

Official Development Assistance (ODA)

April 2021

WHAT IS ODA?

Official development assistance (ODA) is defined by the OECD Development Assistance Committee (DAC) as government aid that promotes and specifically targets the economic development and welfare of developing countries. The DAC adopted ODA as the “gold standard” of foreign aid in 1969 and it remains the main source of financing for development aid.

ODA flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions are:

- i. Provided by official agencies, including state and local governments, or by their executive agencies; and
- ii. Concessional (i.e. grants and soft loans) and administered with the promotion of the economic development and welfare of developing countries as the main objective.

The DAC list of countries eligible to receive ODA is updated every three years and is based on per capita income: <http://oe.cd/dac-list>

ODA data is collected, verified and made publicly available by the OECD at <http://oe.cd/fsd-data>.

OECD statistics are the only source of official, verified and comparable data on aid reported by 30 members of the OECD Development Assistance Committee (DAC) and about 80 other providers of development co-operation, including other countries, multilateral organisations and private foundations.

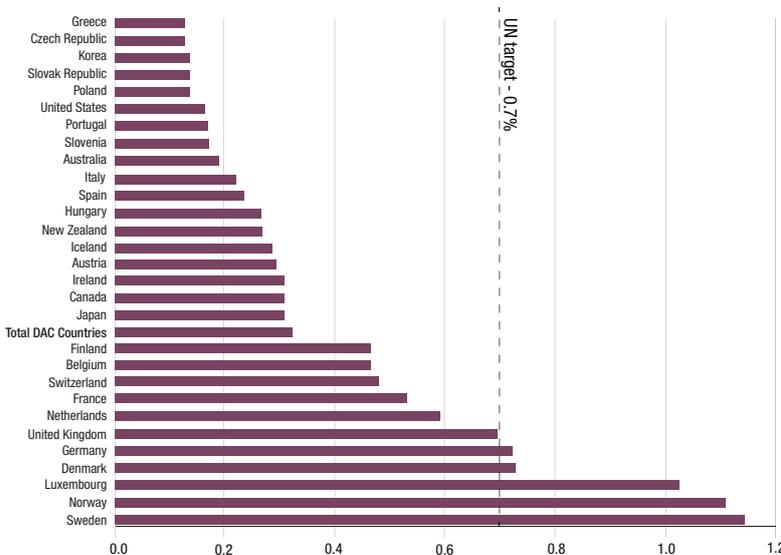
WHAT IS NOT ODA?

- Military aid and promotion of donors’ security interests
- Transactions that have a primarily commercial objectives e.g. export credits

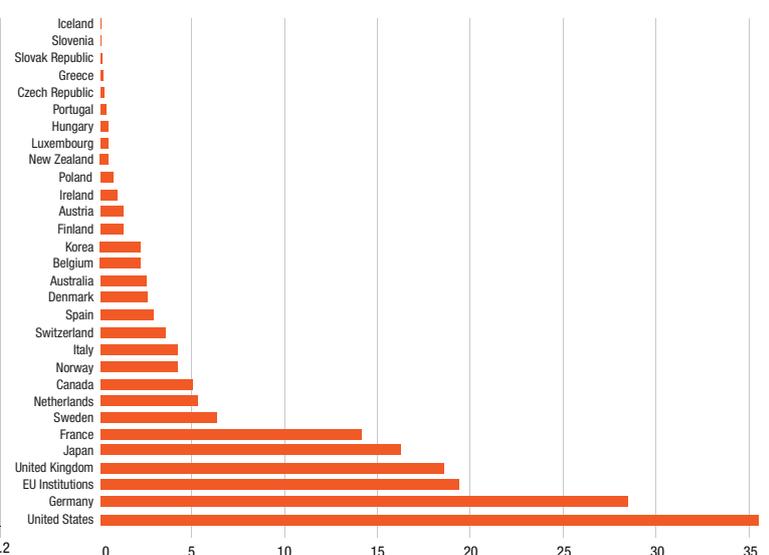
Check the on-line database on ODA-eligibility: <http://oe.cd/oda-eligibility-database>

ODA 2020 PRELIMINARY FIGURES

ODA grant equivalent as percent of GNI (2020)



ODA grant equivalent - USD billion (2020)



OECD (2021), DAC 1 - Total official and private flows | <http://stats.oecd.org/Index.aspx?DataSetCode=TABLE1>

THE MODERNISATION OF OFFICIAL DEVELOPMENT ASSISTANCE

In 2012, the DAC launched the modernisation of its statistical system in order to improve its accuracy while reflecting the changes in the development co-operation sector, such as the growing importance of other providers – non-DAC providers or philanthropic foundations, the diversification of financial instruments for development, or the increasing overlap of development co-operation policy objectives with those of other sectors such as migration and security.

