STATISTICAL REPORTING ISSUES

DAC Meeting, 10 May 2012

This document is submitted for DISCUSSION under Item 4 of the Draft Annotated DAC Agenda [DCD/DAC/A(2012)5].

Members' comments are invited on the issues set out in points A and B. Members are also invited to consider whether the issues should be further pursued along the lines suggested in paragraph 7.

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This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.
1. At the EU Peer Review on 28 March 2012, European Union representatives raised questions concerning the statistical treatment of EU aid flows, and the DAC Chair proposed to place these issues before the DAC.

2. The issues are set out in detail in the attached correspondence (four letters in all). There are two main points to be discussed:

A. “Concessionality in character”

3. Recent years have seen important changes in the development finance landscape. There is now greater heterogeneity in development trajectories and greater diversity in the range of flows, and many more countries can access international capital markets. ODA is increasingly being combined with other flows, or called on to play a catalytic role. At the same time, members have signalled that they wish to maintain the ODA definition unchanged, at least until 2015. An important part of this definition is the requirement that ODA transactions be “concessional in character”. Especially in the current very low interest rate environment, it is important that the assessment of “concessionality in character” be based on credible and agreed criteria, applied consistently across donors.

4. Recent discussions between the EU and the Secretariat have shown that there are differences in views about the meaning of concessionality in character (see letters attached). The EU has reported as concessional loans from the European Investment Bank (EIB) that meet the “grant element” test and bear an interest rate below the Differentiated Discount Rate, as it argues that these loans meet all the ODA criteria in the Directives. The Secretariat has analysed these loans and has not included them in the DAC statistical reports. Its assessment, which takes into account comparability over time and among all providers of development finance, is that loans made from funds raised on the capital market require a subsidy to be counted as concessional.

5. Many members have observed there is a need to clarify the meaning of concessionality in character in the framework of DAC statistics, so as to ensure consistency and comparability. Members have also expressed their interest in capturing the variety of instruments leveraging resources for development (e.g. guarantees) in the DAC statistical framework, and emphasised that statistics need to be better linked with the new development agenda, both in terms of recognising donors’ total efforts and the

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1. “Official development assistance is defined as those flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions which are:
   i. provided by official agencies, including state and local governments, or by their executive agencies; and
   ii. each translation of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).”

[DCD/DAC(2010)40/REV1]
benefits their interventions generate for developing countries. Discussions have already started in this area within the non-ODA flows workstream of the Working Party on Statistics, and will be pursued.

B. Special status of the EU

6. The EU has been a full member of the DAC since its inception, and reported its statistics on development co-operation accordingly. In DAC statistical practice, contributions to the EU from EU member states are recorded as multilateral ODA, while EU outflows are recorded as multilateral aid receipts by developing countries. At present, the *sui generis* character of the EU, and the way its data are handled in statistical presentations, are not clearly spelt out in the Directives.

7. Members are invited to comment on the above issues and make suggestions for resolving them. A possible way forward might be:

   i) *“Concessionality in character”* – The DAC Working Party on Statistics has agreed to set up a Facilitator Group to finalise the new Converged Directives for DAC statistics. The DAC might request the Facilitator Group to carry out appropriate consultations so as to arrive at a clear definition of “concessionality in character”, for eventual inclusion in these directives. For reference, please see two papers placed before the Senior Level Meetings of 2003 and 2004 on this topic: DCD/DAC/A(2003)15/RD1 and DCD/DAC/RD(2004)17/RD3. The DAC may wish to consider if these consultations should also cover the measurement of development finance mobilised through guarantees.

   ii) *Special status of the EU* – The informal meeting of the WP-STAT in February was favourable to the idea of including a note on the *sui generis* character of the EU. The DAC may wish to task the Working Party on Statistics, and its Facilitator Group, to pursue this further by inserting a note on the *sui generis* nature of the EU in the Directives, clarifying how the Directives apply to the EU as a full member of the DAC, and explaining the technical implications where relevant.

   iii) *Impact on new converged directives* – Item 7 (ii) above is essentially work to clarify existing directives and practices, and should be able to be resolved in the context of the work to converge the existing directives. However, item 7 (i) may, given the political and technical issues involved, take longer time to complete. The DAC may therefore wish to consider approving the new Converged Directives as a basis for reporting, once all issues except “concessionality in character” have been resolved, noting that amendment may be required later if a closer definition of “concessionality in character” can be agreed.

COMMISSION EUROPEENNE
EuropeAid Co-operation Office
Directeur Général

Bruxelles, 08 JUIL. 2010
AIDCO

Att. Mr. Jon LOMOY
Director
OECD Development Cooperation
Directorate
2, rue André Pascal
75775 Paris Cedex 16
France

Ref: Our note 11/06/2010 n° 329493;
Our note du 31/03/2010 n° 172934

Dear Jon,

Thank you for your e-mail of 30/06/2010.

However, your mail does not really give an answer to the key questions raised in our letter n° 329493 of 11/06/2010 in order to make progress on all these issues before any other step is taken.

In that letter, hereby enclosed for easy reference, (i) we make an exhaustive analysis of the DAC Directives and documents, (ii) we explain why the notification was made by the EC in compliance with the Directives and (iii) we ask several questions to the Secretariat in order to understand its position and advance in this matter. For the moment we are waiting for a reply to this note.

Concerning the two issues you mention, I would like to point out that our notes (n° 329493 and n° 172934) are not correctly reflected in your interpretations of these two issues. Without entering into details (please refer to our previous notes), I would like to make the following clarifications:

1. The Secretariat recommends not to declare as ODA loans from the EIB that comply with the 3 requirements established by DAC Directives: (i) developmental character, (ii) grant element above 25% (using the discount rate established in the Directives for all DAC members i.e.10 %), (iii) interest rate below the prevailing market interest rate (comparison is made with the DDR (Differentiated Discount Rate) as indicated by the Secretariat).
For the record, in 2004 the Secretariat recommended the Commission systematically to apply the criteria of existence of an interest rate subsidy for a loan to be concessional in character though this is not required by the Directives. Loans already notified were reclassified (flows 2002). The Commission followed this recommendation but after consultation with the Secretariat our declaration of flows in 2009 (flows 2008) was made in accordance with the Directives and in line with reporting made before 2004. Consequently, modification of previous years has been requested.

2. After a years-long acceptance of notifications made by EC on Instrument for Pre-accession Assistance (IPA) and its predecessors and with no substantial change in the way of reporting, the Secretariat in 2010 raised the issue of the eligibility of almost the entire instrument. According to the Secretariat, despite the developmental character, activities made in the framework of IPA have as their main objective the enlargement of the EU and the development is only a consequence, therefore, they would not comply with the eligibility criteria for ODA. For us, this is the outstanding point (see our note n° 329493 page 5-6).

For the sake of clarification, I would like to point out that contrary to the statement of your mail, it was not requested by us that budget lines shown shaded in the last DAC Peer Review should be counted in full as ODA (for example, under these instruments there are countries not included in the list "ODA recipient countries", therefore the related projects can not be notified as ODA). The table of the Peer Review was annexed to our note of 11/06/2010 (page 5, 6 and annexes) to show the approach of the DAC vis-à-vis IPA and its predecessors. IPA is the only instrument put into question now by the Secretariat. According to the table the DAC has never before cast any doubt over the developmental objectives of the pre-accession instruments.

