SHARP CHANGES IN THE STRUCTURE OF FINANCIAL FLOWS TO DEVELOPING COUNTRIES AND COUNTRIES IN TRANSITION

SUMMARY

Preliminary reporting to the OECD on financial flows in 1993 to developing countries and countries in transition indicates important changes in the composition of the flow of finance to developing countries. The full picture will only become apparent when the detailed record on geographical distribution becomes available in late autumn, in particular the extent to which there might be concerns about the situation and prospects of the poorest and least creditworthy countries.

Total net resource flows -- official development assistance (ODA), other official flows and private sector resources -- to developing countries from the Members of the Development Assistance Committee (DAC) and multilateral institutions amounted, according to the preliminary estimate, to $160 billion -- up from $153 billion in 1992. This is a new record, and well above the levels seen in the late 1980s and early 1990s. Continued high levels of private flows (totalling $88 billion) were responsible for this -- with a major rise in bonds, equities and direct investment, mainly from the United States, offsetting a large decline in international bank lending.

The Chair of the DAC, Mr. James H. Michel, will report on Members' aid policies and performance at a press conference on Thursday 23rd June at 11 a.m. at the OECD, 2 rue André Pascal, Paris 16ème.
On the other hand, total ODA from Member countries of the DAC to developing countries and multilateral institutions fell sharply to $54.8 billion in 1993 from $60.8 billion in 1992. This was a decrease of 7.8 per cent in real terms and it reduced Members' combined ODA to just 0.29 per cent of their GNP -- the lowest ratio reported since 1973. For particular reasons, exceptionally large decreases in real terms were recorded by Finland, Switzerland and the United States. Substantial decreases were also reported by Canada, Germany, Italy, Japan, Norway and Sweden. Of the 21 DAC Member countries higher flows in real terms were reported only by Australia, Austria, Denmark, Ireland, Luxembourg, Spain and the United Kingdom.

Total official aid disbursements to the "countries in transition" in Part II of the DAC List (see Annex) amounted to approximately $7.5 billion in 1992. Total flows for 1993 cannot yet be indicated with any precision, but some significant national disbursements have been reported and they are indicated in the country notes.
Aggregate DAC ODA in nominal terms fell by $6 billion, or 10.0 per cent in 1993 to $54.8 billion. In real terms, i.e. adjusting for inflation and exchange rate movements, the fall was 7.8 per cent.

A fall had been expected following the cut-backs in the aid budgets of several donor countries, reflecting generally constrained financial conditions, and the large drop in new ODA commitments reported in 1992. But the statistics were further affected by a number of special factors, notably a reduction in capital subscriptions to the multilateral development banks arising from the timing of replenishment cycles and, despite first impressions to the contrary, an easing in some parts of the world of the demands for emergency and relief assistance by comparison with 1992. A more complete analysis will be published in the 1994 Report of the DAC Chair.

Japan, despite a 12 per cent fall in real terms in its programme, became the largest aid donor in 1993, contributing $11.3 billion of ODA. The United States slipped from $11.7 billion to $9.0 billion, due partly to the termination in 1993 of entries for forgiveness of debt originally incurred for military purposes, and partly to an increase in loan repayments, which reduced its net outflow. France ($7.9 billion) remained steady in real terms. Germany ($6.8 billion) and Italy ($2.9 billion) each recorded falls of over half a billion dollars in both nominal and real terms.

Denmark allocated the highest share of its GNP to ODA (1.03 per cent). Norway (1.01 per cent), Sweden (0.97 per cent) and the Netherlands (0.81 per cent) were the only other donors to exceed the United Nations target of 0.7 per cent. The ODA/GNP ratio for the United States (0.14 per cent) was both the lowest ratio of all DAC countries, and the lowest ratio for the United States since records began in 1950. Japan, at 0.26 per cent, fell to its lowest mark since 1979. The largest fall in the ODA/GNP ratio in 1993 was recorded by Finland, which slumped to 0.46 per cent from 0.64 per cent in 1992, itself a significant drop from 1991.
AID DISBURSEMENTS IN 1993 BY INDIVIDUAL DAC MEMBERS

Australia

Australian aid disbursements amounted to $953 million in 1993, which, if expressed in 1992 prices and exchange rates (real terms), is a slight increase from 1992. The ODA/GNP ratio, however, moved down to 0.35 per cent from 0.37 per cent a year earlier. Bilateral grants increased by 3 per cent in real terms, while total contributions to international organisations dropped by 6 per cent.