In the process, the DAC took a series of decisions at its High Level Meetings in 2014, 2016 and 2017 with regard to the measurement of concessional loans to the public sector, private sector instruments, peace and security expenditures, and in-donor refugee costs.

- Over 2016-2018, a number of clarifications of eligibility rules for peace and security as well as in-donor refugee costs became effective.
- In 2019, the *grant equivalent* system became the standard for measuring ODA. Although data on the grant equivalent measure were collected and published during a transition period from 2016 to 2018, in 2019 it became the standard and ODA headline figures for 2018 applying this new standard were published for the first time. Data on actual flows (i.e. disbursements and loan repayments) continue to be collected and published to ensure transparency.
- Beyond 2020, the DAC will continue to adjust its statistical systems to new realities and needs. Work will continue to make the reporting of private sector instruments consistent with the new grant equivalent method. Work is also ongoing in relation to the methods for measuring the SDG focus of development co-operation (purpose codes, policy markers) in view of keeping the statistical classifications relevant and fit-for-purpose with the 2030 Agenda.



The new statistical framework:

- measures ODA loans more accurately and credibly, ensuring comparability of data across providers,
- encourages more and better allocation of concessional resources to implement the SDGs,
- promotes greater transparency and heightened accountability, helping to ensure that ODA goes where it is most needed and has the greatest development impact.

The next sections explain the changes in more details.

CLARIFICATIONS OF ELIGIBILITY RULES

Ambiguities in reporting rules led to inconsistent interpretation and reporting by DAC members on both peace and security-related expenditures, and on in-donor refugee costs.

Peace and security efforts

In 2016, the DAC agreed on updated rules for the eligibility of peace and security expenditures. This was to better recognise the marginal, but actual developmental role that military actors sometimes play, notably in conflict situations, while clearly delineating it from their main peace and security function.

- **The changes clarify ambiguities to ensure uniform, consistent statistical reporting, but also to approve the ODA-eligibility of development-related training for partner country military staff in limited topics.**

Since then, the DAC has:

- implemented the updated ODA rules on peace and security in the reporting,
- issued a revised *ODA Casebook on Conflict, Peace and Security Activities*, and
- complemented the technical review of the *ODA coefficient applied to UN peacekeeping operations*.

READ MORE:

http://www.oecd.org/dac/HLM_ODAeligibilityPS.pdf

[https://one.oecd.org/document/DCD/DAC\(2017\)22/FINAL/en/pdf](https://one.oecd.org/document/DCD/DAC(2017)22/FINAL/en/pdf)

<http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/ODA-Coefficient-for-UN-Peacekeeping-Operations.pdf>

In-donor refugee costs

In 2017, the DAC agreed to clarify the reporting directives for assessing what may be included or not in ODA – and provide its members with a blue print to use when accounting for the costs of assisting refugees in donor countries.

- **There are five clarifications, with supporting explanatory notes:**

i) Rationale for counting in-donor costs as ODA	Underlines that refugee protection is a legal obligation and that the provision of assistance to refugees may be considered a form of humanitarian assistance.
ii) Eligible categories of refugees	States that categories must be based on international legal definitions. Asylum seekers and recognised refugees are covered.
iii) The “12-month rule”	Reaffirms that beyond 12 months, expenditures are outside the scope of statistics on international flows.
iv) Eligibility of specific cost items	Explains what cost items may or not be included in reporting, e.g. temporary sustenance (food, shelter, training) is eligible but not costs for integrating refugees into the economy of the donor country.
v) Methodology for assessing costs	Emphasises the need for a conservative approach that is accurate and transparent.

The changes aim to improve the consistency, comparability, and transparency of DAC members reporting of ODA-eligible in-donor refugee costs.

READ MORE:

<https://oe.cd/in-donor-refugee-costs>

INTRODUCING THE “GRANT EQUIVALENT”

A fairer method to record ODA

ODA can take the form of (i) grants, where financial resources are provided to developing countries free of interest and with no provision for repayment, or (ii) soft loans, which have to be repaid with interest, albeit at a significantly lower rate than if developing countries borrowed from commercial banks.

Until recently, grants and loans were valued in the same way: by recording the flows of cash that were *granted*, or the face value of loans that were *lent* to developing countries, deducting any repayments on the loans. This “cash basis” or “flow basis” method, has been used to produce ODA headline figures until 2018 (reporting on 2017 ODA spending).