Looking forward to receiving an answer to our note of 11/06/2010 as soon as possible.

With best wishes,

Koos RICHELLE

Annex: Our note of 11/06/2010 n° 329493

Cc.: M. F. Fotiadis - DG DEV, M. Leigh - DG ELARG, M. Vale de Almeida - DG RELEX, Mme. Argimon-Pistre, M. Mastrogiacomo - Delegation of the EU to the OECD
Bruxelles, le 
AIDCO.G1/JIA D(2010)

Att. Monsieur Simon SCOTT
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Notre note du 31/03/2010 n° 172934
Votre e-mail du 19/03/2010

M. Simon Scott,

Suite à votre note du 22 Avril 2010 par la présente nous vous présentons notre position relative aux deux questions soulevées :

1. **Opérations de la BEI sur ses ressources propres en dehors de l’UE**

Nous prenons note de l’accord du Secrétariat que selon les directives le caractère concessionnel d’un prêt n’est pas conditionné par l’existence d’une subvention pour bonification d’intérêt et que de ce fait nous pouvons conclure que nos déclarations sont en ligne avec les directives.

Toutefois, le Secrétariat dans sa note du 22 Avril maintient sa recommandation de ne pas déclarer les prêts concessionnels sur ressources propres de la BEI comme APD sur base de nouvelles considérations non prévues par les directives et parfois même contraires à celles ci.

Nos procéderons à une revue de ces considérations et exposeronos nos commentaires.

1.) Le Secrétariat affirme dans sa note que “Toutefois, le seul moyen d’assouplir de manière significative les termes de remboursement d’un prêt est d’apporter une subvention aux taux d’intérêt proposés sur les différents marchés de capitaux, même si une subvention minuscule peut également être octroyée sous la forme d’un allongement des périodes de grâce ou de remboursement”.

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1 Nous attirons l’attention que dans le point 1de la note du Secrétariat du 22/04/2001 la citation est incomplète. Nous avions indiqué dans notre note du 31/03/2010 que : "Excepté le critère sur l’utilisation d’un apport supérieur à 25%, cette définition montre clairement que le seul critère de vérification du caractère concessionnel est l’existence d’un taux d’intérêt supérieur au taux de marché".
Nos commentaires:

- Selon la directive (DCD-DAC(2007)39 § 26) les termes de remboursements (taux d'intérêt, durée du prêt et délai de franchise) d'un prêt sont résumés par l'élément don. L'élément don mesure la souplesse des conditions du prêt. Selon cette directive, il est clair que la souplesse des conditions peut être obtenue à travers plusieurs éléments indépendamment. L'attention que le Secrétariat porte au niveau du taux d'intérêt au détriment du délai (remboursement et franchise) n'est pas appuyée par les directives. Par ailleurs une simple comparaison\(^2\) de deux prêts avec le même degré de libéralité (élément don), mais avec des termes de remboursement différents montre qu'une subvention majeure peut également être octroyée sous la forme d'un allongement des périodes de grâce ou/et de remboursement. Vu ce qui précède, cette considération du Secrétariat serait infonduée. Ce type de subvention en effet fait partie des choix de subvention disponibles pour la BEI.

- Selon la même directive la mesure de l'assouplissement des termes de remboursement est l'élément don et le degré d'assouplissement nécessaire pour la qualification d'un prêt comme concessionnel est de minimum 25%. Tous les prêts que nous avons déclarés comme ODA répondent à ce critère. Est-ce que le Secrétariat mesure la souplesse des conditions financières d'un prêt par une autre mesure que l'élément don prévu à cet effet dans les directives et dans ce cas quel est ce mécanisme et sa base légale? Le Secrétariat peut-il nous montrer avec un exemple chiffré, choisi parmi les prêts de la BEI déclarés comme APD, un cas d'assouplissement non significatif des conditions de remboursement?

- Vu que la subvention pour bonification du taux d'intérêt n'est pas une condition exigée par les directives du CAD pour l'assouplissement des taux, nous nous permettons de rappeler qu'il existe d'autres facteurs permettant de proposer un taux d'intérêt inférieur au taux d'intérêt du marché que l'emprunteur aurait dû acquitter de toute manière. Un exemple parmi d'autres est la réduction de la prime du risque rendue possible par la garantie\(^3\) octroyée à la BEI par le Budget communautaire.

2.) Le Secrétariat affirme dans sa note que "D'après notre compréhension, les conditions financières proposées par la BEI, en dehors du cadre des accords de Cotonou, restent des conditions de marché et ne bénéficient d'aucune subvention publique".

Nos commentaires:

- Malgré le fait que nous avons fourni au Secrétariat tous les détails des conditions financières des prêts de la BEI tels que demandés par les directives et par le Secrétariat et qu'il a pu s'assurer que tous les prêts portent un taux d'intérêt inférieur au taux d'intérêt du marché, à savoir les TAD\(^4\), le Secrétariat insiste que les

\(^2\) Prêt du PRGT (IMF) reconnu comme APD par le CAD avec les conditions suivantes: Durée 10 ans, période de grâce 5.5 ans, intérêt 0.5%. Élément don résultant 48%. Prêt de la BEI avec les conditions suivantes: Durée 26.86 ans, période de grâce 10,35 ans, intérêt 4.12%. Élément don résultant 47.5%. Par cet exemple il est tout à fait clair qu'une subvention apportée par l'allongement de la durée et la période de grâce peut être aussi importante qu'une subvention du taux pour 3.62%.


\(^4\) TAD taux d'actualisation différentielle publié par l'OCADE et indiqué par le Secrétariat du DAC comme les taux d'intérêt du marché faisant référence pour la comparaison avec les taux du marché.
conditions financières proposées par la BEI "restent des conditions de marché". Le Secrétariat pourrait-il nous dire sur quelle base il fait cette conclusion? Nous prions le Secrétariat de nous donner au moins un exemple sur la totalité des 1.686 € Millions de prêts APD 2008 de la BEI qui porte un taux d'intérêt supérieur ou égale au TAD.

3.) Le Secrétariat indique dans sa note que: "En effet, la BEI a la possibilité d'emprunter à des taux très favorables (crédit AAA) et de prêter à son tour à des taux proches de ses coûts d'emprunt. Force est donc de constater que ces opérations, malgré les avantages qu'elles offrent à l'emprunteur, n'induisent aucun "don" réel ou effort budgétaire de la part de l'UE".

Nos commentaires:

- Selon le document DCD/DAC/FA(2002)9 page5, II.a)6 "La méthode de détermination du taux d'actualisation qu'a choisie le CAD pour calculer l'élément de libéralité d'un prêt officiel est le coût d'opportunité pour le donneur de l'investissement perdu. Le montant du bénéfice sacrifié résultant de l'effort d'aide publique est réputé être au moins égal au seuil de rentabilité économique que l'État pourrait attendre d'un autre investissement intérieur". Ce bénéfice sacrifié correspond à l'élément don calculé avec un taux d'actualisation de 10%. Selon les directives, le fait que les prêts déclarés comme APD ont tous un élément don supérieur à 25 est suffisant pour montrer l'effort budgétaire fait par le donateur.