Papua New Guinea (PNG) continues to be the largest recipient of Australian aid, with total flows to PNG expected to be just under a quarter of the Australian development co-operation programme in 1993. Most of this assistance is in the form of budget support. However, in a major policy development, both governments have agreed to a progressive transition that will see budget support replaced by jointly programmed activities by 2000-01.

Austria

Austrian aid disbursements in 1993 rose marginally in real terms due to a larger volume of loans, while bilateral grants declined and multilateral contributions remained stable in real terms. In relation to GNP, Austrian ODA remained unchanged at 0.30 per cent. Another modest increase is expected in 1994. With a view to increasing the impact of the aid programme, and in line with recommendations by the DAC aid review in 1993, the Austrian authorities decided last year to reduce the number of priority countries for their programme to eight.

Aid to the Central and Eastern European countries (CEECs) and the New Independent States of the former Soviet Union (NIS) rose further in 1993 to $500 million, equivalent to 0.28 per cent of GNP. It is most likely that Austria remained the leading donor to CEECs/NIS in relation to GNP. It is noteworthy that this performance was achieved without a decline in the aid programme for the traditional developing country partners.

Belgium

Net ODA disbursements slipped 2.9 per cent in real terms to $808 million. Net bilateral ODA dropped by 9 per cent while multilateral ODA increased 8 per cent -- both in real terms. Belgium’s ODA/GNP ratio remained stable at 0.39 per cent.

In recent years Belgium’s aid programme has been strongly influenced by the difficulties encountered in the programmes of Belgium’s three traditional partners, Zaire, Burundi and Rwanda, which together received roughly 40 to 60 per cent of geographically allocated bilateral Belgian aid each year during the 1980s. In 1990 Zaire stopped receiving technical assistance from Belgium, although humanitarian and other forms of assistance have continued.
Nonetheless, aid to Zaire has declined sharply in recent years. Aid to Burundi and Rwanda, while remaining relatively steady in recent years as a percentage of Belgian aid, has been interrupted at times requiring re-programming of funds.

Canada

The volume of Canada’s ODA dropped by 10 per cent in real terms in 1993 to $2.1 billion. Bilateral disbursements fell over 15 per cent to $1.4 billion while multilateral disbursements rose by 1 per cent to $772 million. The ODA/GNP ratio dropped from 0.46 per cent in 1992 to 0.40 per cent in 1993.

Canada is conducting a foreign policy review which will conclude with a major statement by the Government early in 1995. The future orientation of Canada’s aid policies is expected to be shaped by that process. In the meantime, the most recent budget announced a 2 per cent cut in aid for 1994-95 and no change for two years thereafter. Following the drop in ODA volume in 1993, the prospects for Canadian ODA are a matter of consideration for the Canadian aid review on 24 June 1994.

Denmark

Net ODA disbursements were $1.3 billion in 1993 corresponding to 1.03 per cent of GNP, the highest percentage among DAC Members. This reflected a small rise in real terms of 1 per cent, with contributions to international organisations declining by 4 per cent and bilateral disbursements increasing by 5 per cent. Official aid to CEECs/NIS is estimated to have risen significantly from $83 million in 1992 to some $200 million in 1993.

The outstanding Danish ODA volume performance has been facilitated through the existence of a revolving five-year planning procedure with expenditure frames submitted once a year by government to Parliament. These plans also indicate necessary adjustments in objectives and guidelines for the Danish development co-operation programme, the basis of which is the new "strategy for Danish Development Policy towards the year 2000", which was adopted by Parliament on 22 March 1994.

