

»» How will development assistance loans be recognized in the OECD's ODA statistics in future?

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Author: Joachim Heidebrecht
Editor: Dr Julia Sattelberger

The OECD's development assistance statistics have so far focused predominantly on recording grants (donations). They are recognised in full as Official Development Assistance payments by the donor country on the date of disbursement. A similar payment flow logic was adopted for development assistance loans.

Previous rule: long-term, net ODA effect of development loans was equal to zero

Provided development assistance loans are sufficiently concessional (i.e. according to the OECD's calculation methods they contain a minimum grant element of 25% compared to market terms), they are recognised in full as a positive ODA contribution at the time of disbursement and later (upon repayment) equally in full as a negative ODA contribution. As in the normal course of events the total repayments equal precisely the sum of disbursements, the net ODA effect of soft loans over the entire term is equal to zero up to now.

Criticism of previous recognition practice

This previous practice has drawn criticism from many sides: some critics argue that it is not proper practice that even loans with a very high grant element are in the end not recognised as ODA from a long-term net view. Other critics complain that the previous recognition practice results in temporary misrepresentations of ODA performance: ODA performance shoots up when the loan is disbursed, while the ODA-dampening effect only occurs in the more distant future (depending on the loan term) and stretches across many repayment years.

This effect levels off at some point provided the amount of loans disbursed remains con-

stant over time (then for each individual year the total of all new loans disbursed is equal to the total repayments on previously issued loans). But during phases in which loan commitments are quickly expanded (i.e. loan disbursements rise more quickly than loan-repayments) a positive net ODA effect can still persist for the donors of those loans for several years.

ODA reform 2018: Three key improvements in methodology

In response to the persistent criticism, at the end of 2014 the Development Assistance Committee (DAC) of the OECD agreed on a fundamental reform to its recognition rules for development assistance loans, which will come into force in 2018. The core elements of the reform are:

a) Move from a "payment flows"-logic to a "grant element"-logic

The key change is that from 2018 development assistance loans will no longer be recorded in the ODA statistics with their gross payment flows, but will only be recognised in the disbursement years and only to the extent of their grant element. In turn, however, there will no longer be deductions for the repayments.

The grant element is a mathematically calculated figure, which states how concessional a development assistance loan (pursuant to the OECD method) is, compared to loans at market conditions (pure grants have a grant element of 100%, purely market loans of 0%).

b) The current country and market conditions will be reflected more accurately in future

Instead of assuming (as has been the case up to now) that all developing countries could

obtain funding on the market at similar conditions, the future calculation of the grant elements considers that advanced emerging economies enjoy more favourable conditions on the market than poorer countries due to their better credit standing. As a result, a development assistance loan with an interest rate of 2% to an advanced developing country is less concessional than a loan with the same interest rate to a poorer developing country: the "discount" on the respective market interest rate is lower and therefore only a lower ODA amount is recognised for the donor in this case.

c) Higher minimum grant elements required for the poorest countries

Under the new system, a minimum grant element is no longer necessary: development assistance loans with a low grant element are still only recorded in a correspondingly low amount in the ODA performance. However, in order to create incentives for donors to provide only high-concessional financing to poorer countries, the OECD has passed a resolution to raise the minimum grant element as of 2018 from the current 25% to 45% for low income countries (LIC and LDC), while for middle-income countries it will be reduced to 15% (LMIC) or 10% (UMIC).

Conclusion: In future, development assistance loans will –to the extent of their grant element– be recognised as a permanent ODA contribution

With the reform of the ODA loan recognition rules, the DAC has responded to critics from both camps: like grants, soft loans will in future be recognised as permanent ODA contribution to the extent of their grant element and the previous temporary misrepresentation of the statistics will at the same time be prevented. The future ODA reporting system will therefore meet the requirements of a modern development finance system (with a broad spectrum of needs-based financing instruments) much better than today's rules. ■

Example of previous recognition:

A soft loan of e.g. EUR 30 million, that is disbursed immediately and repaid over 30 years in equal instalments, is recognised in the ODA performance of the donor as a positive EUR 30 million in the first year and as a negative EUR 1 million annually for the next 30 years – the overall net ODA effect is therefore equal to "0".

Examples of recognition as of 2018

A soft loan of e.g. EUR 30 million, which includes a grant element of 30% and is disbursed in full immediately, will in future be recorded in the ODA statistics in the disbursement year in the amount of its grant element of EUR 9 million. Later deductions will no longer be made for repayments.