

# Does ODA have a future?

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Development Policy Centre, Canberra, 3 July 2013

# Development Assistance Group

## Resolution on the Common Aid Effort, 29 March 1961

The Development Assistance Group Agree:

- [...]that they should make it their common objective to secure an **expansion of the aggregate volume of resources made available to the less developed countries and to improve their effectiveness;**
- [...]that, while private and public finance extended on commercial terms is valuable and should be encouraged, the needs of some of the less-developed countries at the present time are such that the common aid effort should provide for **expanded assistance in the form of grants or loans on favourable terms**, including long maturities where this is justified in order to prevent the burden of external debt from becoming too heavy;
- that they will **periodically review together both the amount and the nature of their contributions to aid programmes**, bilateral and multilateral, keeping in mind all the economic and other factors that may assist or impede each of them in helping to achieve the common objective;



THE FLOW OF  
**FINANCIAL  
RESOURCES**  
TO COUNTRIES  
IN COURSE OF  
**ECONOMIC  
DEVELOPMENT**

1956-1959

O E E C

ORGANISATION FOR EUROPEAN ECONOMIC CO-OPERATION







Hotel Nyborg  
HOTEL NYBORG STRAND





Eleventh Meeting of the Central Committee,  
World Council of Churches

Nyborg Strand, 21-29 August 1958

## **Christian Concerns in Economic and Social Development**

*received by the Central Committee and commended to the churches for study  
and appropriate action:*

The critical state of the struggle to accelerate the economic and social development of the countries of Africa, Asia and Latin America demands the attention of Christians everywhere.

Two-thirds of mankind are stirred by new hopes and quickening social change... In this revolutionary situation the peoples should see the hand of God and in obedience give new heed to the claims of justice and common humanity...

Far more **grants and generous loans** are essential. Contributing countries need to work out long-term policies for their assistance. If **at least one per cent of the national income of countries** were devoted to these purposes, the picture would become much more hopeful.