Finland

In line with the decision in 1991 to set aside temporarily the 0.7 per cent ODA/GNP target, Finland’s net disbursements in 1993 fell in real terms by 31 per cent, the sharpest decline among DAC Members. Bilateral ODA dropped by 28 per cent while multilateral ODA dropped by 37 per cent. In current dollars, expenditure fell from $644 million in 1992 to $355 million in 1993, and the ODA/GNP ratio fell from 0.64 per cent to 0.46 per cent. Reflecting some of the continuing severe economic and budgetary pressures facing Finland, this followed another decline from the highest level of 0.80 per cent of GNP attained in 1991. In recent years, aid to refugees in Finland -- primarily from the former Yugoslavia -- has taken an increasing share of ODA (6.6 per cent in 1992), putting further pressure on traditional development programmes.
France

France’s net ODA disbursements in 1993 amounted to $7.9 billion, the same amount in real terms as a year earlier. While contributions to multilateral organisations dropped by 7 per cent, bilateral assistance rose by 2 per cent. France’s ODA/GNP ratio was 0.63 per cent, the same as in 1992.

The French aid programme was reviewed by the DAC in March 1994. The review addressed issues related to aid effectiveness and policy coherence, and provided the opportunity for a thorough discussion of the situation in the franc zone and the special requirements for co-operation in the period following the devaluation of the CFA franc.

Germany

In 1993, official development assistance amounted to $6.8 billion, which in real terms represented a sharp drop of 8 per cent compared with 1992. Multilateral contributions, which had declined in 1992, recovered by 4 per cent, but bilateral disbursements dropped by 13 per cent. Germany’s ODA/GNP ratio, continuing its decline, fell to 0.36 per cent from 0.39 per cent a year earlier.

Ireland

Irish ODA in 1993 totalled $77 million, an increase over 1992 of 28 per cent in real terms, bringing the ODA/GNP ratio to 0.19 per cent compared with 0.16 per cent a year earlier. Bilateral assistance, accounting for just under half of total ODA, increased by 47 per cent; multilateral contributions by 15 per cent. With the intended expansion of assistance especially to African countries, it can be assumed that Ireland’s aid volume will continue to rise in future.

Italy

Italian development assistance fell by 13 per cent in real terms to $2.9 billion in 1993, corresponding to 0.30 per cent of GNP, after 0.34 per cent in 1992. This was one of the sharpest falls among DAC Members for that year (after Finland, Switzerland and the United States), and affected both multilateral and bilateral programmes which declined by 8 and 17 per cent respectively. This reflected a 40 per cent cut in the aid budget. Official aid to CEECs/NIS declined sharply from $467 million in 1992 to $113 million in 1993.

Italy’s aid programme was reviewed by the DAC in May 1993. The discussion in the Committee centred on the implications of the fundamental changes of Italy’s political system for the aid programme. The conclusions focused on the need for aid management to become more efficient and for the developmental orientation of the programme to be improved by reducing the high share of aid-financed capital equipment.
Japan

After reaching its $50 billion Fourth Medium-Term target at the end of 1992, Japan adopted its Fifth Medium-Term Plan for ODA (1993-97) whose main targets are total disbursements of $70-75 billion and a steady improvement in the ODA/GNP ratio. This will by no means be easy to achieve. Japan’s ODA/GNP ratio fell to 0.26 per cent in 1993 from 0.30 per cent in 1992 and 0.32 per cent in 1991.

Despite a 12 per cent decline in real terms in 1993, Japan’s net disbursements of ODA increased from $11.2 billion in 1992 to $11.3 billion. These were the highest of all DAC Members in 1993. Bilateral net ODA dropped by 17 per cent while multilateral net ODA increased by 1 per cent. Official aid to CEECs/NIS declined sharply from $243 million in 1992 to $123 million in 1993 and represented less than 0.01 per cent of GNP.

The last aid review of Japan in April 1993 noted improvements in the quality of aid and attention to sustainability. While a large portion of Japan’s ODA disbursements is in the form of loans, these are highly untied. However, the DAC urged further progress in programming and administration of aid and more active participation in aid co-ordination and policy dialogue.

Luxembourg

Luxembourg’s net ODA disbursements increased by 23 per cent in real terms in 1993 to $45 million. This increase was the result of both higher bilateral grants and multilateral contributions. As a percentage of GNP Luxembourg’s net ODA increased from 0.26 per cent in 1992 to 0.32 per cent in 1993. Luxembourg’s assistance continued to be extended exclusively in the form of grants.

