IOB
INSTITUTE OF DEVELOPMENT POLICY AND MANAGEMENT

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Small reflections on DAC aid (ODA) accounting

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Problem statement

- The Development Assistance Committee (DAC) of the OECD is responsible for assembling and publishing annual statistics on aid (ODA), so as to measure individual donor effort against commonly agreed targets, such as the 0.7 of GNI target;
- As such, elegibility and exclusion rules are of high interest;
- These rules have been under constant criticism; recently changing geopolitics and the emergence of new players call into question the legitimacy of an approach driven by "traditional" donors who dominated the field in the second half of the 20th century.

How are these ODA aid accounting rules performing?

OUTLINE

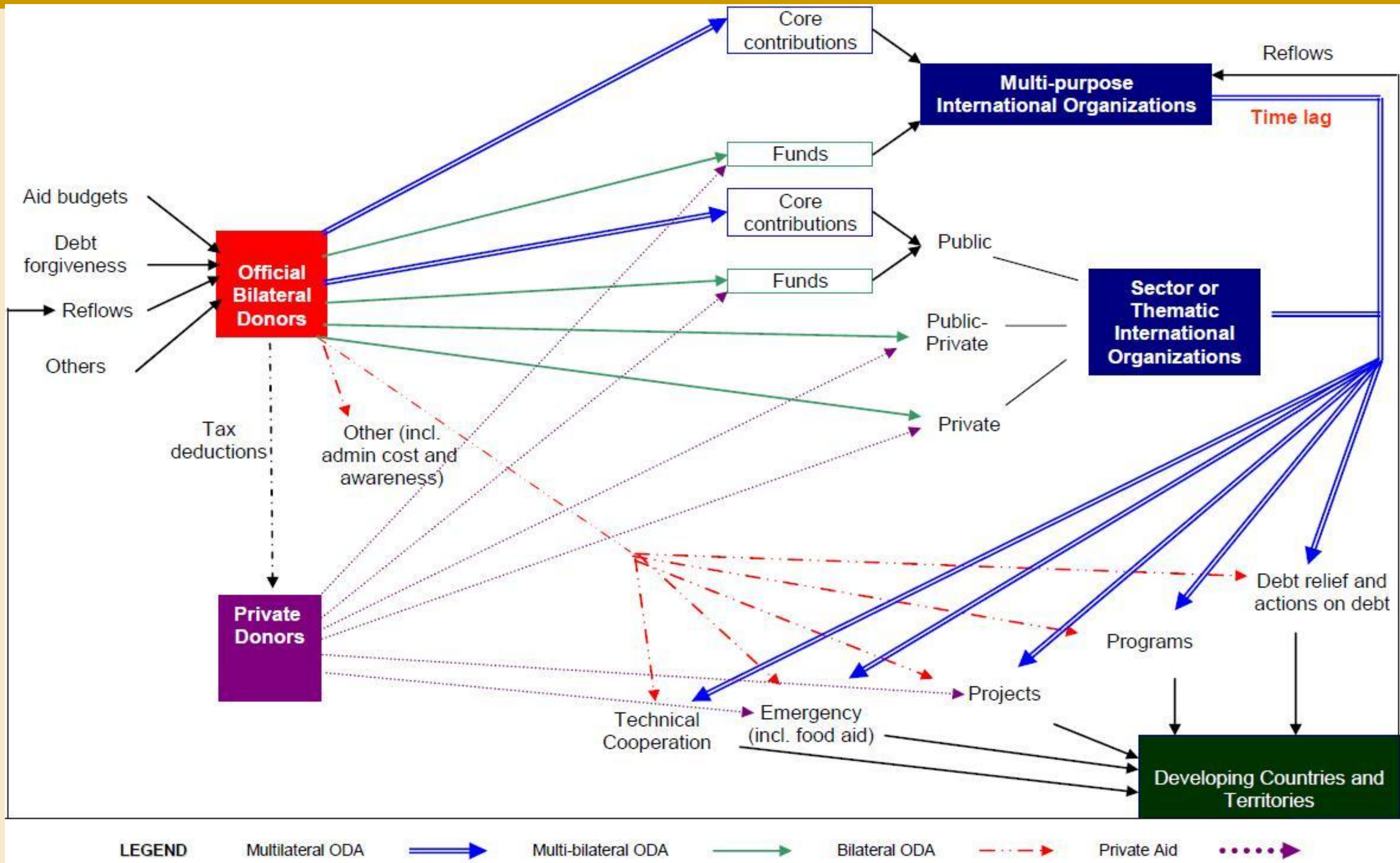
1. Measuring aid
2. A conceptual framework
3. The OECD DAC approach: general principles
    4. Concessional loans
    5. Debt relief
6. Alternatives in practice
7. Conclusions

1. Measuring aid

Devising appropriate measures of aid is fraught with problems, and necessitates answers at least to the following questions:

- What is the particular goal of the measure?
  - e.g. donor effort, recipient benefit, contribution to global goals (MDG or GPG) achievement, aid effectiveness (monitoring Paris Declaration),...?
- At what level do we want to measure it?
  - e.g. at donor level, at recipient level, what about multilaterals?
- What types of interventions are eligible?
  - development-focus, grant element, recipient status
- How exactly to include them in the concrete aid metric?