The method was simple, but it did not reflect actual efforts by donor countries: a grant represents a bigger effort than a loan; and a loan with a very low interest rate and a long repayment period represents a bigger effort than a loan with a higher interest rate and a short repayment period.

That is why DAC members decided, at their 2014 High-Level Meeting, to introduce a new way of measuring aid loans, so as to better reflect the actual effort by donor countries –and their taxpayers: only the “grant equivalent” of loans would now be recorded as ODA. The more generous the loan, the higher the ODA value.¹

Instead of recording the actual flows of cash between lender and borrower, the headline measure of ODA is based on the loans’ “grant equivalents”.

This provides:

- a more realistic comparison of loans and grants
- stronger incentives to use grants and highly concessional loans, which will continue to play a key role in mobilising resources to support the Sustainable Development Goals (SDGs).

Making grants and loans comparable: calculating the grant element and the grant equivalent

Money today is worth more than the prospect of the same amount in future. Any comparison of money now and in the future must take account of the rate at which money loses value. A sum of money in the future can be reduced to its value today by applying a discount rate. A discount rate is an interest rate applied in reverse: it applies tomorrow’s value to today’s money. *Grant element* calculations use discount rates to reduce the expected future reflows from a financial transaction to the value they would have today. If the value of expected future reflows in today’s money is lower than the amount extended today, then the difference represents a “gift”. This gift portion is called a *grant equivalent* if expressed as a monetary value, and a *grant element* if expressed as a percentage of the amount now extended.

For example, grants have a grant element of 100% as they are fully provided as “gifts”. By contrast, a loan offered at market terms has a grant element of 0%. However, this becomes a positive percentage if the lender adds an element of generosity. The grant element measure of aid provides a more accurate estimate of the donor’s effort

In short, the grant equivalent is an estimate, at today’s value of money, of how much is being given away over the life of a financial transaction, compared with a transaction at market terms. The grant equivalent is the grant element multiplied by the amount of money extended.

The question of debt relief

At the 2014 High Level Meeting it was agreed that changing the ODA measurement system from net flows to a risk-adjusted grant equivalent system would also change the basis on which debt relief of ODA loans was reported. The DAC reached a consensus on the treatment of debt relief on a grant equivalent basis in 2020, thus two years after the implementation of the grant equivalent as the standard for measuring ODA, noting that no major debt reorganisation occurred in 2018 and 2019. The agreement is an important step towards completing the modernisation of ODA.

1. At its 2016 High-Level Meeting, the DAC decided also to apply the grant equivalent method to other non-grant instruments such as equities and guarantees.

LEARN MORE:

- <https://oe.cd/modernisation-oda>
- Introducing the grant equivalent www.youtube.com/watch?v=-04oFS70-jg
- Modernised ODA measure: the treatment of loans www.youtube.com/watch?v=eSpxH-3hDJQ
- What is the grant element of a loan www.youtube.com/watch?v=TjI8efef3LQ
- Grant element calculator <https://oe.cd/grant-element-calculator>

The question of private sector instruments

At the February 2016 DAC High-Level Meeting, members agreed on the principles to better reflect, in ODA, the donor effort involved in the use of private-sector instruments. However, despite best efforts by all parties, the implementation rules to report private-sector instruments in ODA have not yet been agreed, primarily due to disagreement over the discount rates to be used in calculating the grant-equivalent of loans to private sector companies (PSI loans), equity investments, mezzanine finance and guarantees.

Therefore, DAC members have agreed on how to report their private-sector instruments flows in ODA (based on prior years' decisions and procedures), by applying either the *institutional or instrument approach* (until such time as the details of all decisions on private-sector instruments are agreed):

a) Institutional contributions:

- Any capital contributions to Development Finance Institutions (DFIs) or other private-sector instruments vehicles are included in ODA at their face value. If necessary, i.e. if the institution is active also in non ODA-eligible countries and/or activity areas, the share of ODA-eligible activities in the institution's total portfolio is estimated, to establish a coefficient for ODA reporting.
- Any reflows (including profits) from PSI vehicles to the government are counted as negative ODA.

b) Individual loans to private sector entities in developing countries:

- Loans committed or disbursed are reported as ODA on a cash-flow basis (provided they have a grant element of at least 25% calculated using a discount rate of 10%).
- Reflows from previous years' PSI count as negative ODA (provided that the underlying transactions have initially been counted as ODA).