Luxembourg’s aid programme was reviewed for the first time in October 1993. Discussions centred on the administrative structure needed to implement rapidly growing aid appropriations, measures taken to improve and speed up the implementation of bilateral projects and the geographic distribution of aid. Attention was also given to the role played by non-governmental organisations (NGOs) and to the envisaged simplification of the administrative procedures for cofinancing arrangements.

Netherlands

In 1993, the Netherlands recorded an aid volume of $2.5 billion, a drop of 5 per cent in real terms, corresponding to 0.81 per cent of GNP, down from 0.86 per cent in 1992. Multilateral ODA declined by 9 per cent and bilateral ODA by 3 per cent. The decline was essentially due to a lower budgetary allocation for development co-operation expenditures, both ODA and non-ODA.

The Dutch aid programme was reviewed by the DAC in June 1994. The discussion in the Committee centred on new policy orientations for
international co-operation formulated by the government in a 1993 White Paper "A World in Dispute", following up the 1990 White Paper "A World of Difference". The Dutch authorities intend to take an integrated approach to international co-operation by including peace-keeping and emergency measures, at the same time establishing a new aid volume target to safeguard ODA volume at present levels.

**New Zealand**

ODA net disbursements in 1993 were $94 million, a decline of 5 per cent in real terms, resulting in a ODA/GNP ratio of 0.24 per cent, down from 0.26 per cent in 1992. While contributions to multilateral organisations remained almost unchanged, bilateral ODA disbursements dropped by 7 per cent.

Support for human resource development accounts for over two-thirds of New Zealand’s bilateral aid, compared with under 10 per cent for all DAC countries on average. A recent review of this scheme, which provides scholarships for studies at New Zealand universities and institutions, resulted in its integration into the programmes for countries receiving New Zealand ODA.

**Norway**

After rising in 1992 by almost 5 per cent in real terms, Norway’s high ODA volume dropped sharply in 1993: total ODA fell by 11 per cent, reflecting falls in bilateral and multilateral ODA of 7 and 18 per cent respectively. This decrease was in large part due to pipeline problems, as the budget only foresaw a lesser decrease. Norway remained, furthermore, the donor with the second highest ODA/GNP ratio. At 1.01 per cent, with disbursements of $1.01 billion, Norway was second only to Denmark, and well above the 0.7 per cent target. Official aid to CEEC/NIS rose slightly to $83 million and as a share of GNP to 0.08 per cent.

At the DAC review of the Norwegian aid programme in March 1993, the discussion concentrated on efforts by the aid administration to ensure sustainability of the activities supported by Norwegian assistance. The importance of policy dialogue, of recipient-oriented aid and of transferring responsibility for major parts of the project cycle to local institutions was also discussed. The problem of the limited administrative capacity of developing countries was underscored by the DAC, and it welcomed that Norway’s assistance would provide increasing support to institution-strengthening and capacity-building.

**Portugal**

Portuguese aid declined from $302 million in 1992 to $255 million in 1993. In real terms, the decline was 5 per cent, while bilateral grants rose by 36 per cent in real terms and became the largest component of Portuguese aid. Three-quarters of the grants were for technical assistance activities. As in previous years, most aid was extended to the Portuguese-speaking countries in Africa.
Portugal rejoined the DAC in December 1991, and the first new DAC review of its aid programme was conducted in December 1993. It found that most of the rapid growth of Portugal’s net ODA disbursements in recent years was the result of large debt rescheduling agreements. The Committee stressed the importance of a sustained medium-term plan for the growth of core aid activities, other than debt relief.

Spain

Although there was a fall in dollar terms to $1.3 billion, Spanish net ODA disbursements again rose in 1993 in national currency. The share of GNP remained unchanged at 0.27 per cent. In real terms the increase was 2 per cent, which was significantly less than in previous years. Bilateral assistance, both grants and loans, fell while multilateral assistance rose as a result of larger contributions to European Community programmes and regional development banks. Concessional official export credits remained the largest category of aid, although their share declined from a peak of 56 per cent in 1992 to 50 per cent in 1993. Bilateral grants continued to decline to 14 per cent of total ODA, their lowest level. A welcome development in 1993 was the further softening of the terms of Spanish aid, which are estimated to have reached the overall grant element target of 86 per cent.