Nous pouvons être encore plus restrictifs que les directives dans l'estimation des coûts réels pour les prêteurs en utilisant pour le calcul de l'élément don un taux d'actualisation égal au TAD (métodologie pourtant non accepté et non utilisé par le CAD, voir DCD/DAC/STAT/M(2004)1/FINAL) au lieu du 10% retenu dans les directives. En effet selon certains membres du CAD le TAD est censé rendre compte du coût réel du prêt pour le gouvernement donateur (voir DCD/DAC/FA(2002)2 page 3 b) 6.) Tous les prêts APD de la BEI actualisés avec les TAD présentent un coût réel significatif pour le donateur.

- Le calcul du coût d'opportunité est suffisamment bien exposé dans la directive (DCD/DAC(2007)39/FINAL, point 26), mais il ne faut pas oublier qu'à part le coût pour le donateur mesuré par cette méthodologie, il existe d'autres coûts, comme par exemple ceux liés à la création et l'alimentation de la garantie octroyée à la BEI par le Budget communautaire couvrant les opérations financières dans certaines pays en développement.

- La notification des prêts APD de la BEI à été effectuée conformément aux directives. Les conditions que le Secrétariat ajoute en supplément sont contraire aux directives et même encore plus restrictives que des propositions de changements discutées et non retenues au Senior Level Meeting et au sein du GT-STAT en 2002-20045. Le Secrétariat peut-il nous dire comment il vérifie pour tous les autres membres du CAD que les taux d'intérêt sur leurs prêt APD sont inférieurs à ceux du marché?

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4.) Le Secrétariat mentionne dans sa note que: "Cette recommandation prend aussi en considération la manière dont les statistiques du CAD présentent les prêts alloués par les institutions multilatérales (la Banque Mondiale, les Banques régionales de développement et l'IFAD)....".

Nos commentaires:

- Le fait d'exclure des prêts répondant aux critères d'éligibilité pour l'APD, tels que défini par les directives, pour des "considérations de présentation" des statistiques par le CAD n'est pas acceptable.

- La définition de l'APD (DCD/DAC/(2007)39/FINAL page 8, paragraphe 8) exige une vérification des critères d'éligibilité de chaque transaction.

Comme l'analyse des prêts transactions par transaction reste la règle imposée par les directives, "dans la mesure du possible" nous avons "distingué, dans les apports fournis par la BEI, ceux qui sont assortis de conditions libérales" (i.e. portant un élément don supérieur à 25%) et nous les avons déclaré comme APD en toute conformité avec les directives ainsi qu'avec les Glossaires cités par le Secrétariat. De plus, le Secrétariat exige de notre part les détails pour chaque transaction de prêts (i.e. conditions financières détaillées) pour vérifier son éligibilité à l'APD.

5.) Le Secrétariat indique que: "Il est vrai que le Secrétariat ne demande pas systématiquement aux membres du CAD de démontrer le caractère concessionnel de chaque prêt APD".

Nos commentaires:

- En étant membre à part entière du CAD qui déclare ses flux selon les directives on attend le même traitement de la part du Secrétariat, que celui réservé aux autres membres et vice versa.

- Nous avons analysé la méthodologie d'octroi et de déclaration auprès du CAD des prêts APD des autres donateurs membres du CAD et nous considérons que notre notification est conforme aux directives et aussi identique à celle des autres membres. Le Secrétariat fait des recommandations sur base des nouvelles exigences sans faire référence aux directives. Pour cette raison, nous demandons au Secrétariat de mener une étude sur les tests d'éligibilité menés et les critères appliqués par les autres membres du CAD.

Conclusion:

La recommandation du Secrétariat n'est pas basée sur les directives, mais sur des considérations encore plus restrictives que des propositions de changements de celles-ci.

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7 Rapport du CAD sur la Coopération pour le développement 2010, page 29: "MISE PUBLIQUE AU DÉVELOPPEMENT : PRÊTS ou DONS accordés aux pays et territoires figurant dans la liste des bénéficiaires d'APD établie par le CAD et aux organisations multilatérales, par le secteur public, à des conditions financières libérales dans le cas des prêts. L'ÉLÉMENT DE LIBÉRALITÉ doit être d'au moins 25 %."
discutées et non retenues au Senior Level Meeting et au sein du GT-STAT. A la lumière de l'analyse précédente (voir aussi notre note du 31/03/2010, réf. 172934) on confirme le maintien de la notification sur l'exercice 2008, fait en conformité avec les directives du CAD et la future introduction de corrections des exercices précédents.

II. Les opérations mises en œuvre dans le cadre de la stratégie de préadhésion

Nos commentaires:


  L'actuelle position du Secrétariat est étonnante, car il reconnaît le caractère développemental des projets en discussion, mais ajoute d'autres considérations qui risqueraient de compromettre la plus grande partie de l'APD au niveau mondial. En effet l'objectif à long terme qui est la possible intégration de certains pays dans l'UE, ne contredit en rien l'objectif économique de développement et d'amélioration du niveau de vie. Le même raisonnement appliqué à d'autres domaines du développement (ex. politique visant la lutte contre la production de drogue, l'aide au commerce etc.) mènerait à leur exclusion de l'APD. L'aide pour le commerce a pour objectif général l'intégration dans le commerce mondial et est un moyen d'atteindre les standards de l'OMC. Selon votre raisonnement, le développement viendrait comme conséquence de ces politiques, mais ne serait pas leur objectif principal. La lutte contre la drogue à pour objectif la réduction de son utilisation, même dans les pays développées, et le développement économique des pays bénéficiaires de cet aide vient en conséquence.

- IPA finance des projets qui soutiennent et font partie des propres stratégies nationales de développement des pays bénéficiaires. Le Secrétariat met en question l'éligibilité de ces projets pour l'APD. Est-ce que le Secrétariat pourrait nous référer au définition de "Avoir pour but essentiel de favoriser le développement économique et l'amélioration du niveau de vie"?

- Un raisonnement sur la motivation d'une action par rapport au niveau de développement du pays bénéficiaire, tel que suggéré dans votre note, est très dangereux, vu le fait qu'il y a des pays sur la liste APD nettement plus développés que d'autres qui reçoivent de dizaines de fois plus d'aide. Avec un tel raisonnement, le Secrétariat est en train de mettre en question la liste des pays bénéficiaires de l'aide, établie par le CAD.

- Il convient de rappeler, que le CAD accepte l'IPA comme APD. (Voir Annexe 2 : DAC Peer review European Community 2007, page 38).

  Quant à ses prédécesseurs (PHARE, ISPA, SAPARD, CARDS), comme le Secrétariat l'indique dans sa note, la plupart des actions ont été déclarées et acceptées par le Secrétariat comme AP. Ceci veut dire que ces actions ont pour but essentiel de favoriser le développement économique et l'amélioration du niveau de vie des pays bénéficiaires. En effet la seule différence entre APD et AP, tant que le dernier existait, était la position du pays bénéficiaire sur la liste (Voir le DCD/DAC(2000)10). Alors, vu que l'IPA remplace les instruments précités, les actions financées par l'instrument ont le même but que ces prédécesseurs et la seule différence par rapport au passé est
que maintenant tous les pays bénéficiaires de l'IPA se trouvent sur la liste des bénéficiaires d'APD établie par le CAD.

