RECENT QUESTIONS ON THE DAC LIST OF ODA RECEPIENTS

Room Document 1

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RECENT QUESTIONS ON THE DAC LIST OF ODA RECIPIENTS

1. Over the last few months, a number of countries in Latin America and the Caribbean have contacted the Secretariat for information on the rules and process for the DAC to decide on removing countries from the DAC List of ODA Recipients. Most recently, the Foreign Affairs Ministers of three countries (Chile, Uruguay and Antigua and Barbuda) wrote to the DAC Chair regarding the graduation process from ODA, making specific proposals to reevaluate this process in accordance with the sustainable development agenda.\(^1\) The cover note to the letters indicates that their initiative is supported by a number of other countries in Latin America and the Caribbean.

2. To facilitate members’ consideration of possible follow-up work on the DAC List, the Secretariat has assembled in the Annex of this paper information on the current rules and process for revising the List and the review itself. For ease of reference, notes on discussions in 2014 in the context of ODA modernisation – in the DAC and in the Expert Reference Group (ERG) – are also included. In particular, the analysis carried out within ERG remains highly relevant to the issues now raised by the countries in Latin America and the Caribbean. A paper with a more in-depth analysis could be prepared for discussion by the Committee at its June meeting.

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\(^1\) The letters, and the accompanying aide-memoire, will be circulated to the Committee under separate cover.
ANNEX

1. The current rules on revising the DAC List of ODA Recipients

The DAC List of ODA Recipients shows all countries and territories eligible to receive official development assistance (ODA). These consist of all low and middle income countries based on gross national income (GNI) per capita as published by the World Bank, with the exception of G8 members, EU members, and countries with a firm date for entry into the EU. The List also includes all of the Least Developed Countries (LDCs) as defined by the United Nations (UN).

ODA Eligibility: Membership of the OECD or the DAC does not affect eligibility to receive ODA. Several OECD members have been on the DAC List for many years and continue to receive ODA. Currently, no DAC members are on the List, but the DAC has made clear that leaving the List is not a requirement for DAC membership. Likewise, the provision of statistics to the DAC Secretariat has no bearing on a country's eligibility to receive ODA. Today there are a number of countries that are both significant providers and recipients of ODA - e.g. Turkey and Thailand, both of which report their flows to the DAC.

Updates to List: The DAC revises the List every three years. Countries that have exceeded the high-income threshold for three consecutive years at the time of the review are eligible for removal.

2. The process for revising the List

The Secretariat informs DAC members of the countries on course to graduate one year in advance of the update of the List. (This “warning system” was set up at WP-STAT members’ request in 2011.) As the next review will take place in the second half of 2017, the Secretariat will:

- review the countries on the List right after the World Bank releases 2015 GNI per capita figures in July or August of 2016.
- notify DAC members (by email, in August of 2016) of any ODA recipients that exceeded the high-income threshold in both of the previous two years, i.e. 2014 and 2015, signalling that these countries will be eligible for removal from the List if they remain in the high-income group for another year.
- reiterate the same advice, updated if required, at the first WP-STAT meeting in 2017.

The Secretariat drafts a paper on the revision of the List for “information and comments” by the WP-STAT at its formal meeting, usually held in June. In 2017, the meeting will be held either on 12-14 June or 20-22 June. (Note that the formulation “information and comments” means the WP-STAT is not expected to approve or endorse the proposal.)

Subject to any comments or corrections, the paper will be submitted for approval by the DAC in late 2017 (e.g. October 2017).

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3. For countries for which the WB does not publish GNI figures, other sources may be used and there may be a time lag in the available data (up to 2014 instead of 2015).
3. The review

The Secretariat carries out the review following the established methodology [cf. DCD/DAC(2005)58]. The work mainly consists of analysing i) the data on gross national income (GNI) per capita as published by the World Bank (Atlas method); and ii) statistics from other sources for countries (e.g. SIDS) for which the WB does not publish GNI figures.

Decisions on removal from the DAC List and the procedure for reviewing the List are the responsibility of the DAC.  

4. Recent discussions in the DAC on the List

The DAC List has been criticised, in particular by the civil society, for including as ODA-eligible some emerging economies that, themselves, are becoming increasingly important providers of development co-operation (e.g. Brazil, Chile, China and Turkey). Country eligibility was therefore one of the topics of discussions on ODA modernisation.

- A paper on the future of the DAC List of ODA Recipients [DCD/DAC(2014)4] was presented for consideration at the January 2014 DAC meeting. It focused on alternative thresholds, in particular the threshold at which countries start the graduation process from non-concessional IBRD lending. Key points in the summary record [cf. DCD/DAC/M(2014)1/FINAL, paragraphs 11-13] were:
  - Nearly all Delegates supported proposals to focus ODA on least developed countries (LDCs) and states facing particular development challenges, with related target setting. However, one delegation expressed its concerns over any revision of the List, or setting targets for specific country groups (e.g., LDCs), pointing out that different donors had different priorities for their ODA.
  - The Secretariat noted that graduation from the ODA list should be considered normal and desirable (to no longer need ODA should be celebrated). Recent growth in ODA loans to middle-income countries (MICs) appeared to run counter to calls for greater focus on the poorest. There may be scope to work more closely with the UN in the targeting of ODA on countries with special circumstances, such as LDCs. More work was needed to clarify the process for graduating from World Bank (IBRD) loans, examine which non-income indicators might be useful, and consider whether the effects of a lower threshold could be tempered by a longer interval before graduation. In any case, political guidance for further work on the DAC List would be sought at the March 2014 Senior Level Meeting (SLM).