First Ministerial Meeting of the Group of 77

Algiers, 10-25 October 1967

## Charter of Algiers

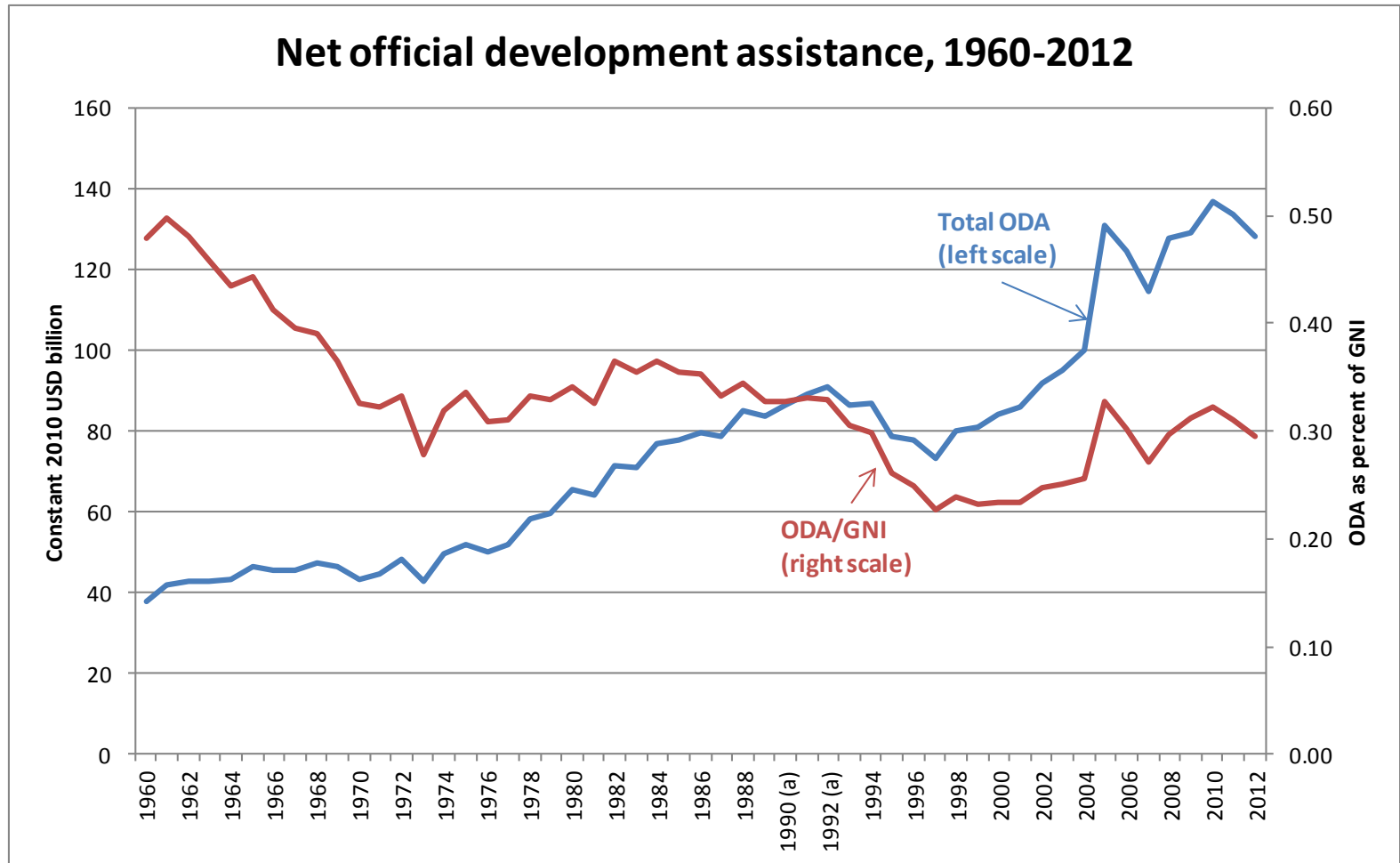
### C. DEVELOPMENT FINANCING

#### *1. Flow of international public and private capital*

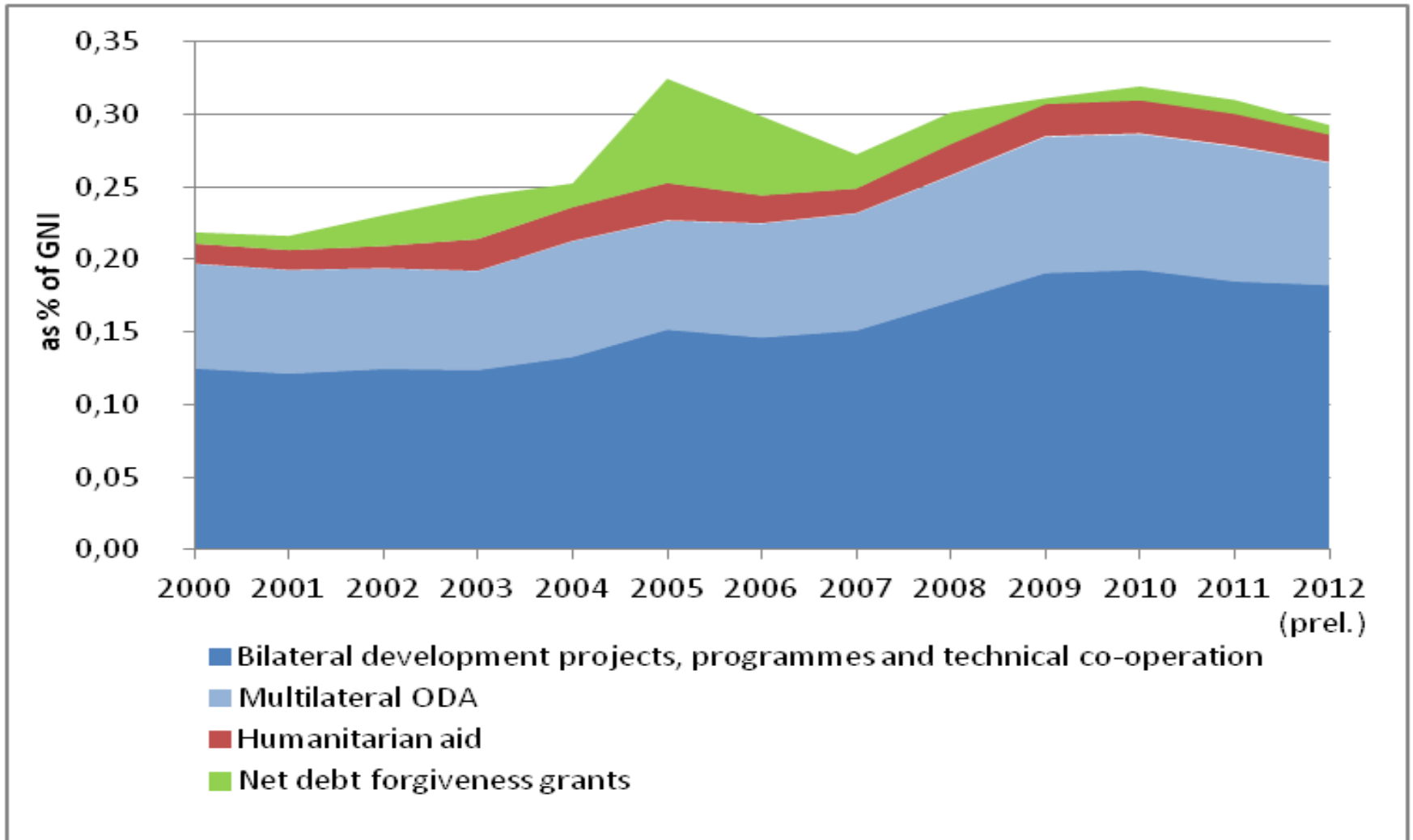
Each developed country should **comply with the target of a minimum 1 per cent** of its gross national product for net financial flows, in terms of actual disbursements, by the end of the United Nations Development Decade.

