Unclassified **DCD/DAC(2014)4**

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development **13-Jan-2014**

English - Or. English

DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

DCD/DAC(2014)4
Unclassified

THE FUTURE OF THE DAC LIST OF ODA RECIPIENTS

DAC Meeting, 27 January 2014

This document is submitted for DISCUSSION under Item 4 of the Draft Annotated DAC Agenda [DCD/DAC/A(2014)1].

It provides information on one option for adjusting the criteria for review of the DAC List of ODA recipients. Members' views are sought on whether this option, or other options for amending the criteria that determine the List, should be further pursued as part of the process of making ODA "fit for purpose" post-2015.

Contacts: Simon Scott, tel. 01 45 24 15 60, e-mail simon.scott@oecd.org
Julia Benn, tel. 01 45 24 90 39, e-mail julia.benn@oecd.org

JT03351027

English - Or. English

THE FUTURE OF THE DAC LIST OF ODA RECIPIENTS

Introduction

1. At the first meeting of the Expert Reference Group in October 2013, and at recent meetings of the Development Assistance Committee (DAC), interest has been expressed in the possibility of revising the DAC's list of ODA-eligible countries and territories (hereafter only referred to as "countries"), so as to focus concessional finance on countries that need it.

2. The present note follows up on this interest. It shows the implications of introducing a lower per-capita income threshold for the present DAC List, and also offers projections of what the List might look like in 2030 under both the current and a lower threshold.

3. It may be useful for understanding these simulations to briefly recall the current rules governing the List. Basically, it comprises all low and middle income countries, but excluding G8 members, EU members, and countries with a firm date of accession to the EU. To give stability to the List, countries are only removed on income grounds once they have exceeded the "high income" threshold in three successive years. The DAC revises the List every three years, with the next revision due in 2014. The present List is shown at Annex A.

Alternative thresholds

4. In principle it would be possible to set the threshold at any level, higher or lower than the current "high income" threshold as established annually by the World Bank. However the high income threshold is already so high (USD 12 615 in 2012) 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, however, contradict the requirement of the ODA definition that expenditures have "the economic development and welfare of developing countries" as the "main objective".

5. Attention has therefore focused rather on lower thresholds. Excluding all upper middle income countries (those with per capita incomes over USD 4 085 in 2012) currently on the List would reduce DAC members' net ODA by USD 7.75 billion in 2012 and excluding all upper and lower middle income countries (per capita incomes over USD 1 035) would reduce it by USD 26.2 billion. These represent 6.1% and 20.6% of DAC ODA respectively.

6. However, it may be more logical and realistic to consider moving to the threshold at which countries start the graduation process from non-concessional World Bank ("IBRD") lending. This is currently set at USD 7 115[1].

7. There are several reasons for focusing on the IBRD lending limit. First it would enhance consistency between bilateral and multilateral finance. Second, it would remove the paradox that a country continues to be eligible for ODA, including grants, at income levels that would trigger consideration of its graduating from non-concessional Bank lending. Third, cutting back further to the UMIC or LMIC thresholds mentioned above may be considered too drastic a change, or politically infeasible.

[1] The graduation process from IBRD lending is explained at http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-5531

Impact on current and future ODA

8. Table 1 shows which countries would not be on the List in 2012 if the 2011 revision had set the bar at the IBRD lending threshold instead of the high income threshold. Even though this lowers the bar by 44%, and would remove 18 current recipients, DAC net ODA would only be reduced by 1.7%. And half this reduction is due to one country, Brazil, which would not have graduated until 2014 if one reverted to the pre-2005 approach of giving three years' warning of graduation.

Table 1. Effect of removing countries above IBRD threshold (USD 7 115 in 2012) in 2011 review

	Net bilateral ODA in 2012 USD million	Share in total net ODA
Brazil	1,086.6	0.9%
Mexico	347.9	0.3%
Turkey	124.2	0.1%
Wallis & Futuna*	113.6	0.1%
Chile	111.4	0.1%
Libya*	103.6	0.1%
Gabon	60.9	0.0%
Argentina*	60.8	0.0%
Montserrat*	33.7	0.0%
Venezuela	30.9	0.0%
Cook Islands*	18.2	0.0%
Palau	14.8	0.0%
Malaysia	8.3	0.0%
Seychelles	6.0	0.0%
Uruguay	5.3	0.0%
St. Kitts-Nevis	3.2	0.0%
Antigua and Barbuda	1.7	0.0%
Anguilla*	0.6	0.0%
Total for recipients above	2,131.6	1.7%
Memo: Total net ODA in 2012	**126,880.5**	**100.0%**

Note: Based on World Bank data for GNI per capita, Atlas method for years 2008-2010.
Asterisks indicate estimates for GNI per capita.