❖ We suggest that only a multidimensional framework can address all these issues in a satisfactory and comprehensive manner (see next slide)



Source: World Bank (2007). *Aid Architecture: an overview of the main trends in official development assistance flows*. Background Report for the Development Committee Meeting.

2. A conceptual framework

Perspective	**donor perspective**			**recipient perspective**			
Locus of calculation	**cost at origin**			**value at destination**			
	1	**2**	**3**	**4**	**5**	**6**	**7**
object of calculation	gross budgetary cost	net budgetary cost	economic cost	gross (budgetary) gain	net (budgetary) gain	acquisition value	final value
Description	repercussion on public sector spending	repercussion on public sector spending and receipts	opportunity cost of not being able to use the same resources in the donor economy	repercussion on (public sector) revenue	repercussion on (public sector) revenue and spending	cost of acquiring equivalent goods and services on the world market	repercussion on the recipient country's development

3. The DAC ODA approach: some general principles

- In the DAC Directives, Official Development Assistance (ODA) consists of flows «to countries and territories on the DAC list of ODA recipients and to multilateral institutions» (para 37) «by governments or the official sector of DAC countries» (para 6).
- To further qualify as ODA:
  - the intervention must have as main objective the promotion of development;
  - Must be *'concessional in character'*, and carry a minimum grant element (allowing for e.g. soft loans to be eligible, see 4 for specifics)
- Is being generated fully at the donor side, and is at least implicitly meant to target donor cost/effort, which explains the inclusion of say donor administration costs,…
- What is non-eligible, is registered as 'other official flows' ('OOF')
- Claims to apply a conceptual approach based on flows ('BOP' logic), but fails to adhere to this principle.

4. Application to concessional loans

- The next slide applies our conceptual framework to the treatment of soft ('concessional') loans. Again it shows that different concepts lead to a different aid metric
- The ODA treatment is a strange mix of several concepts:
  - concessionality is checked on the basis of a minimal grant element of 25%, computed on the basis of the NPV of the loan at a fixed 10% discount rate (referring implicitly to recipient borrowing cost-6);
  - recording not the grant element, but the face value of the loan in the year of disbursement, and principal repayments as negative entries in consecutive years (net flow concept – in between 1 and 2);
  - without further taking into account interest rates or maturity;
  - '*concessional in character*' in practice different for bilaterals and multilaterals.
- So there is asymmetry of treatment between grants and loans.

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Description	repercussion on public sector spending	repercussion on public sector spending and receipts	opportunity cost of not being able to use the same resources in the donor economy	repercussion on (public sector) revenue	repercussion on (public sector) revenue and spending	cost of acquiring equivalent goods and services on the world market	repercussion on the recipient country's development
Application 1: concession al loan	face value of the loan	yearly net transfer on loan	discounted net transfer on loan (discounted at interest on long term government bills)	face value of the loan	yearly net transfer on loan	discounted net transfer on loan (discounted at borrower-specific world market interest rate)	economic net present value of project funded with the loan

4. Application to concessional loans (2)

Currently contested aspects of this approach:

•Asymmetry of treatment between grants and loans (and donors).

- Solution: DAC recommendation to achieve average grant element of at least 86% in total ODA.

•Problems with fixed 10% discount rate in grant element calculation, making almost all loans concessional at (current) low interest rates: '*concessionality in character*' is violated.

- Proposed solution: use as discount rate a creditor-specific, variable interest rate, such as DDR or CIRR, already used in other measures.

•Different treatment of bilateral and multilateral (development banks), i.e. a different use of '*concessionality in character*'. The latter are classified as concessional if they include a subsidy (soft window, e.g. IDA), and as non-concessional if not subsidized (hard window, e.g. IBRD).