4. While there needs to be a consensus to graduate a country from the List, a consensus would also be necessary to deviate from the DAC rules for revision of the List, i.e. any exceptions or modifications to the rules would need to be agreed by the DAC on a consensus basis.

5. “In principle it would be possible to set the threshold at any level, higher or lower than the current “high income” threshold as established by the World Bank. However the high income threshold is already so high that the only realistic means of raising it would be to have no threshold, so that any country could be eligible for ODA. This would contradict the ODA definition. … Attention has therefore focused rather on lower thresholds, in particular moving to the threshold at which countries start the graduation process from IBRD lending. This would enhance consistency between bilateral and multilateral finance.”
The paper to the March 2014 SLM sought members’ views on “a new graduation system or a better focus for concessional flows” [cf. DCD/DAC(2014)9, para. 26-27 and Annex 4]. It noted that i) with the rapid changes in development financing, the role of ODA was changing; ii) in this situation, the observed decline in the share of ODA going to countries most in need was a paradox; and iii) at the same time, questions were being asked about the fact that the DAC List included some of the largest and fastest growing economies of the world. The paper outlined two options for dealing with these challenges: i) accelerate the graduation process; and ii) keep the List of eligible countries and the graduation system as at present, but to voluntarily target a significant share of their ODA (e.g. 50%) to a specific group of countries, such as those defined by the UN General Assembly as “countries in special situations”. The summary record states that:

- There was broad support for the direction of work as outlined in paragraph 29 of DCD/DAC(2014)9. … Further work to direct ODA to those in greatest need should focus on targets or other incentives as there is limited support for changing the qualification criteria for the DAC List of ODA recipients.

From the March 2014 SLM onwards, work focused on better targeting ODA to countries most in need. However, the frequency of updates to the DAC List was included in the work plan to implement the 2014 HLM mandate. It was originally scheduled for Q4-2015 but has not been acted upon yet due to resource constraints.

5. Discussions on the DAC List in the Expert Reference Group (ERG)

The Expert Reference Group (ERG) discussed modifying the eligibility requirements for DAC List of ODA Recipients in 2014. The options considered were: i) accelerating the graduation process from the List; ii) setting a voluntarily target of a greater share of ODA to countries in greatest need; and iii) maintaining the status quo as countries will continue to graduate under current policy settings. The final conclusions and recommendations of the ERG state that:

“Views differed among experts on the merits of modifying the eligibility requirements for DAC List of ODA Recipients. Some experts favoured a shortening of the list, e.g. by aligning to graduation policies of international development institutions, as a means to securing more funds directed at LDCs and in recognition of the fact that some MICs have themselves access to international financial markets and domestic resources. But the majority of experts opted for largely maintaining the present list, as the access of MICs to international financial markets differs widely in this country group and often is limited in scope and volatile. Furthermore they hinted at the fact that the resources available to MICs are neither sufficient to address the poverty challenge (the majority of poor people live in MICs) nor to address the sustainability challenge (where MICs will play a decisive role).”

6. An independent group comprising 15 senior level experts constituted to provide advice in implementing the 2014 DAC HLM mandate and to help shape the analytical work by the DAC Secretariat. The group met three times between October 2013 and June 2014.

7. Questions addressed to the ERG included: i) Should the DAC List of ODA-eligible countries and territories be revised? ii) What implications are there as a result of the international community agreeing on a universal agenda with one set of SDGs (i.e. including global public goods such as climate finance)? iii) If ODA or a successor measure were sharpened to grants and grant equivalents, should country eligibility be revised? If so, how? In particular, should it be moved closer to the list of countries eligible for World Bank (IBRD) loans? iv) Should vulnerability and fragility (or other criteria) be taken into account in addition to per capita income threshold in determining eligibility?
Key points in the discussion included potential negative effects of countries being removed from the List too early and use of per-capita income as the sole graduating metric.

- Notwithstanding that many candidates for early graduation from the List may be UMICs, or even transitioning to becoming HICs, many such countries still face significant challenges regarding poverty. In addition, it is also highly likely that they will also be directly involved in meeting post-2015 goals as they include sustainability and the provision of global public goods. As such, an accelerated graduating process may well result in specific funds for action in these areas being cut off and the country being distanced from global efforts to meet such goals. Accelerated graduation may well have a first order impact to focus ODA on those in greatest need, but the second order impact of excluding a number of MICs, with significant populations, would hinder the achievement of post-2015 goals.

- Per-capita income as the sole graduating metric is overly simplistic in that it fails to take into account a country’s broader circumstances that otherwise affect its ability to continue to meet development challenges; let alone the expanded scope of the post-2015 goals. The adoption of multifaceted criteria, including country stability, access to financial markets and other elements might provide for better outcome. (E.g., criteria used to determine IBRD eligibility include institutional capacity, access to capital markets and a measure of vulnerability.) In order to ensure that countries graduating from the list are capable of sustained progress, there is merit in considering an expansion of the current criterion for graduation to include other indicators.

- The premature removal of MICs from the list is likely to prove counterproductive to attaining post-2015 goals (particularly those relating to global public goods), would be politically damaging and could be expected to disrupt efforts for achieving wider cooperation between DAC donors and other providers. A better approach to meeting the objective of focusing ODA on those in greatest need would be to devise specific targets for ODA.