9. Table 2 shows the impact by DAC member. This is very disparate. The effect is minimal for most DAC members (less than 1% for 17 members). The ODA levels of 6 members would be more substantially affected. The EU and France lose 19% and 9% respectively, mainly because of large loans to Turkey and Brazil. Norway loses 5%, mostly in equity investment in hydro-electric power plants in Brazil, and Austria 4% mainly due to imputed student costs for Turkey. New Zealand loses 3% mostly because of grants to the Cook Islands which would leave the list. Japan gains 2% in net ODA because it is receiving more in repayments from the excluded countries than it is disbursing in new loans and grants, and Denmark also gains slightly.

Table 2. Effect on DAC members' 2012 ODA of removing countries above IBRD threshold

USD millions

	2012 ODA amounts		Adjusted 2012 ODA with graduates removed		Difference	
	Net ODA	Gross ODA	Net ODA	Gross ODA	Net ODA	Gross ODA
Australia	5,403	5,515	5,376	5,487	-0.5%	-0.5%
Austria	1,106	1,113	1,062	1,069	-4.0%	-4.0%
Belgium	2,315	2,359	2,314	2,354	0.0%	-0.2%
Canada	5,650	5,703	5,626	5,676	-0.4%	-0.5%
Czech Republic	220	220	219	219	-0.5%	-0.5%
Denmark	2,693	2,819	2,705	2,812	0.4%	-0.3%
Finland	1,320	1,326	1,316	1,322	-0.3%	-0.3%
France	12,028	13,557	10,897	12,302	-9.4%	-9.3%
Germany	12,939	14,570	12,621	14,091	-2.5%	-3.3%
Greece	327	327	324	324	-1.1%	-1.1%
Iceland	26	26	26	26	0.0%	0.0%
Ireland	808	808	807	807	-0.1%	-0.1%
Italy	2,737	2,837	2,727	2,816	-0.4%	-0.7%
Japan	10,605	18,662	10,846	18,117	2.3%	-2.9%
Korea	1,597	1,646	1,594	1,642	-0.2%	-0.3%
Luxembourg	399	402	396	399	-0.8%	-0.8%
Netherlands	5,523	5,629	5,522	5,628	0.0%	0.0%
New Zealand	449	449	434	434	-3.4%	-3.4%
Norway	4,753	4,849	4,500	4,597	-5.3%	-5.2%
Poland	421	439	421	438	-0.1%	-0.1%
Portugal	581	619	574	612	-1.2%	-1.1%
Slovak Republic	80	80	80	80	-0.1%	-0.1%
Spain	2,037	2,123	2,024	2,100	-0.7%	-1.1%
Sweden	5,240	5,248	5,217	5,225	-0.4%	-0.4%
Switzerland	3,045	3,071	3,035	3,061	-0.3%	-0.3%
United Kingdom	13,892	14,267	13,726	14,095	-1.2%	-1.2%
United States	30,687	31,263	30,365	30,936	-1.1%	-1.0%
DAC countries	**126,881**	**139,928**	**124,749**	**136,667**	**-1.7%**	**-2.3%**
EU Institutions	17,479	18,388	14,145	14,900	-19.1%	-19.0%

10. Of note is the relatively high share of loans (67% of gross ODA and 59% of net ODA) in the aid from DAC members (including EU Institutions) received by countries above the new lower threshold. These loans will have to be repaid, giving rise to negative ODA. This means that, in the long run, ODA would be higher with these countries excluded than if they remain on the List. This would be most advantageous for those members that have the largest outstanding portfolios of loans to the countries in question.

Future evolution of the DAC List

11. Developing countries are still "catching up" with high-income countries. Their growth rates, even in per capita terms, average well above those prevailing in most DAC countries. This means that, even if the threshold for ODA eligibility remains where it is, countries will continue to graduate from ODA eligibility, joining more than 50 that have already done so over the last four decades.

12. Long-term projections are fraught with uncertainties, but Table 3 gives an idea of what the DAC List might look like in 2030 if present trends continue. It is based on 2012 per capita income, with growth projected as the simple average of the rates foreseen by the IMF for 2013, 2014 and 2018 in the latest edition of the World Economic Outlook. With these admittedly rough assumptions, one can simulate the ODA List in 2030, assuming a review in 2029 that would be based on per capita incomes in 2026, 2027 and 2028.

13. The simulations show that, whether the existing or the proposed lower threshold is applied, the List is likely to be much shorter in 2030 than it is today.[2] This clearly has implications for the future balance between aid and other resources, and for burden-sharing among the more economically advanced countries.

2. For information, DAC members' total net ODA in 2012 to the countries in column b) of Table 3 was USD 4.1 billion; and their ODA to countries in column c) was USD 4.5 billion. However, these figures would of course be expected to decline over the period to 2030 as the countries' per capita incomes rose.