- Il est établi que la comptabilisation de l'aide pour un pays bénéficiaire s'arrête dès que le pays obtient sa date d'adhésion à l'UE\(^8\). Ceci veut dire très logiquement que tant que le pays n'a pas de date, l'aide doit être comptabilisée. Tous les pays qui reçoivent de l'aide publique au développement dans le cadre d'IPA, n'ont pas de date fixée pour leur adhésion.

**Conclusion:**

Le CAD a toujours accepté le caractère APD d'IPA ainsi que des instruments antérieurs d'assistance extérieure et de préadhésion. En tenant compte du "status quo" et de l'acceptation comme APD de ces instruments à un autre niveau que l'unité de reporting statistique, nous allons maintenir notre déclaration dans l'état ainsi que les communications des contributions des États Membres. Si le Secrétariat trouve besoin de continuer les échanges sur ce sujet, ceci mériterait une discussion au niveau politique adéquat.

Si le Secrétariat a encore des questions sur la notification des prêts sur ressources propres de la BEI, nous sommes prêts à organiser une réunion pendant le mois de Juin à Bruxelles avec la participation de la BEI, des Directions Générales concernées de la Commission Européenne, ainsi que la Présidence du Conseil de l'UE.

Meilleurs salutations,

José IZARRA  
Chef d'unité

Annexe 1 et 2 – DAC Peer review European Community 2007 (page 23 et 38)

Cc. : M. Carano, Mme Kallio (BEI)  
     Mme Argimon-Pistre, M. Stathopoulos, M. Bagur, M. Luyckx, M. Craig-McQuaide  
     M. Lys, M. Mastrogiani (Commission Européenne)

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\(^8\) Voir le DCD/DAC(2005)58 foot note 3.
Chapter 1

Strategic Orientations

The foundations of European Community development co-operation

The shaping of a different form of development co-operation

The European Community is unique among the members of the Development Assistance Committee (DAC) in that it both provides direct donor support to developing countries and plays a "federating" role in relation to the other institutions and Member States of the European Union (EU). The Commission and the 27 Member States taken together currently account for some 55% of all Official Development Assistance (ODA) recorded by the DAC.

As with other Community policies relating to external relations, European development co-operation has evolved in parallel with Member State construction of a collective vision for Europe, its treaties, conventions and agreements. Current development co-operation policy draws its shape and direction from this ever-evolving historical mosaic. Earliest European development co-operation began in 1958 with the first European Development Fund (EDF) and expanded in successive waves to attain today's total of 145 national aid recipients. Each stage of this expansion generally was anchored in a separate external relation rationale. This has included, for example, providing assistance to former colonies of Member States, setting the stage for the eastward enlargement of the Union, or helping to stabilise the Mediterranean "neighbourhood".

These different stages of expansion often introduced different sets of policies and administrative procedures. The effect of this layering of objectives and procedures was to leave the European institutions with a widely perceived reputation for bureaucratic complexity. Commentary critical of Community management ultimately caused the resignation of the College of Commissioners in 1999. This has led to major administrative reform, including for development operations. The Community now seeks to move beyond these historical precedents, towards a more proactive and strategic European vision for development co-operation.

4. In this Peer Review, the different aspects of European organisation are presented in simple, lay language wherever possible. For this presentation on development co-operation, the European Commission ("Commission") is essentially defined as the RELEX Family of institutions (primarily DEV, RELEX, EuropeAid and ECHO). For purposes of development co-operation, the European Community ("Community") is essentially composed of the European Commission, Council and Parliament. Finally, the European Union ("EU") includes the Community and the other two pillars of the political union. See Glossary for more specific definitions of these terms.
runs from 2007-2013 and is mainly managed by RELEX. Although also implemented by EuropeAid, it has a different set of rules and regulations to the EDF. **12**

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<td>Large-scale development assistance</td>
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<td>Rule of law</td>
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<td>European Instrument for the Security and Stability of the Union (EISU)</td>
<td>European Union for development in new and emerging situations</td>
<td>Development in new and emerging situations</td>
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<td></td>
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<tr>
<td>Instrument for Pre-Accession (IPA)</td>
<td>EU Candidate Countries and Enlargement Dimension, Eastern and Southern Europe, Central Asia, Western Balkans</td>
<td>Ecology, infrastructure</td>
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<tr>
<td>European Instrument for Neighbourhood Countries and Central Asia (EICAC)</td>
<td>Grant, technical co-operation, loans, non-reimbursable assistance, loans</td>
<td>Technical co-operation, loans, non-reimbursable assistance, loans</td>
<td>1,188</td>
<td>18</td>
</tr>
<tr>
<td>Neighbourhood Instrument (ENI)</td>
<td>Grant aid, technical assistance, loans</td>
<td>Technical co-operation, loans</td>
<td>1,188</td>
<td>18</td>
</tr>
<tr>
<td>Accession Assistance</td>
<td>Grant aid, technical assistance, loans, non-reimbursable assistance, loans, infrastructure, education</td>
<td>Technical co-operation, loans, non-reimbursable assistance, loans</td>
<td>1,188</td>
<td>18</td>
</tr>
<tr>
<td>Instrument for Co-operation with Non-Conventionally Contracting States (IC)</td>
<td>Modest size, Co-operation and exchange programmes</td>
<td>Previous ICI regulation</td>
<td>172</td>
<td></td>
</tr>
<tr>
<td>Instrument for Nuclear Safety Co-operation (INSC)</td>
<td>For Nuclear Safety</td>
<td>Part of TACIS regulation</td>
<td>Average 75 million per annum</td>
<td>1</td>
</tr>
</tbody>
</table>

1. Asia and Latin America (ALA); Technical Assistance for the Commonwealth of Independent States (TACIS).
2. Instrument for enhancing administrative capacity and promoting social and economic inclusion to all Central/Eastern European countries (PHARE) until 2000; Instrument for Structural Policies for Pre-Accession (ISPA); Special Assistance Programme for Agricultural and Rural Development (SAPARD); Community Assistance to Reconstruction, Stability and Development in the Balkans (CARDs).

*Note:* Gray – mainly ODA, Not shaded – mainly non-ODA external assistance.

12. As a result of the recent reforms, however, both now use the same financial and administrative procedures.
The Director
DEVELOPMENT CO-OPERATION DIRECTORATE

Mr. Koos Richelle
Director General
European Commission
EuropeAid Cooperation Office
Rue de la Loi, 41
B - 1049 Brussels

DCD/JL(2010)61 6 August 2010

Your Ref. Ares(2010)410350

Dear Koos,

Thank you for your above-referenced letter of 8 July concerning EU ODA reporting issues and for the agreement conveyed to us on 2 August to my proposal for tripartite discussions on these issues involving the Secretariat, the EU and the Chair of the DAC Working Party on Statistics.

Let me start my response by underlining that we share a common interest in fully reflecting in ODA statistics the important effort that the EU and its member countries are making towards development. At the same time, we also share a commitment to openness and transparency about how these statistics are prepared, to make sure that we can both fully justify and defend them.

I would also like to emphasise that the Secretariat sees its role as that of interpreting the reporting directives, and advising our members on how they could best be applied. The directives are approved by DAC members collectively, and it is the DAC that makes any final decision both on ODA rules and on whether reporting is in line with them.

Our advice is aimed at ensuring that data are reported consistently and transparently, so that they fully and truly reflect the development effort of our members, and so that both we and members can defend them against scrutiny and challenges. This also helps ensure that peer reviews focus on substantive issues in members’ aid programmes, rather than being distracted by arguments about what has been counted as aid.