**A separate minimum target**, within this goal, and progressively increasing, should be established **for the official component of aid flows**, net of **amortization** and **interest** payments

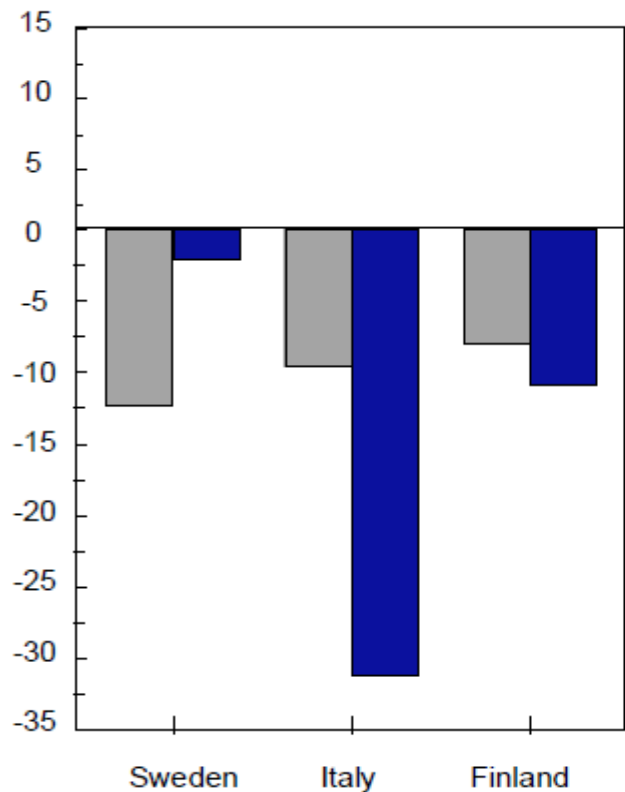
# Long-term trend in total DAC ODA



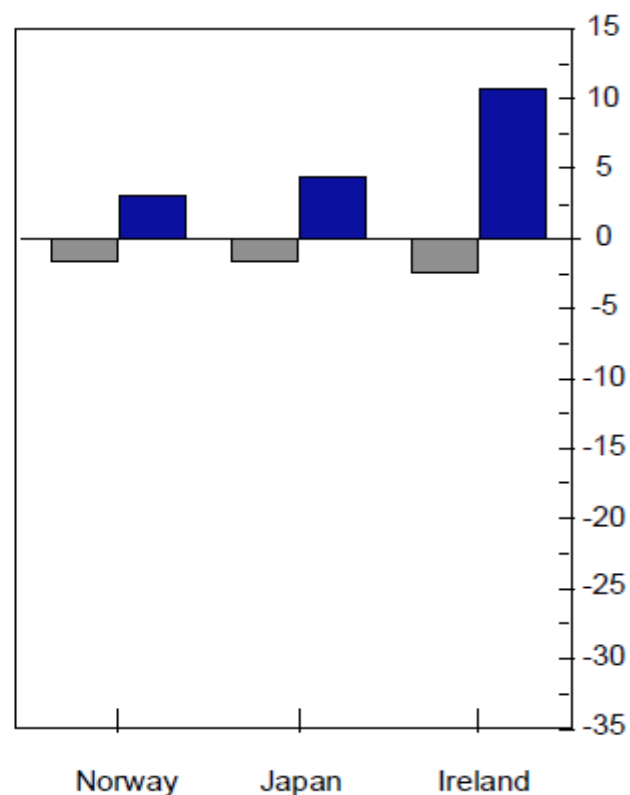
# Recent net DAC ODA



**The DAC countries with the largest fiscal deficits in 1993 subsequently cut aid**

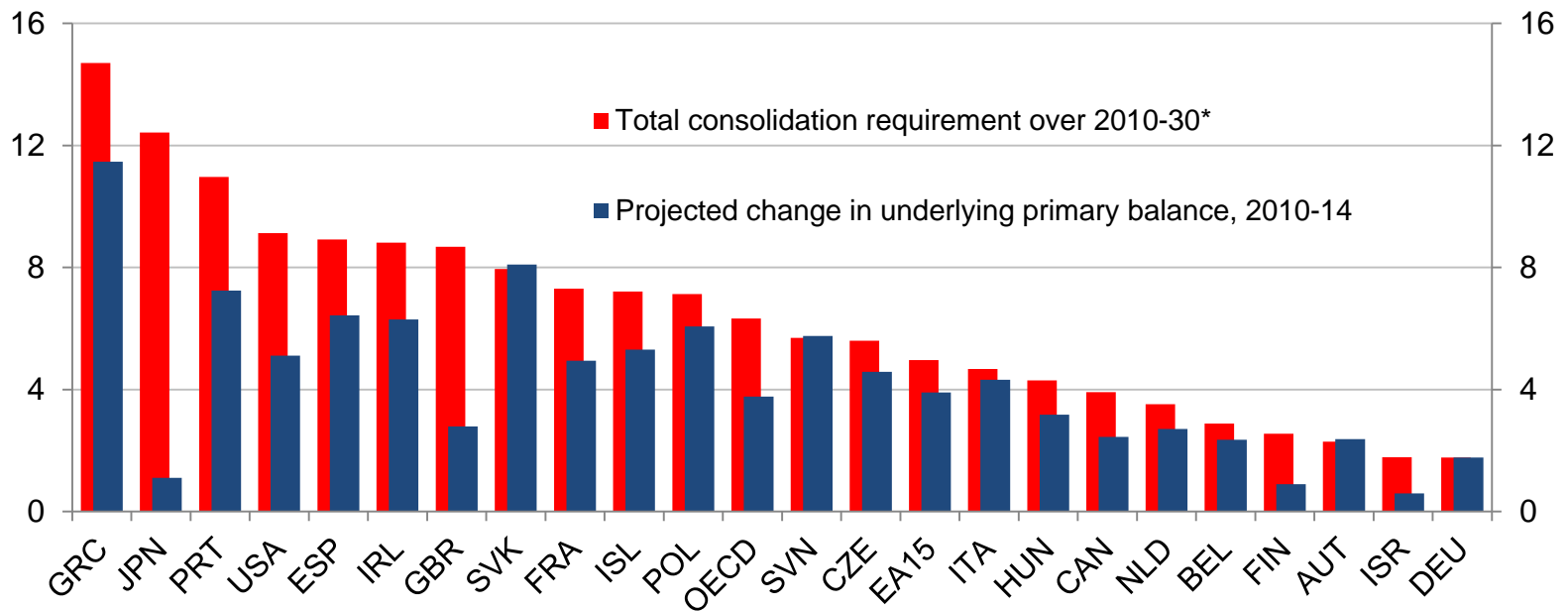