In a report on development co-operation the Spanish Parliament requested the government to increase ODA to 0.35 per cent of GNP by 1995. This target is unlikely to be attained since the share of aid in total government expenditures is now declining. The ODA/GNP ratio may fall slightly in 1994 to 0.26 per cent.

The Spanish aid programme was reviewed by the DAC for the first time in April 1994. The Committee noted substantial progress in volume and quality, but expressed concern that concessional official export credits were increasing while the grant programme diminished. The Committee believed that appropriations for bilateral grants should be significantly increased. The Spanish authorities were encouraged to develop and institutionalise a unified aid approach.

Sweden

Swedish ODA was $1 746 million in 1993, representing 0.97 per cent of GNP. Compared with the previous year, this was a decline of 7 per cent in real terms. Bilateral assistance, accounting for 75 per cent of total ODA, fell by 4 per cent and multilateral contributions by 16 per cent. The national aid target, adopted by Parliament in 1968 and requiring aid budget appropriations corresponding to 1 per cent of GNP, has been temporarily abrogated because of the economic situation in Sweden.

A substantial reorganisation of the Swedish aid administration presently under way is likely to result in a reduction of the number of official development co-operation agencies to two: one responsible for long-term co-operation with poorer developing countries and the other for activities in the industrial and infrastructure sectors.
Switzerland

ODA disbursements in 1993 fell to $790 million, corresponding to 0.32 per cent of GNP. This was a decline of 29 per cent in real terms from the 1992 level, the second sharpest drop in a DAC country’s aid volume, after that of Finland. Bilateral disbursements fell by 4 per cent. Multilateral disbursements, which had more than doubled to an exceptional peak in 1992 with Switzerland’s initial contributions on accession to the World Bank, dropped by 65 per cent. Official aid to CEECs/NIS declined from $128 million in 1992 to $116 million in 1993.

When the Swiss aid programme was reviewed by the DAC in September 1993, the discussion centred on the issues of its high aid quality and efficient management. The Committee recommended that Switzerland should more actively integrate cross-sectoral issues, such as the role of women in development and environmental aspects, in its assistance. The Committee also suggested that the federal authorities increase efforts towards coherence between policies in aid and other areas.

United Kingdom

Net British ODA net disbursements in 1993 increased by 1 per cent in real terms. A fall of 3 per cent in bilateral ODA was more than offset by a 5 per cent increase in multilateral ODA, largely due to contributions to regional development banks and European Community programmes. The ODA/GNP ratio remained constant at 0.31 per cent.

At the aid review of the United Kingdom in February 1994 the DAC expressed concern about the lack of growth in the bilateral aid allocations which made a distinctive British contribution, and the risk that they might be squeezed further by a combination of stagnant total aid allocations and rising multilateral aid commitments.

United States

Net United States ODA declined sharply from $11.7 billion in 1992 to $9.0 billion in 1993 -- a fall of 25 per cent in real terms. Net bilateral ODA fell by $1.5 billion (21 per cent in real terms) while multilateral ODA fell by $1.2 billion (33 per cent in real terms). The ODA/GNP ratio of the United States dropped from 0.20 per cent to a new low of 0.14 per cent.

The decline was due partly to a decrease in capital subscriptions to multilateral development banks in 1993, after a surge in late 1992. Also, while $893 million in Egyptian military debt forgiveness was counted as ODA in 1992, the $950 million of debt forgiveness for this purpose in 1993 had to be reported as other official flows following agreed changes to the statistical reporting procedures. Certain other debt relief operations have also been reported as other official flows reducing the net ODA statistics.

In contrast to its ODA decline in 1993, United States aid to countries in transition rose sharply from $744 million in 1992 to $1 175 million in 1993, representing 0.02 per cent of GNP.
TOTAL NET RESOURCE FLOWS TO DEVELOPING COUNTRIES

(Table 3)

(Note: The following analysis covers receipts of developing countries. The figures for multilateral agencies represent the outflows of their funds to recipients, and are therefore different from the data in the preceding text and tables which show their inflows from donor countries.)