- Consequence: concessionality depends on viewpoint: from recipient perspective, IBRD lending is still 'concessional' (i.e. a subsidy)
- EU (especially EIB) wants to be considered as bilateral, now multi for DAC

5. Application to debt relief

- Debt relief is one of the more controversial issues. Our conceptual framework suggests that the rationale and concrete metric for debt relief critically depends on the perspective chosen (see next slide).
- Again, the DAC treatment is a strange mix of several concepts, and also depends on the concrete 'debt relief modality':
  - Debt relief on ODA principal does not lead to additional entries in ODA; it enters only in a disguised way as negative entries not taking place. The interest on ODA loans can be registered as ODA;
  - Non-ODA debt relief (mainly ECA debt) is registered as ODA, but the metric depends on the type of debt relief: cancellations can be accounted for at their full face value, while reschedulings including an element of debt relief are accounted at its NPV (using a creditor-specific discount rate). No correction is made for the risk of non-servicing;
  - Other actions on debt relief (debt swaps, HIPC trust fund, buyback) are treated according to specific rules; some types of debt relief (such as MDRI) are not registered separately and enter in a disguised form.
- It leads to an overstatement of its creditor cost/recipient gain.

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Application 2: debt relief	**ODA loans**: no recording	**ODA loans**: yearly net transfers forgiven on ODA loans that would have been serviced	**donor-country loans**: discounted value of forgiven loan obligation that would have been serviced (discounted at interest on long term government bills)	no recording	yearly net transfer on forgiven loan that would have been serviced	discounted value of forgiven loan obligation that would have been serviced (discounted at borrower-specific world market interest rate)	economic value of public spending made possible by debt relief
	non-ODA loans: yearly budgetary cost of redemption	**non-ODA loans**: yearly budgetary cost of redemption	**other loans**: yearly budgetary cost of redemption				

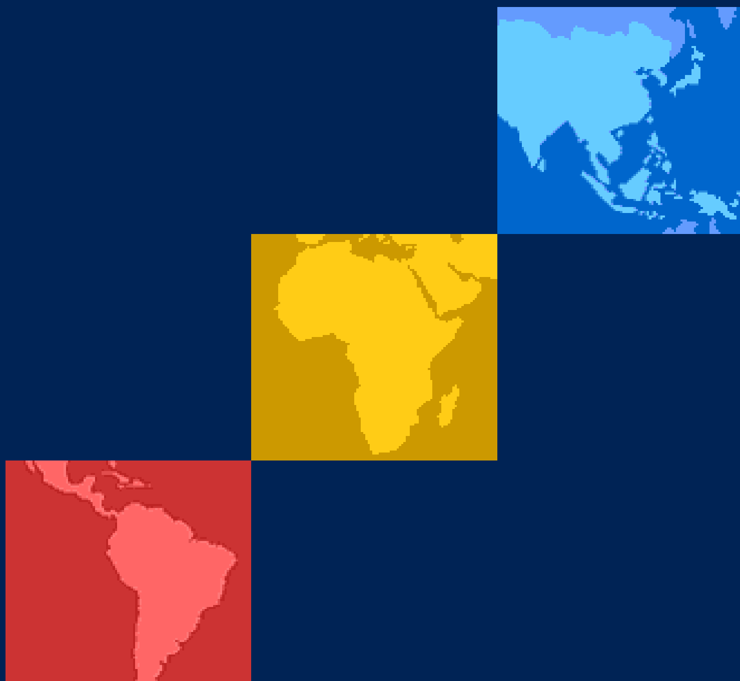
6. Alternatives in practice

Assume that ODA is mainly used to measure donor effort, are there other aid metrics that perform better, or satisfy a different purpose?

- Some alternative initiatives build on ODA and are merely refinements using the same basic logic (e.g. AidData);
- Some start from ODA but apply a more recipient oriented perspective, by subtracting certain components (e.g. Country Programmable Aid, CPA), or modify and add components (e.g. CGDEV's CDI);
- World Bank staff (Chang et al, 1998) EDA concept could have been an alternative but has its own flaws (e.g. excluding TA) and was a one shot initiative (requires financial details of every loan contract).
- From a recipient country perspective, distinguishing between aid and non-aid flows is not very relevant.

7. Conclusions and modest recommendations

- From its conception on, ODA has been conceptually flawed and later modifications have further weakened its analytical consistency;
- This should not come as a surprise as ODA accounting rules are basically political compromises, intentionally expressed in ambiguous language that allows for different interpretations;
- Despite this, there is a genuine desire, at the DAC secretariat and among donors, to improve the consistency and coherence of the ODA concept and metric;
- From our discussion, one modest suggestion is to focus on one particular concept (our preference: net budgetary donor cost perspective 2) and apply it as rigourously as possible, while at the same time providing sufficient additional statistical information to allow researchers to construct other metrics from the DAC database.



Thank you!

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http://www.ua.ac.be/dev/aid_effectiveness