We try to base our advice to members on existing rules and on established precedents as far as possible. You ask that we respond substantively to the issues raised in the Commission’s letter of 11 June, and I am happy to try to do so.

EIB loans

The assessment of whether official loans should be classified as concessional or non-concessional has traditionally been conducted slightly differently according to whether they are bilateral loans from countries, or multilateral loans.

Our assessment of EIB loans is based on the long-standing practice in reporting of lending by multilateral agencies, where the key point is that multilateral loans should only be reported as concessional if they involve a subsidy.

While concessionality is assessed in different ways for different purposes in the OECD, the most basic test is whether a subsidy was provided. This test is always available for multilateral lenders that borrow on the capital markets and then relend with or without a subsidy. If a subsidy has been introduced, the loan should be reported as concessional; if no subsidy is present, the loan should be reported as non-concessional.

It is not possible for the Secretariat to know, merely from examining the reported terms of a loan, whether a subsidy was included, since the Secretariat does not know what the borrowing costs were. For this reason we may ask statistical correspondents to sort loans according to whether they are subsidised or unsubsidised, and to report them as concessional or non-concessional respectively. We have done this on many occasions in the past, especially with multilateral development lending, where the...
existence of a subsidy has always been considered the key test of whether a loan should be classified as concessional or non-concessional (on this point, see the end of the note on “Grant Element” on page 273 of the 2010 Development Co-operation Report).

In the current climate of exceptionally low interest rates, some unsubsidised loans may bear a grant element of at least 25%, and/or an interest rate lower than the DDR or a percentage of the DDR. However we do not believe that such features would be sufficient to classify a loan as concessional if it is made from funds borrowed on the capital market and re-lent without any subsidy being added.

In this connection, your earlier letter correctly observes that the grant element calculation aims to measure the opportunity cost of a financial effort by the official sector. However, the notion of the opportunity cost of providing aid only applies where there is an alternative, non-aid use of the funds. For example, if a government could have invested its revenue in a domestic project with an expected rate of return of 10%, then it makes a sacrifice if it instead lends those funds to a developing country at 5%. However, this reasoning cannot apply to a multilateral institution whose raison d’être is development lending.

As already mentioned, the advice we have offered to report EIB loans as concessional only when they benefit from a subsidy is consistent with long-standing practice in dealing with the outflows of multilateral agencies. This is explained in both our major statistical publications (see the reference to the Development Co-operation Report above and paragraph A12 on page 265 of the 2010 edition of the Geographical Distribution publication). Treating EIB lending differently from that of other multilateral development lending institutions would introduce a major anomaly into DAC statistics, and call into question the present categorical distinction in reporting between the soft and hard lending window operations of the World Bank, regional development banks, and IFAD.

Apart from these statistical policy considerations, we feel that we should alert you to potential presentational and reputational risks of reporting unsubsidised EIB loans as concessional whenever they meet grant element or DDR tests, and of retroactively changing reporting along these lines back to 2002.

Loans are reported on a capital flow basis: the disbursement is recorded in full at the outset, but repayments of principal must then be recorded as receipts throughout the life of the loan, reducing net flows in all years in which repayments are received. If you now change your past reporting of some loans from non-concessional to concessional, you will boost concessional flows in the earlier years, but at the cost of imposing a downward long-term trend on the net concessional total as repayments rise. Moreover, at a certain point in the future, it is likely that interest rates will rise to a level at which no new unsubsidised loans meet the two tests. When that happens, there will be no new positive entry for this class of loans, but negative entries will still be required for all the repayments being received on earlier unsubsidised loans. Total net EIB flows will then appear to fall precipitately, when in fact there may have been no change in lending policy or amounts.

You may wish to run some simulations of the present and future effects on reported EIB concessional flows of changing past reporting to include some unsubsidised loans. These simulations will always reflect the fact that, in the long run, reporting on loans is a zero-sum game, with future negative flows exactly cancelling earlier positive flows. Loan reporting effectively front-loads ODA, and if you front-load past flows, you inevitably reduce future flows.

EC budget lines

It is true that we have not previously looked in detail at the EC’s reporting of its budget lines for development. As you point out, the last DAC Peer Review (page 38) merely flagged some of these lines as “mainly ODA” and others as “mainly non-ODA”.

Several developments in recent years have suggested to us that it was time to carefully review these budget lines to ensure that the right amounts are reported as ODA. At the end of 2005 the DAC agreed to a new DAC List of ODA Recipients based partly on a new rule that prospective EU members with a firm date of accession should not be eligible for ODA. We accept your point that countries now receiving pre-accession assistance are still eligible for ODA, since they do not have a firm date of accession. However the question that needs to be considered is whether the assistance those countries are receiving under the pre-accession instruments meets the tests of ODA. The answer turns on whether the “main objective” of the assistance is the “economic development and welfare of developing countries” [DCD/DAC(2007)34, paragraph 35], and this can only be resolved by looking at the specific activities and their rationales.
Other factors also suggest that a review of the ODA components of the EC budget may be timely. There are powerful calls for greater transparency in ODA reporting at individual activity level, including from IATI and civil society groups. The Working Party on Statistics has also recently agreed on detailed and comprehensive procedures to assess the ODA share of members’ contributions to multilateral agencies. It would be incongruous for the Working Party and the Secretariat to examine in detail the ODA shares of the programmes of relatively small UN agencies – as it is already doing – while not verifying the ODA shares of much larger EC efforts.

For these reasons we think it would be useful to have a thorough review of the ODA share of the EC budget. In this context, we would propose a comprehensive and balanced approach, that looked not only at the budget lines flagged in the Peer Review as “mainly ODA”, but also at any expenditures under other budget lines that might merit inclusion in calculating the ODA share. The aim would be to agree a defensible, documented procedure for determining the ODA share of the EC budget. This would ensure that the EC, its members and the DAC Secretariat could defend the integrity of the amounts reported.

The purpose of such an exercise, which as mentioned we have undertaken with a number of multilaterals, is not to reduce the amounts reported as ODA, but to do normal quality assurance, and make sure that we have a common understanding of the way the ODA criteria should be applied to this important area.

Again, these are only our views and suggestions, and we are happy to discuss them further in a collegial spirit, with the participation of the Working Party on Statistics chair. I copy this reply to her for information. We are flexible on the timing and level of further discussions, so you may wish to make your suggestions on these points to the Chair and us simultaneously.

With best wishes,

Yours sincerely,

Jon Lomøy

cc.  Ms. Riegler, WP Stat-Chair
     Mr. S. Scott, Ms; J. Benn, OECD DCD
     Mr. F. Fotiadis – DG DEV
     Mme Argimon-Pistre, Mr. Mastrogiacomo – Delegation of the EU to the OECD
Dear Koos,

Thank you for your letter of 17 September. I understand that Ms. Riegler agrees to your proposal for a meeting in late October, and relevant staff from my Directorate will also be available.

Please be assured that we recognise and value the European Commission as a full participant in the work of OECD and its Development Assistance Committee. The statistical problems we are dealing with result from the fact that, unique among DAC members, the EU institutions are multilateral. That means that their activities are measured twice in our statistical systems, first as multilateral inflows from EU members to the EU institutions; and second as the outflows of those institutions. ODA is defined as flows to developing countries and multilateral institutions. This means that, strictly speaking, the EU institutions receive ODA: they do not disburse ODA. Reporting rules must be interpreted, and adapted, accordingly.