Overview

Preliminary data indicate that large increases in private flows raised the overall volume of external financial resources available to developing countries by about 4 per cent to $159 billion in 1993, breaking the record level of 1992. While the data need to be interpreted with caution, since they are often subject to quite substantial revision, it is already apparent that the surge in private sector flows, which started in 1990 and gathered pace in 1992, continued. It was directed to a widening range of developing countries including both advanced developing countries in Latin America, the Middle East and East Asia and some large low-income countries, notably China, India and Indonesia. However most lower income countries in sub-Saharan Africa and South Asia continue to rely mainly on ODA to meet their external resource needs.

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Official development finance (ODF)

As explained earlier, development assistance proper (ODA) from DAC countries dipped significantly in 1993. From the point of view of recipient countries, however, there was only a small reduction in the overall inflow of official development finance, mainly because less concessional forms of official assistance from both bilateral and multilateral sources remained relatively stable. Gross IMF lending to developing countries, however, declined slightly for the first time, despite the resumption of concessional lending through the Fund’s Structural Adjustment and Enhanced Structural Adjustment Facilities -- SAF and ESAF. The relatively steady flow of ODF as a whole is modestly reassuring because it forms the backbone of resource inflows to the poorest developing countries.

Export financing: guaranteed supplier credits and financial credits from banks

Overall, the flow of export credits is estimated to have risen to a net $5 billion in 1993, the highest level since 1989. Although official export credit agencies have been taking an increasingly cautious approach towards offering credit guarantees, after sustaining some major losses in recent years, banks have nevertheless started to extend a greater volume of financial credits (officially guaranteed credits to finance importers’ purchases), especially to Asian and Latin American countries with a good debt record. This compensated for a reduced volume of supplier credits to certain customers, particularly in the Middle East and the Balkans.
Other private sector resource flows

a) Direct investment

Direct investment in the more dynamic developing countries has become increasingly attractive to OECD investors, gathering impetus from a comparison with the prospective returns to investment in the industrial world. Even in poorer developing countries, debt-for-equity swaps are bringing new influences, and sometimes fresh technical assistance, to bear in the process of economic renewal. Total direct investment from OECD countries is estimated to have reached $35 billion in 1993, an all-time record, with the United States supplying some $20 billion of this amount.

b) Bonds and equities

There was a further rapid acceleration in both gross and net bond lending and equity purchases in 1993. At an estimated $37 billion net, i.e. after allowing for redemptions, the proceeds of new bond issues in 1993 were equal to around half of the total stock of bonds that had been on issue at the end of 1992. A few large issuers accounted for the lion’s share of new borrowing: Mexico, Argentina and Brazil in Latin America; Korea in Asia; Greece and Turkey in Europe. There is clearly strong market demand for securitised products in relatively stable economies, and participation by private investors has been facilitated by the opportunities offered by mutual funds. Again, the United States was by far the largest source in 1993.

c) International bank lending

The figures in Table 3 relate to that part of bank lending which is neither guaranteed by the official sector nor carried out through purchases of new bond issues, in effect, non-securitised lending which declined to some $3 billion from $31 billion in 1992. This in large part reflected a tendency among lending banks to concentrate on low-risk countries. Lending to countries in Africa, the Middle East and Southern Europe (with the exception of Turkey) stagnated or fell, but there was substantial new lending to China, Thailand, Korea, Malaysia, Mexico and Brazil.

Grants by non-governmental organisations

The net outflow from non-governmental organisations to developing countries, after subtracting the support they receive from the official sector, was $6.3 billion in 1993, an increase over 1992 and around double the levels achieved in the mid-1980s. Unlike other private flows, resources from non-governmental organisations are given almost entirely in grant form. They make a significant and growing contribution to the relief of suffering and the reduction of poverty, especially in the more needy developing countries.
Flows from non-DAC countries

The collapse of the Communist bloc and the ensuing economic difficulties in Central and Eastern Europe have effectively removed these countries as sources of development finance. South-South flows (which are not a net resource flow to developing countries as a group) have also fallen as members of the Organisation of Petroleum Exporting Countries (OPEC) have been affected by continuing low oil prices and the consequences of the Gulf War.