**The DAC countries with the smallest fiscal deficits in 1993 subsequently increased aid**



# Many countries have achieved most of the adjustment needed, others have far to go

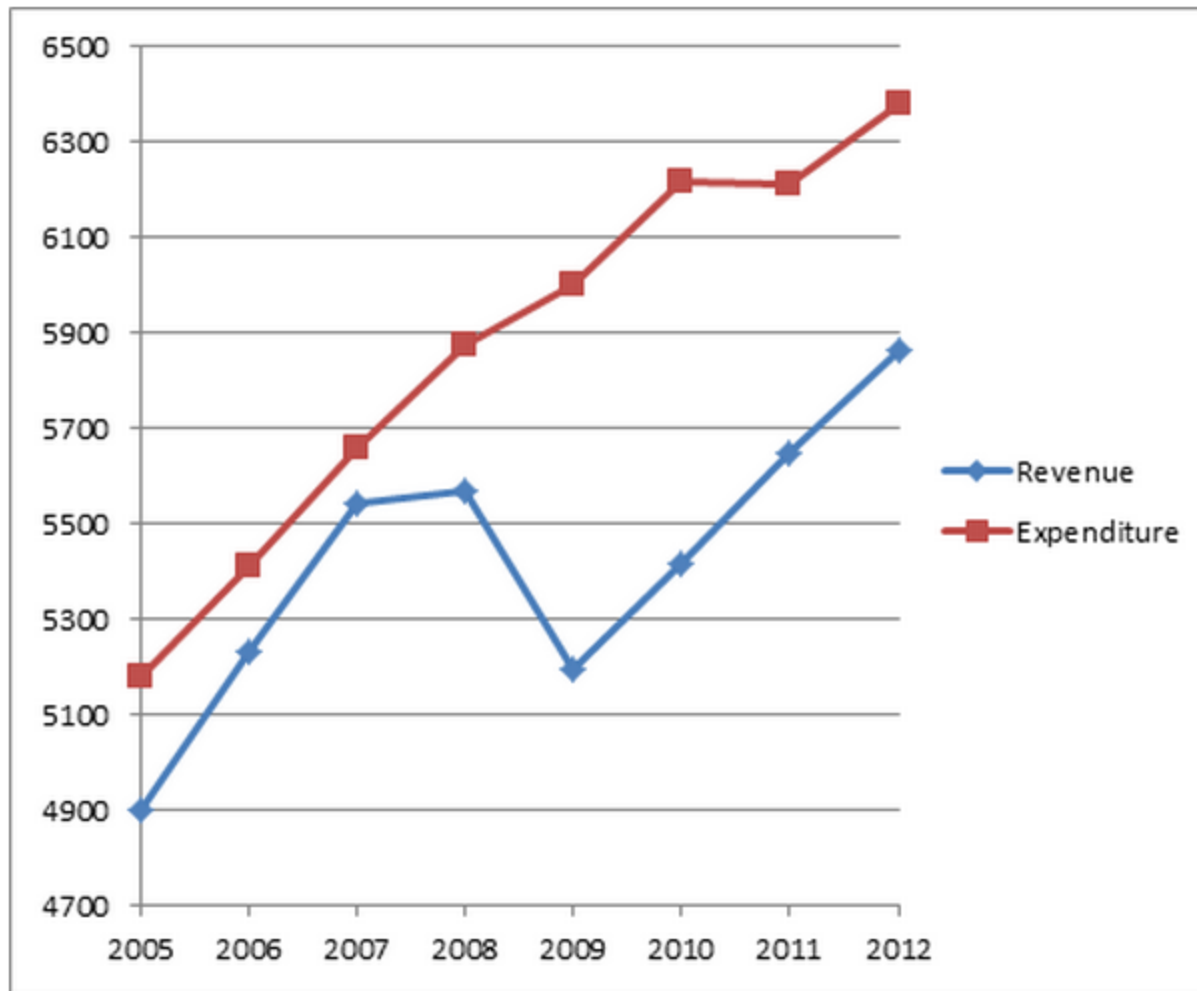
**Change in underlying primary balance relative to 2010 necessary to achieve 60% debt-to-GDP ratio no later than 2030**  
In per cent of GDP