I regret that you do not find that my letter of 6 August provides sufficiently explicit replies to your questions about EIB loans. I hope that the above general points, combined with specific responses to each question given in the attached sheet, will clarify Secretariat thinking in advance of the October discussion.

I sincerely hope for progress on this issue at the October meeting, as I fear reputational damage for both our organisations if the Commission goes ahead with its plan to change reporting on EIB loans. The result would be data which were inconsistent with those of all other multilateral lenders, and it could be difficult for the OECD to defend such data or to publish them without qualification.

Given your response concerning the basic questions about the ODA-eligibility of individual Commission budget lines, I think this issue might be best examined in the EC’s next Peer Review. In the meantime, however, I would be grateful for your confirmation that flows to countries ineligible for ODA are excluded from your assessment of the ODA amounts extended under the various budget lines (for example, that no activities with Russia and Israel are included in the amount of ODA reported for the European Neighbourhood and Partnership Instrument).

With best wishes,

Yours sincerely,

Jon Lomøy

cc. Ms. Riegler, WP Stat-Chair
Mr. S. Scott, Ms; J. Benn, OECD DCD
Mr. Fabrizio Pagani, OECD Legal
Mr. F. Fotiadis – DG DEV
Mme Argimon-Pistre, Mr. Mastrogiacomo – Delegation of the EU to the OECD
Questions raised in the letter from Mr. Izarra to Mr. Scott dated 11 June 2010

Q. Does the Secretariat measure the softening of the financial terms of a loan in terms of anything else other than the grant element provided for this purpose in the Directives, and if so what is this mechanism and its legal basis? Can the Secretariat show us, with a worked example in figures taken from EIB loans declared as ODA, a case of non-significant softening of the conditions of repayment?

A. Yes. The Secretariat assesses whether multilateral loans are concessional based on whether they are subsidised. This treatment is explained in each edition of the annual Development Co-operation Report, and in the other major statistical publication, the Geographical Distribution of Financial Flows. The legal basis for the Secretariat requesting from members the information necessary for the accomplishment of its tasks is the OECD Convention and particularly its Article 3 a), which states that one of the obligations of membership is to “furnish the Organisation with the information necessary for the accomplishment of its tasks”. This general principle is developed in Rule 26.a of the Rules of Procedures and in the related “Interpretation” which clarifies that “information” includes statistics. This applies also to the members of the Committees of the Organisation. All EIB loans declared as ODA [actually, declared as concessional] that are extended using funds raised on the capital market and without the benefit of a subsidy have not had their terms softened and are therefore not concessional.

Q. Could the Secretariat tell us how it verifies whether the interest rates charged on their ODA loans by all the other members of the DAC are lower than the market rates?

A. The fundamental test is not market rates in themselves but whether the loans meet the ODA requirement of being “concessional in character”. If any member of the DAC raised funds on the market and used these funds to make loans, without any subsidy being added, we would advise against reporting the loans as ODA.

Q. [...] the Secretariat insists that the financial conditions proposed by the EIB “remain market conditions”. Could the Secretariat tell us on what basis it draws this conclusion? We would ask the Secretariat to give us at least one example out of the €1.686 million in ODA loans made by the EIB which has a rate of interest that is higher than or equal to the DDR.

A. See above. While the DDR is a useful measure of market rates, it is not a direct measure of the donor’s cost of raising finance to make loans. Where the donor has raised funds on the market and then re-lends them without a subsidy, the loan is not concessional.

Q. The Secretariat makes recommendations on the basis of new requirements without reference to the Directives. For this reason, we ask the Secretariat to conduct a study of the eligibility tests performed and the criteria applied by other DAC members.

A. All our suggestions on loan reporting have derived from the requirement in the Directives for loans reported as ODA to be “concessional in character”. The Secretariat is following similar issues where they arise with other members. The Secretariat has limited resources and under the OECD Convention is independent and cannot accept instructions from individual members or other regional or international bodies. The Secretariat’s work is determined by its Programme of Work as decided by the OECD Council, which is the governing body of the Organisation. 22 EU Member States are Members of the Council and the EU through the European Commission participates in its activities.

EUROPEAN COMMISSION
EuropeAid Co-operation Office
Director-General

Brussels, 14 DEC. 2010

Att. Ms. H. Riegler
WP-STAT Chair
Zelinkagasse 2, A-1010
Vienna, Austria

Ref: Your mail 3rd November; my note 17 September 2010 n° 608454; Your e-mail 4 August 2010; my note 2 August 2010 n° 480359 + Annexes (Letter 8 July 2010 n° 410350, Letter 11 June 2010 n° 329493, Letter 31 March 2010 n° 172934); your e-mail 23 July 2010

Dear Ms Riegler,

Thank you for the report annexed to your mail of 3rd November. Please find below our position both on the 20th October meeting and your report:

1. WHAT THE DCD IS CHALLENGING

The DCD insists that there must be an interest rate subsidy for a loan to be ODA-eligible. In recent discussions, the DCD has also taken the view that the resulting interest rate must be lower than the cost of borrowing for the donor when loans are extended using funds raised in the capital market.

This line was pursued since 2004, although this is not required by the Directives. Accordingly, for the 2004-2008 period, the Commission followed this recommendation, but in 2009, after consultation with the OECD statistical department, the declaration of 2008 flows was done again in accordance with the Directives and in line with reporting made before 2004 (longest standing practice).

During the ongoing discussions the DCD has also put in question the application of DAC Directives to the European Union.

2. THE EU IS A DAC MEMBER

The European Union (EU), founded by the Lisbon treaty, replaced and succeeded the European Community as a DAC member in 2009.

Given that two of the conditions to become a member of the DAC are (1) to be a donor (providing a minimum of ODA volume) and (2) to report in accordance with DAC requirements, I am very surprised that you seem to question the status of the EU as a donor and provider of ODA as well as the full application of the DAC Directives.

The document DCD/DIR(2004)15 establishes the criteria for each donor to become member of the DAC. The text defines the DAC as "...a forum of reference for the harmonisation of donor policies...".
The resolution on Development Assistance adopted by the Special Economic Committee at a meeting on 12th-13th January 1960 and approved by Ministers of Members and Associate Members of O.E.E.C in 1960, mentions the Commission of the European Community at the same level as other country Governments and the European Community as a donor "...and the Commission of the European Community, who, in addition to their contribution to international organisations, are making available or may be in a position to make available a significant flow of long term funds to underdeveloped areas...". Since the accession of the EU to the DAC, it has been accepted that the EU has its own funds like any other member.

Moreover, the OECD DCD in its own webpage as well as in abundant publications and reports presents the European Union as a donor that provides ODA. The OECD itself reminds the obligation of DAC Members (with no exception) to ensure that statistics conforms to the Directives.

The EU as a DAC member has the obligation to present statistics on all EU aid flows in compliance with DAC directives.

In your meeting report (10th paragraph) however you mention that DAC/CRS Directives would not apply to EU flows as in your opinion the EU can not be assimilated to a DAC country.

Let me underscore that according to CRS Directive \"...The concepts and terminology used in the CRS conform to those used in DAC statistics.\".

