER**: GRANT EQUIVALENTS
Grant Element Thresholds	• 25%	• 45% for LDCs and other LICs • 15% for LMICs • 10% for UMICs

Discount Rates	• 10%
	• Used for assessing the concessionality of a loan
		• 5% base (current IMF discount rate) + adjustment factors of
		  ○ 4% for LDCs and other LICs
		  ○ 2% for LMICs
		  ○ 1% for UMICs
		• Used for both assessing the concessionality of a loan (does it meet the threshold?) and for calculating its ODA grant equivalent.

Measurement System	• Positive ODA when disbursed, negative ODA when repaid	• Grant equivalent of loan disbursements (grant element multiplied by amount disbursed). • Repayment of past loans is not subtracted from ODA but will continue to be collected and published. • Clear, quantifiable measure of concessionality that is tighter than what existed before. • The softer the terms and conditions of the loan, the more ODA credit the provider receives. • Grants score more ODA than loans.

INCREASING TRANSPARENCY

We have come some distance in our efforts to upgrade and modernise our statistical systems and tools in order for them to contribute to **monitoring the financing framework underpinning the post-2015 agenda**. Alongside reporting on a grant equivalent basis, **ODA figures will continue to be calculated, reported and published on the previous cash-flow system**. This means that data on actual disbursements and repayments of loans will continue to be collected and published in a fully transparent manner. The new system **will become the standard of reporting from 2018** (for which ODA reporting will take place in early 2019). ODA for 2015 to 2017 will be reported using both the new and the old system, to allow for full transparency over the impact of the change on ODA volumes.

Supporting developing countries to optimally use the **increased diversity of funding sources** accessible today is essential. The **transparency of resource flows** reaching developing countries plays a role in enhancing the effectiveness of development co-operation. Therefore, we are strengthening our dialogue with developing countries to ensure that our statistical system contributes to meeting their information and planning needs. Further, we are continuing to develop our systems for **measuring resource inflows to developing countries**, building on our longstanding work with **country programmable aid**.