\* Sum of the projected change in the underlying primary balance between 2010 and 2014 and the remaining requirement from 2014, defined as the difference between the primary balance in 2014 and the average primary balance between 2015 and 2030, except for those countries for which the debt target is achieved only after 2030, in which case the average is calculated up until the year that the debt target is achieved.

**Source:** OECD Economic Outlook 93 database, and OECD calculations.

Total general government revenue and expenditure in billions of euros – European Union (27 countries)



Source: Eurostat, Government revenue, expenditure and main aggregates.

# New measurements after 2015?

The 2012 DAC High Level Meeting in London decided to:

- Elaborate a proposal for a **new measure of total official support for development**
- Investigate...the need to **modernise the ODA concept**....[and] establish... by 2015, a clear, **quantitative definition of “concessional in character”** in line with prevailing financial market conditions.

# “Resources for development” (DAC categories)

	Concessional	Non-concessional
Official	<b>Official development assistance</b>	Other official flows (e.g. export credits)
Private	Private charitable flows (Foundations, NGOs)	Private market flows (investment and lending)



# Definition of official development assistance

**...flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions**

**...provided by official agencies...**

and administered with the promotion of the **economic development and welfare of developing countries as its main objective;**

and [that are] **concessional in character** and convey... **a grant element of at least 25 per cent** (calculated at a rate of discount of 10 per cent).

# Contested ODA items

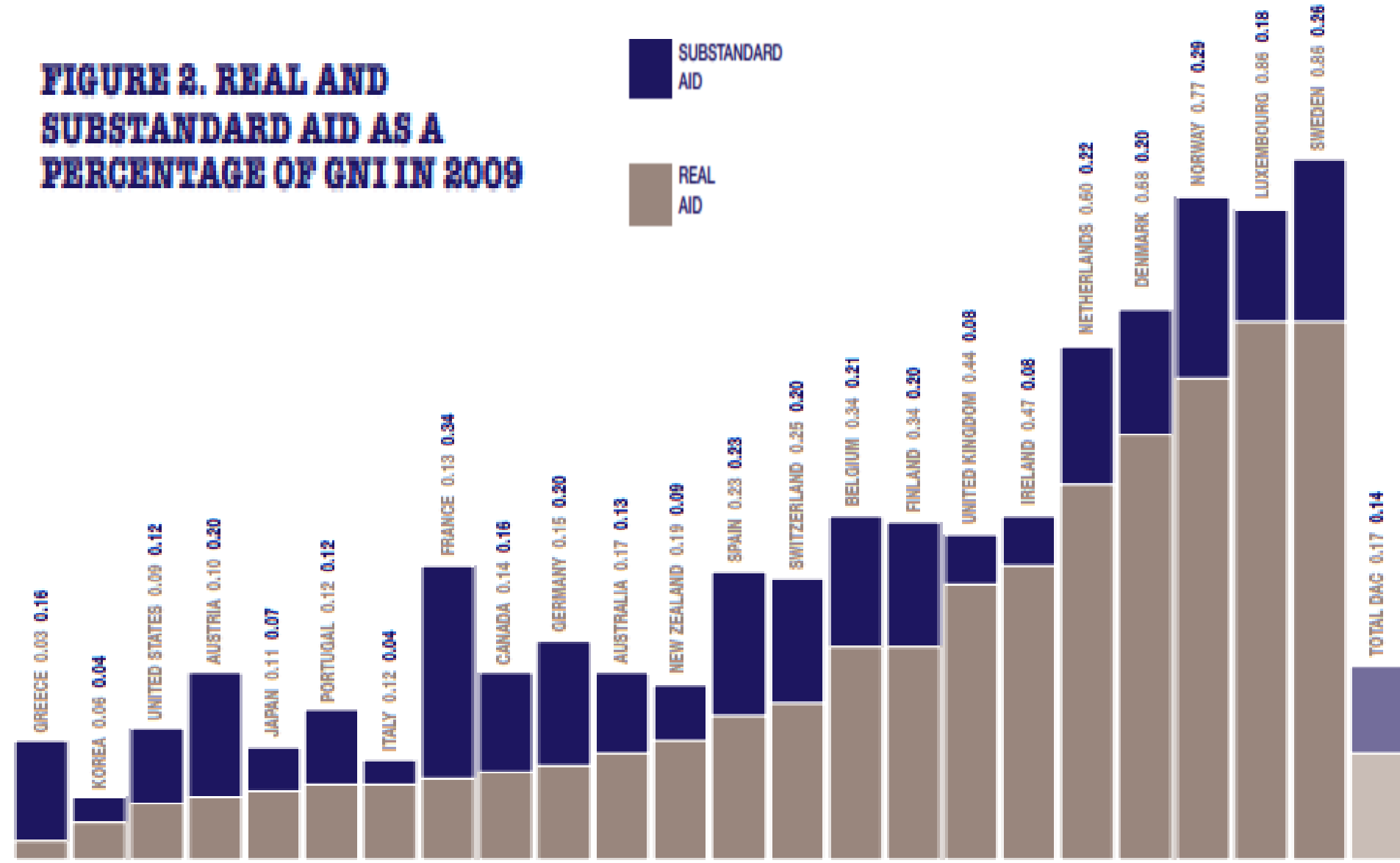
- 1974-9: Administrative costs
- 1982-8: In-donor refugee costs
- 1985: Implicit student subsidies
- 2004-7: Discount on debt buy-backs
- 2013: Unsubsidised loans