Table 3. The DAC list in 2030 using current and adjusted thresholds

a) ODA eligible countries under IBRD threshold		b) Additional eligible countries if high income threshold retained	c) Countries which will leave the list under either threshold
Afghanistan	Mali	Algeria	Anguilla
Albania	Marshall Islands	Angola	Antigua and Barbuda
Bangladesh	Mauritania	Armenia	Argentina
Belize	Micronesia, Fed. States	Azerbaijan	Botswana
Benin	Moldova	Belarus	Brazil
Bolivia	Morocco	Bhutan	Chile
Bosnia-Herzegovina	Mozambique	Colombia	China
Burkina Faso	Myanmar	Dominica	Cook Islands
Burundi	Nauru	Dominican Republic	Costa Rica
Cambodia	Nepal	Ecuador	Gabon
Cameroon	Nicaragua	Equatorial Guinea	Iraq
Cape Verde	Niger	Former Yugoslav Republic of Macedonia	Kazakhstan
Central African Rep.	Nigeria	Grenada	Lebanon
Chad	Niue	Indonesia	Libya
Comoros	Pakistan	Jordan	Malaysia
Congo, Dem. Rep.	Papua New Guinea	Maldives	Mauritius
Congo, Rep.	Philippines	Mongolia	Mexico
Cote d'Ivoire	Rwanda	Montenegro	Montserrat
Cuba	Samoa	Namibia	Palau
Djibouti	Sao Tome & Principe	Paraguay	Panama
Egypt	Senegal	Serbia	Peru
El Salvador	Sierra Leone	South Africa	Seychelles
Eritrea	Solomon Islands	St. Lucia	St. Kitts-Nevis
Ethiopia	Somalia	St. Vincent & Grenadines	Suriname
Fiji	South Sudan	Thailand	Turkey
Gambia	Sri Lanka	Timor-Leste	Turkmenistan
Georgia	St. Helena		Uruguay
Ghana	Sudan		Venezuela
Guatemala	Swaziland		Wallis & Futuna
Guinea	Syria		
Guinea-Bissau	Tajikistan		
Guyana	Tanzania		
Haiti	Togo		
Honduras	Tokelau		
India	Tonga		
Iran	Tunisia		
Jamaica	Tuvalu		
Kenya	Uganda		
Kiribati	Ukraine		
Korea, Dem. Rep.	Uzbekistan		
Kosovo[1]	Vanuatu		
Kyrgyz Republic	Vietnam		
Laos	West Bank & Gaza Strip		
Lesotho	Yemen		
Liberia	Zambia		
Madagascar	Zimbabwe		
Malawi			

ANNEX A

DAC List of ODA Recipients

Effective for reporting on 2012 and 2013 flows

Least Developed Countries	Other Low Income Countries (per capita GNI <= USD 1005 in 2010)	Lower Middle Income Countries and Territories (per capita GNI USD 1 006-USD 3975 in 2010)	Upper Middle Income Countries and Territories (per capita GNI USD 3 976-USD 12275 in 2010)
Afghanistan	Kenya	Armenia	Albania
Angola	Korea, Dem. Rep.	Belize	Algeria
Bangladesh	Kyrgyz Rep.	Bolivia	*Anguilla
Benin	Tajikistan	Cameroon	Antigua and Barbuda
Bhutan	Zimbabwe	Cape Verde	Argentina
Burkina Faso		Congo, Rep.	Azerbaijan
Burundi		Côte d'Ivoire	Belarus
Cambodia		Egypt	Bosnia and Herzegovina
Central African Rep.		El Salvador	Botswana
Chad		Fiji	Brazil
Comoros		Georgia	Chile
Congo, Dem. Rep.		Ghana	China
Djibouti		Guatemala	Colombia
Equatorial Guinea		Guyana	Cook Islands
Eritrea		Honduras	Costa Rica
Ethiopia		India	Cuba
Gambia		Indonesia	Dominica
Guinea		Iraq	Dominican Republic
Guinea-Bissau		Kosovo[1]	Ecuador
Haiti		Marshall Islands	Former Yugoslav Republic of Macedonia
Kiribati		Micronesia, Federated States	Gabon
Laos		Moldova	Grenada
Lesotho		Mongolia	Iran
Liberia		Morocco	Jamaica
Madagascar		Nicaragua	Jordan
Malawi		Nigeria	Kazakhstan
Mali		Pakistan	Lebanon
Mauritania		Papua New Guinea	Libya
Mozambique		Paraguay	Malaysia
Myanmar		Philippines	Maldives
Nepal		Sri Lanka	Mauritius
Niger		Swaziland	Mexico
Rwanda		Syria	Montenegro
Samoa		*Tokelau	*Montserrat
São Tomé and Príncipe		Tonga	Namibia
Senegal		Turkmenistan	Nauru
Sierra Leone		Ukraine	Niue
Solomon Islands		Uzbekistan	Palau
Somalia		Vietnam	Panama
South Sudan		West Bank and Gaza Strip	Peru
Sudan			Serbia
Tanzania			Seychelles
Timor-Leste			South Africa
Togo			*St. Helena
Tuvalu			St. Kitts-Nevis
Uganda			St. Lucia
Vanuatu			St. Vincent and Grenadines
Yemen			Suriname
Zambia			Thailand
			Tunisia
			Turkey
			Uruguay
			Venezuela
			*Wallis and Futuna

*Territory.

(1) This is without prejudice to the status of Kosovo under international law.