On the other hand, Turkey (a non-DAC OECD Member) has been increasing its aid to developing countries, primarily to the new Republics in Central Asia and the Caucasus. Bilateral ODA disbursements in 1993 amounted to $253 million, in addition to Turkey’s multilateral aid. This represents a major increase over 1992 ($169 million) and 1991 ($103 million). The Turkish ODA/GNP ratio in 1993 was approximately 0.22 per cent. Some dynamic countries in Latin America and the Far East have also provided increased trade financing. There are indications that Korean aid in particular continued to increase.
Annex 1

TERMS AND DEFINITIONS USED

DEVELOPMENT ASSISTANCE COMMITTEE (DAC). Members: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities. Observers: the IMF and the World Bank. In addition Greece, Iceland, Mexico and Turkey are associated with DAC meetings in areas of mutual interest.

AID: The word "aid" or "assistance" in this release refers only to flows which qualify as "official development assistance" (ODA), i.e. grants or loans to developing countries and territories (see below) which are:

-- undertaken by the official sector;
-- with promotion of economic development and welfare as the main objective;
-- at concessional financial terms (if a loan, at least 25 per cent grant element).

In addition to financial flows, technical co-operation is included in aid. This consists almost entirely of grants to nationals of developing countries receiving education or training at home or abroad, and payments to defray the costs of teachers, administrators, advisers and similar personnel serving in developing countries.

Grants, loans and credits for military purposes are excluded. However, forgiveness of non-ODA debt including certain amounts of military debt is included in the ODA shown for individual donor countries for the years 1990 to 1992, although it is excluded from the DAC total. Starting from 1993, all ODA figures include forgiveness of non-ODA debt reported as ODA, except for forgiveness of military debt, which is recorded as OOF.

OFFICIAL DEVELOPMENT FINANCE (ODF): Used in measuring the inflow of resources to developing countries: includes grants and concessional and non-concessional development lending by multilateral financial institutions, bilateral ODA, and other official flows for development purposes, but with too low a grant element to qualify as ODA (e.g. the net acquisition by the official sector of securities issued by multilateral development banks at market terms). Certain refinancing loans which do not qualify as ODA are also included.

TOTAL RECEIPTS OF DEVELOPING COUNTRIES: The inflow of resources to developing countries (see Table 3) includes, in addition to ODF, official and private export credits, long and short-term private transactions (including bank lending) and grants from non-governmental organisations. **Bilateral** flows are provided directly by a donor country to a developing country. **Multilateral** flows are channelled via an international organisation active in development (e.g. World Bank, UNDP).
GRANT ELEMENT: Reflects the financial terms of a commitment: interest rate, maturity (interval to final repayment) and grace period (interval to first repayment of capital). It measures the concessionality (i.e. softness) of a loan, in the form of the present value of an interest rate below the market rate over the life of a loan. Conventionally the market rate is taken as 10 per cent. Thus, the grant element is nil for a loan carrying an interest rate of 10 per cent; it is 100 per cent for a grant; and it lies between these two limits for a soft loan. Generally speaking, a loan will not convey a grant element of over 25 per cent if its maturity is less than 10 years, unless its interest rate is well below 5 per cent. If the face value of a loan is multiplied by its grant element, the result is referred to as the grant equivalent of that loan.

DEVELOPING COUNTRIES AND TERRITORIES: A new two-part List of Aid Recipients has been introduced by the DAC with effect from 1 January 1994. See Annex 2.

VOLUME (real terms): The flow data in this press release are expressed in US dollars. To measure the volume of flows, an adjustment is required for changes in exchange rates and in price levels. The dollar equivalent of flows in other currencies is inflated when the dollar depreciates and vice versa. In 1993 the DAC countries’ currencies depreciated on average by 4 per cent vis-à-vis the dollar; prices rose on the average by 2 per cent. As these parameters operated in opposite directions, data in current 1993 dollar values underestimate by an average 2 per cent the amount that would have been recorded had exchange rates and prices been the same as in 1992. Thus DAC Members’ ODA fell by 10.0 per cent in nominal terms, while ODA volume at constant 1992 prices and exchange rates decreased by 7.8 per cent. It should be noted that volume in this sense does not take into account the extent to which the currency structure of developing countries’ external payments differs from the currency structure of their resource inflows.