## Perennials:

- “overpriced” technical experts
- debt forgiveness

**FIGURE 2. REAL AND SUBSTANDARD AID AS A PERCENTAGE OF GNI IN 2009**

SUBSTANDARD AID  
 REAL AID



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**For Official Use**

**DCD/DAC/STAT(2005)13**



Organisation de Coopération et de Développement Economiques  
Organisation for Economic Co-operation and Development

19-May-2005

**English - Or. English**

**DEVELOPMENT CO-OPERATION DIRECTORATE  
DEVELOPMENT ASSISTANCE COMMITTEE**

**DCD/DAC/STAT(2005)13  
For Official Use**

**Working Party on Statistics**

**AID TO REFUGEES IN DONOR COUNTRIES: CHRONOLOGY AND REFERENCES**



# Unsubsidised loans

- The development banks of France, Germany and the EU can raise funds at ~2%
- They then re-lend to developing countries at 3-5%.
- With a long maturity, the loans can meet the ODA “grant element” test (25% grant element when measured against a loan at 10% interest)
- But are these loans “concessional in character”, as also required by the ODA definition?

Letter to the Financial Times, 9 April 2013

Sir,

**...The OECD is now quietly allowing large volumes of loans to be counted as ODA even though they do not meet any reasonable definition of being “concessional in character”, which is the basis of the OECD’s definition of aid.**

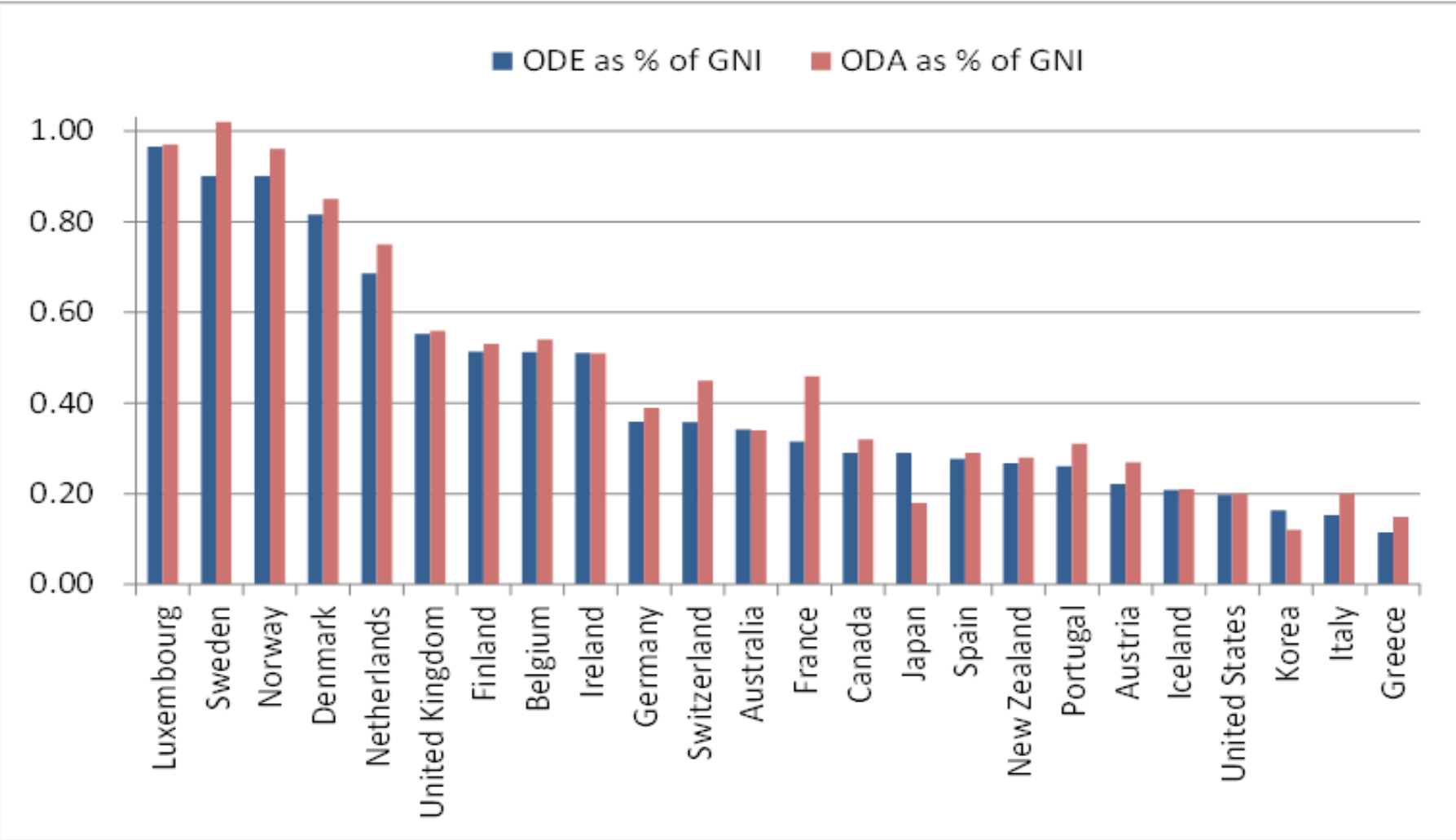
...OECD documents show that in 2011 France, Germany and the European Investment Bank reported more than \$2.5bn of loans made at interest rates well above their borrowing costs. **President François Hollande has indeed taken credit publicly for the fact that French loans to India cost the taxpayer nothing.**