The CRS Directive defines the EU as a "DAC country". Its annex 3 establishes the list of DAC Member Countries including the European Community (now EU) under the heading "country" as any other DAC member. Therefore, when reference is made to "DAC countries" the EU is included as defined by the directives. Likewise, the Directives refer at different places to DAC Members without excluding the coverage of the EU flows.

In conclusion, the application of the DAC directives to the EU and its role as a donor that provides ODA can not be questioned. We consider this to be the basis of any further discussion.

3. COMPARISON OF EIB LENDING AND LENDING BY THE AUSTRIAN OFFICIAL EXPORT CREDIT AGENCY (OeKB)

Both in the meeting of 20th October and in your note of 3rd November 2010 you sustained your position on the basis of the Austrian reporting. In your meeting report reference is made to the OeKB. It remains difficult to understand the link with the ongoing discussion, in the absence of specific description of the products/loans.

We have ourselves analysed the OeKB activities based on available information and conclude that the Austrian Official Export Credit Agency (OeKB) is not a relevant comparison with the EIB, for the discussion on ODA eligibility loans, for the following reasons:

- According to your note: \"...I contributed an example from Austria where unsubsidised loans, even if they met the grant element test, were reported as non-concessional\".

An examination of Austrian DAC reporting shows that Austria has not reported any non-concessional loans, apart from export credits, from 1990 till 2009.
• The Austrian Official Export Credit Agency (OeKB) provides export services. Export credits, including or not an interest rate subsidy, can not be declared as ODA. According to the directives, they must be declared as OOF (Other Official Flows).4

The OECD Development Cooperation Review Austria (1999) recalled this point:

"......The export credit part, on commercial terms, has to be recorded as "Other Official Flows". Despite these rules, Austria is reporting its whole financial package as concessional loans under "Non-Grant Bilateral ODA"......Due to this practice, Austria's ODA outflows is overstated...."

• Soft loans are exclusively offered and processed by OeKB, according to the information available. An analysis of OeKB products shows that the only loans, (including or not an interest rate subsidy) that could be reported as ODA, would be ODA loans as part of "Associated Financing" packages.

However, there were no such loans included in Associated Financing schemes from 1990 until 2008 in Austria.5

• A distinction should be made between (i) the conditions that allow the OeKB and EIB to have the possibility to borrow at very favourable rates (credit AAA), as it is the case for many DAC Members and (ii) the additional existence of a guarantee in some cases (e.g. the EIB external mandate of the European Parliament and the Council6) which use the EU budget to cover the risk premium for individual lending operations7.

4. THE CRITERION "CONCESSIONAL IN CHARACTER" AND THE "GRANT ELEMENT" INTRODUCED IN 1972

Concerning your considerations on "concessional in character" and the "grant element" (6th paragraph of your note), I would like to highlight the following points based on (i) an OECD document8 related to the Senior Level Meeting Dec 2003, (ii) a note of the Secretariat of 19719, (iii) Development Co-operation Reviews 1969 and 1972:

• The original ODA definition, formulated in 1969, did not provide a precise quantitative test of "concessional terms". Instead it specified that ODA loans are:

"concessional in character, i.e. their terms are significantly softer than the terms normally available for commercial transactions with less developed countries such as guarantee private export credit"10.

According to a note of the Secretariat11 of 1971, on the basis of 1969 ODA definition and in the absence of a benchmark, it was not possible to appraise the test "concessional in character"12.

• The 1972 DAC Recommendation on terms and Conditions of aid, while retaining the basic requirement of concessionality, added a numerical test so that the requirement became that ODA:

"is concessional in character and contains a grant element of at least 25 per cent", adding that:

"Grant element is defined as the face value of a financial commitment less the discounted present value of the required amortisation plus interest payments (using a 10 per cent discount rate)"
The OECD document DCD/DAC(2003)25/REV1 reiterates that:

"The grant element takes into account the interest rate, maturity and grace period of loans to provide a synthesis of concessionality".

"The 10 per cent figure was consistent with the approach recommended by the original UN expert group tasked with examining this problem, namely that the rate should be the opportunity cost to the donor foregone investment opportunities, as opposed to the cost to the donor of borrowing on the market..........

In the light of the above mentioned principles, the "concessional in character" test does not make any distinction between the origin of funds and is not defined on the basis of the cost of borrowing.

5. WHY THE COMMISSION Considers that EIB Loans should be ODA Eligible

Compliance with the DAC/CRS++ Directives. As indicated in our meeting of 20th October and in our previous notes13, reported EIB loans comply with the three criteria established in the Directives14 namely: (i) development objective, (ii) concessionality (provide a grant element15 above 25%), (iii) "concessional in character" – defined by the Directives as having an interest rate below the prevailing market interest rate.

- "Concessionality". The measure of the official aid effort16 for ODA loans chosen by the DAC is the opportunity cost measured by the grant element: All ODA EIB loans reported have a grant element higher than 25%. The grant element has always been reported to the DCD and accepted.17

- "Concessional in character" is defined by the Directives as having an interest rate below the prevailing market rate. All reported ODA EIB loans, on top of meeting the previous criterion on grant element higher than 25%, also have an interest rate lower that the Differentiated Discount Rates (DDR). As stated by the OECD DCD, DDR is a useful measure of market rates18. Indeed the statistical department of the OECD DCD recommended the Commission in the past to use the DDR as the reference market rate.

For the record, the DDR is the rate used in the "Arrangement of officially supported export credits" to measure the concessionality level for tied aid. An interest rate for a given loan below the DDR gives a positive concessionality and therefore the loan is concessional in character.

The methodology to determine if a loan is concessional has already been discussed. Documentation from High Level Meeting, Senior Level Meeting and Working Party Statistics19 demonstrates that the methodology chosen by the DAC i.e. "opportunity cost" is different from the methodology interpreted by the Secretariat i.e. "the cost of borrowing"20.

Despite attempts to modify the "ODA loan" definition, the High Level Meeting21 and Senior Level Meetings in December 2003 did not agreed.

The Directives:

- do not make any distinction to classify a loan as ODA on the basis of the origin of funds. The existence of an interest rate subsidy when loans are extended using funds raised on the capital market is not a requirement established in the Directives.

- accept the existence of an ODA loan without the existence of an interest rate subsidy.22
• do not define "concessional in character" as offering to the borrower an interest rate lower than the cost of borrowing for the donor.

ODA loans declared by other DAC Members offer an interest rate (long term loans) higher than the cost of borrowing (short term) (long standing practice).

• do not define the financial mechanism (type of subsidy) to be used in order to offer a higher concessionality level or a lower interest rate. The choice is therefore given to the specific agreement between donor and recipient. In the EIB’s business model, interest rates subsidies are marginal. EIB loan concessionality is achieved through other loan parameters such as grace periods, maturity and also through the "EU Guarantee to the European Investment Bank against losses under loans and loan guarantees for projects outside the Community" (external mandate of the European Parliament and the Council).23

For a large part of its activities outside the EU, the EIB does not charge the risk premium for sovereign risk, given that the EU budget provides a provisioning against losses via the EU guarantee, as decided by the EU legislator (EP and Council of the EU).

According to the Guarantee Fund Regulation an amount corresponding to 9% of the guaranteed liabilities is transferred from the EU general budget to the Guarantee Fund. Considering that at the end of FY 2009, total outstanding (disbursements net of reimbursements) of EIB operations in DAC-listed countries amounted to €23.4bn, and that of this outstanding amount €15.36bn is covered by the EU guarantee, the 9% provisioning rate (of €15.36bn) corresponds to €1.38bn.