c) Individual equity investments to private sector entities in developing countries continue to be reported on a cash-flow basis:

- Positive ODA is recorded at the time of investment and the proceeds of sales are reportable as negative ODA applying a cap on reflows corresponding to the original investment. To be ODA-eligible, equities need to comply with the ODA definition i.e. have the economic development and welfare of developing countries as their primary purpose and be in line with the ODA rules.
- Contributions to investment funds may be ODA-eligible if in accordance with the existing Directives.

d) Due to the lack of agreement on the details of accounting for ODA eligibility of mezzanine finance and guarantees, such instruments are not included in ODA, except to the extent that guarantees are invoked and payments made in which case existing processes specify these payments are measured on a cash flow basis.

Work on the implementation details is ongoing and the DAC is committed to reach a conclusion by consensus on this topic.

DEFINITION OF ODA

The **ODA grant equivalent** is a measure of donor effort. Grants, loans and other flows entering the calculation of the ODA grant equivalent measure are referred to as ODA flows.

ODA flows are defined as those flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions that are:

- i. provided by official agencies, including state and local governments, or by their executive agencies; and
- ii. each transaction of which:

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

b) is concessional in character. In DAC statistics, this implies a grant element of at least:

- 45% in the case of bilateral loans to the official sector of LDCs and other LICs (calculated at a rate of discount of 9%).
- 15% in the case of bilateral loans to the official sector of LMICs (calculated at a rate of discount of 7%).
- 10% in the case of bilateral loans to the official sector of UMICs (calculated at a rate of discount of 6%).
- 10% in the case of loans to multilateral institutions (see note 1) (calculated at a rate of discount of 5% for global institutions and multilateral development banks, and 6% for other organisations, including sub-regional organisations) (see notes 2 and 3).

Loans whose terms are not consistent with the IMF Debt Limits Policy and/or the World Bank's Non-Concessional Borrowing Policy are not reportable as ODA.

ODA grant equivalent measure

The ODA grant equivalent measure is calculated for ODA flows, as defined above. For loans to the official sector which pass the tests for ODA scoring [conditions i) and ii) above], the grant equivalent recorded as ODA is obtained by multiplying the annual disbursements on the loan by the loan's grant element as calculated at the time of the commitment (see note 4).

1. This includes both loans in the form of core contributions to multilateral institutions (classified as multilateral ODA), loans channelled through multilateral institutions (classified as bilateral ODA), and loans to trust funds administered by these institutions.
2. The definition of concessionality remains to be clarified for other types of loans [e.g. loans to the private sector], and other non-grant instruments (e.g. equity). Pending clarification, the criterion "is concessional in character and conveys a grant element of at least 25% (calculated at a rate of discount of 10%)" remains in force for these instruments.
3. Discount rates consist of a base factor of 5%, which is consistent with the discount rate that IMF used in 2014 for calculating IMF grant element, and an adjustment factor of 1% for UMICs, 2% for LMICs and 4% for LDCs and other LICs. There is no adjustment factor for loans to global institutions and multilateral development banks, and an adjustment factor of 1% for loans to other multilateral organisations, including sub-regional organisations. The DAC will regularly assess the need for adjusting discount rates, in particular following any change to the IMF rate.
4. The method for calculating ODA grant equivalent has so far been defined for bilateral loans to the official sector and for loans to multilaterals, not for loans to the private sector.

The total ODA figure

As explained above, members have yet to agree on the method for calculating the grant equivalent of private sector instruments. Total ODA and the ODA/GNI ratio are calculated by summing up grant equivalents for sovereign and multilateral loans and for debt relief, and net disbursements for private sector instruments. As private sector instruments only represent 2% of total ODA in 2018 and 2019, this was deemed an acceptable practical solution.

BEYOND ODA: TOTAL OFFICIAL SUPPORT FOR SUSTAINABLE DEVELOPMENT (TOSSD)

The measurement framework of total official support for sustainable development (TOSSD) has been developed to promote greater transparency on the full array of officially supported development finance provided by both emerging and traditional donors as well as multilateral institutions in support of the 2030 Agenda. TOSSD includes resources that promote the sustainable development of developing countries provided through ODA, other official flows, South-South and triangular co-operation, the support to international public goods and private finance mobilised by official development interventions. TOSSD complements ODA by increasing transparency and monitoring important new trends that are shaping the international development finance landscape, in line with the Addis Ababa Action Agenda of the 2015 Financing for Development Conference.

READ MORE:

www.tossd.org

MORE RESOURCES:

<https://oe.cd/official-development-assistance>