The OECD must put in place a definition of concessionality that reflects the real cost of capital and requires real fiscal effort. It is **shocking that the OECD should publish official statistics that ...make a mockery of its own requirement that loans are concessional in character.** It is **encouraging OECD finance ministries to get away with murder** as they seek to **massage reported aid upwards** at minimum cost. **If the OECD cannot do a professional job on this, the UN should take over the reporting for international aid flows.**

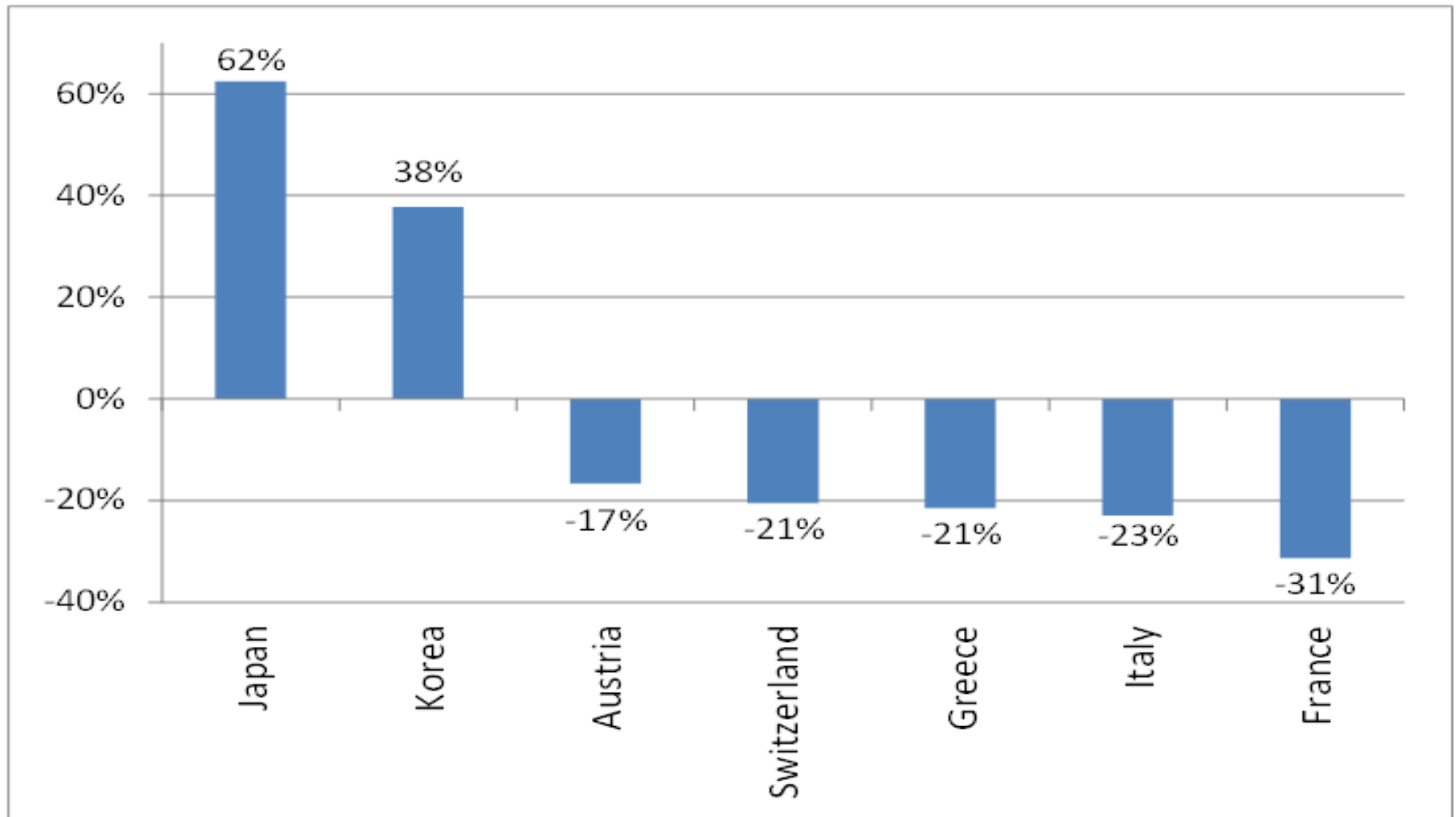
*Richard Manning, Chair of the OECD’s Development Assistance Committee, 2003-08, Esher, Surrey, UK*