The provisioning of this guarantee is an additional budgetary effort to the "aid effort" measured by the DAC by "the opportunity cost" of the foregone investment.

It would be inconsistent and not logical that loans with the same financial conditions could be classified differently (ODA or not) depending on the financial mechanism used (for example using an interest rate subsidy or a guarantee respectively).

Moreover, a loan with a higher level of concessionality and a lower interest rate than a loan having an explicit interest rate subsidy could be non-ODA eligible, if the DCD's recommendation is followed.

The Commission believes that comparability and consistency should be one of the main strengths of the DAC Statistics. This is why data must be reported strictly following the Directives which establish common methods and methodologies for ODA measurement.

Reporting Directives apply to the EU as a full member of the DAC. However, the DCD recommends the EU to report using "similar" reporting facilities offered for practical reasons to multilateral organisations (as the World Bank and Regional Development Banks) when it was not possible to examine transaction by transaction for compliance with the Directives. In this case, loans have been treated by the OECD in statistical presentations as non-concessional if made from "ordinary capital" resources (raise funds on the capital market) and concessional if made from a "soft window" (funds provided mainly from Member's replenishment). The DCD requires an interest rate subsidy for EIB loans to be ODA-eligible to be in line, in their opinion, with the statistical presentation made by the OECD for loans provided by Regional Development Banks and World Bank etc., though this implies an underestimation of ODA loans as recognised by the OECD in one of its major editions24.

The EU as a DAC Member reports transaction by transaction in accordance with the Directives ensuring comparability of data and accurate reporting of figures.
Directives do not establish different concessionality requirements as regards the nature of the donor (bilateral or multilateral). Even if such a difference would have existed, the EU’s sui generis legal nature and its role as a donor and DAC Member should be recognised.

When Multilateral Organisations and countries which are not members of the DAC report to the OECD they should report in accordance with the Directives in order to harmonise their reporting ensuring comparability (see the Guidance for Multilateral Agencies reporting to the DAC\textsuperscript{25}).

Finally, EIB ODA loans can not be declared as "Other Official Flows" (OOF) as proposed by the Secretariat. According to the Directives\textsuperscript{26}, OOF include "bilateral transactions intended to promote development but having a grant element of less than 25 per cent." All EIB ODA loans intend to promote development but have a grant element above 25%.

\section*{6. QUANTIFYING THE IMPACT}

If the suggestion by the DAC Secretariat (not based on the Directives) is followed then (i) ODA loans actually received by the borrowing country would not be accurately measured and (ii) there would not be a proper recognition/visibility of EU effort as a global player in ODA countries.

In 2009, EIB ODA-eligible flows amount to €3.8 Bn commitments and €4.2 Bn disbursements. Of these amounts, €3.5 Bn (92\%) commitments and €4.0 Bn (95\%) disbursements would not be declared as ODA (concessional) if the additional criteria required by the DAC Secretariat are applied.

\section*{7. CONCLUSION}

The EU maintains the reporting on EIB loans (2009 flows) which is made in accordance with the DAC directives as it has been the longest standing practice.

An interest rate subsidy to ensure an interest rate below the cost of borrowing for a loan to be ODA-eligible is not required by the Directives approved by the DAC.

Some issues raised in the framework of the ongoing discussions (i) questioning the application of the DAC Directives to the EU\textsuperscript{27} and therefore the comparability between donors, (ii) requiring additional criteria for concessionality not approved at the adequate level, (iii) questioning the role of the EU as a donor........) go beyond the present technical discussions, and would also in my view, go beyond the scope of the DAC Working Party on Statistics.

The proper recognition/visibility of EU effort as a global player in ODA countries is at stake, as well as the application of the DAC Directives. Therefore, I believe that the issue deserves to be discussed at political level if the DCD still considers necessary.

\[\text{Koos Richelle}\]
1 OECD QWIDS "About Statistics".

2 Directive DCD/DAC(2007)34

3 * http://www.oekb.at/en/export-services/financing/softloans/Pages/default.aspx

* OECD Report- Export Credit Financing Systems in OECD Member Countries and Non-Member economies. Austria 2005 (see in particular page 9)2008 http://www.oecd-library.org/doseserver/download/fulltext/2208061e.pdf?expires=1291044506&id=0000&accname=ocid194935&checksum=0444A5B338E04EED01D75E5F79214BDF


7 In the Austrian case, the risk premium is not covered, without charge, by the OeKB.

8 DCD/DAC(2003)25/REV1


10 Development Cooperation Review 1969, p. 291


12 "...Concessional or at least the intention to be concessional, has proved so far to be a less effective test at the individual transaction level. Intentions are in practice a matter of declarations and, in the absence of a threshold defining a significant or minimum degree of concessional in official development assistance, some "Other Official Flows" are more concessional than some ODA in terms of the grant element as conventionally measured at a 10 per cent discount rate.

The group was unable to find a single criterion which could serve as a universal benchmark for appraising the concessionality of a loan for the definition of ODA. It therefore recommended scrutiny of individual transactions during the Annual aid reviews...........as a means of surveying the dimension of the problem. It is at this stage that the matter rests as present".

13 See note no 172934 (31/03/2010), no 329493 (11/06/2010)


15 Using the discount rate established in the Directives for all DAC Members i.e. 10%. (Directive DCD/DAC(2007)39/Final point 26 and Annex 1)

16 DCD/DAC/FAC(2002)9 (page 5 - point 6): "The rationale behind the discount rate that is being used by the DAC to calculate the grant element of an official loan is that of opportunity cost to the donor of foregone investment. The amount of foregone benefits arising from the official aid effort is assumed to be at least equal to the threshold level of economic return that the government would expect from an alternative domestic investment".
See also DCD/DAC(2003)25/REV1 (page 5)

17 Please see for 1995 flows DCD/DAC/AR(96)1/CE/ANN/STAT - Statistical Annex to the European Community (page 21-23)

18 This is reinforced by the measure of "market rates" used by the OECD in the framework of the "Arrangement of officially supported export credits. Please see also DCD/DAC/STAT(2001)8 (Concessional in character - page 5 and 6).


20 DCD/DAC(2003)25/REV1 page 5


22 "When an interest subsidy raises the grant element of an official loan above 25 per cent, making it eligible for inclusion in ODA, or further softens the terms of an ODA loan that already meets this criterion...." Directive DCD/DAC(2007)34 article A.3.5 (v) a) annex 3.- Our note n° 172934 (31/03/2010) – page 2.


24 "International Development Statistics CD-ROM, 2009 edition. Geographical Distribution of financial Flows to developing countries 1960-2007" page 8: "Multilateral Agencies: .....To the extent of possible distinction has been made between concessional and non-concessional flows from multilateral agencies. Loan disbursements for which was not possible to make this distinction on a transaction-transaction basis have been treated as non-concessional if made from "ordinary capital" resources and concessional if made from a "soft window". Thus, for some agencies "total loans" are significantly larger than loans on concessional terms, and the volume of loans on concessional terms actually received by the borrowing country may not be accurately measured....".

25 Guidance for Multilateral Agencies reporting to the DAC (page 6, point 13, 14.b and footnote 5).