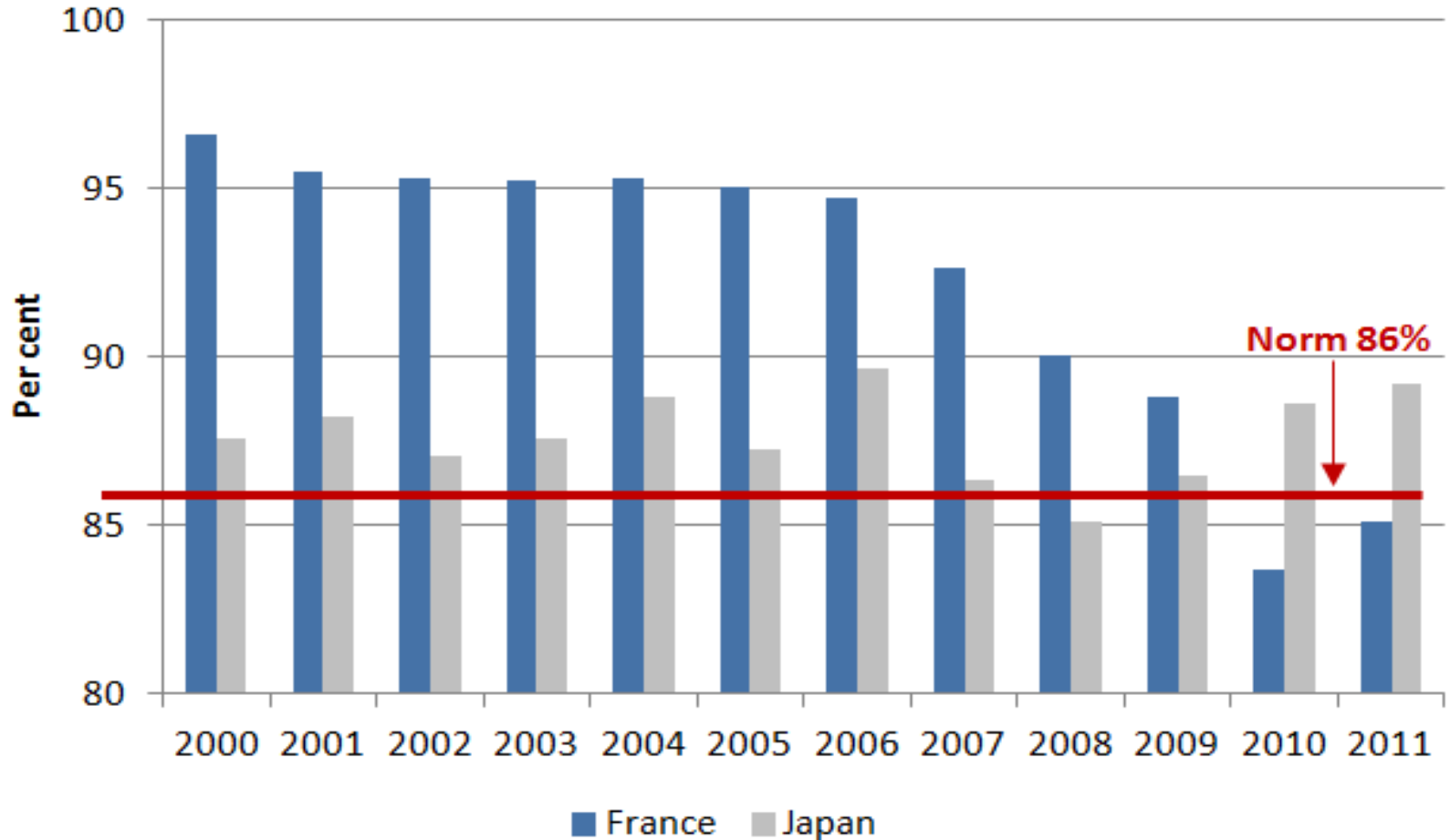
# Official development effort compared with ODA



# Largest differences between “official development effort” and ODA (2011 data)



# Grant element of total ODA: France and Japan



# Conclusions

- ODA levels will fall for several years
- There will be fewer ODA pledges
- A new measure of total official finance for development will be proposed
- ODA may remain the standard measure of donor aid, but needs to be cleaned up
- The OECD will continue to collect aid data, but probably in closer partnership with the UN

