Fact or fiction?
ODA Figures after "Modernisation" of OECD/DAC Statistics on Development Finance

Results of an Experts' Workshop on ODA Statistics
held on 7 April 2021 in Vienna, Austria
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Introduction

There has recently been a surge of critiques from various sources of changes the OECD's Development Assistance Committee has made to the way it measures official development assistance (ODA – see the list of recent articles below).

ODA is the official measure of foreign aid. It is the subject of United Nations targets, including the objective of providing 0.7% of advanced countries' national income in net ODA disbursements.

On 7 April 2021 three Austrian CSOs – Global Responsibility (Globale Verantwortung), the Austrian Foundation for Development Research (ÖFSE) and the Coordination Office of the Austrian Bishops' Conference (KOO) – organised an online experts' workshop to consider current problems in ODA measurement, and possible solutions. The workshop brought together a wide range of officials, former officials and researchers for frank discussions under Chatham House rules.

Technical problems with the new ODA rules

The meeting heard that, while there had long been controversy about the inclusion of certain items as ODA, the DAC's recent changes raised more fundamental issues. They altered the nature of the quantity being measured under the name of ODA, and circumvented one of its basic requirements, namely that all ODA flows should be "concessional in character".

The trouble started in 2014, when the DAC decided to change its headline measure of ODA loans. It agreed that, with effect from 2018, ODA would no longer measure actual disbursements and repayments of loans, but instead record upfront the "grant equivalent" of the loan.

Grant equivalents are mathematical estimates of what loans effectively "give away" through soft terms. The estimates depend crucially on what interest rate is used as a comparator.

The rates the DAC chose were too high. For example, the DAC compares loans to China with a loan at 6% annual interest. But China can borrow at around 3% on the market. Using 6% as a comparator makes a 3% loan count as ODA, even though no financial sacrifice is involved.

The DAC promised in 2014 to keep its comparator rates under review, but it has not done so and as a result they are now far too high across the board, even allowing for the risk of default. A recent analysis by the Center for Global Development found that, as a result, ***total loan ODA was overstated by more than double***. This artificially boosted the ODA figures of DAC members with large lending portfolios, especially Japan, France, Germany, and the EU.

The DAC used these artificially boosted figures to calculate donors' ODA/GNI ratios, whereas UN resolutions require them to be calculated on the basis of net disbursements. The DAC did not clear this change with the UN, and ***holds no UN mandate to change how the ODA/GNI ratio is measured.***

Later the DAC adopted an ***"apples and pears" approach to measuring loans to different borrowers***. In 2016 it removed loans to the private sector from the coverage of its 2014 decision, as it wanted to negotiate even higher comparison rates for them. But it failed to agree on those rates and in 2018 it went back to counting the loans' actual disbursement and repayments. So the same loan to the same country now counts in its grant equivalent to an official borrower, but in its net flow to a private borrower.

Other technical problems include ***an unresolved dual accounting system for "private sector instruments" (PSI)***, such as equity investments and loan and investment guarantees. Donors can count either the actual transactions with developing countries, or their net contributions to the agencies that undertake them. And, despite some planned safeguards, they can switch between the two.

This inconsistent reporting scheme for PSI-ODA results from a 2018 DAC decision to adopt provisional rules when they found themselves unable to agree on how to measure grant equivalents for PSIs. The result is a mix of data that represent completely different quantities.

The DAC further decided in 2018 that until it agreed on how to replace its provisional rules, it would score equity investments in their full value as ODA when they were made, but not subtract from ODA any profits realised when the investment was sold. This systematically ***overstates the net flow of resources in equity investments***.

Debt relief is also being overstated. ***New rules to count the grant equivalents of debt relief lead to a "double overcounting" of loan ODA***. Loans' grant equivalents are already inflated upfront by using unrealistically high comparator rates. But forgiven amounts are then also inflated by applying the same comparator rates to the outstanding debt until it is forgiven. This means that the ***amounts reported for forgiving an official loan will typically exceed the amount forgiven***.

The DAC also decided to continue to count the full amount forgiven of officially guaranteed market-terms loans as ODA, ***ignoring the real cost to the taxpayer.*** The real cost of relief on such loans is usually nothing, since the loans are insured and the premia collected from private sector entities on all loans should cover any payouts required.

In sum, the ODA modernisation process has:

- Introduced ***mismeasurements and inconsistencies***
- Led to ***breaks in statistical series***
- ***Overstated the ODA effort*** of DAC members with substantial non-grant programs
- Circumvented ***the "concessional in character" requirement*** of ODA
- Meant that reported ***ODA/GNI ratios no longer follow UN resolutions***
- Involved a series of ***contradictions, reversals, and unfinished business***, so that figures are frequently based on ***provisional rules subject to further negotiation***.
- Tended to introduce the ***opposite incentives to those intended*** (see below).

Political and administrative reasons for the problems

Participants heard that the technical flaws resulted from problems at several levels.

The most basic is that ***the DAC is essentially a policy-oriented body***. The "regular DAC" that meets roughly monthly in Paris comprises diplomats whose job is to defend their countries' interests, promote their countries' image, and settle international disputes. While the DAC has a technical working party of aid statisticians – the WP-STAT – this has been largely side-lined in recent years,

with disagreements being resolved at higher levels based on “political compromises”. Within the WP-STAT, the political element has also increased, with the technical experts being handed instructions to adjust statistics in ways favourable to countries’ perceived national interests.

A key aim of diplomacy is to avoid conflict. Ambiguity, vagueness, flexibility, multiple options, postponing solutions and reopening previous agreements can all be useful tools in diplomatic negotiations. They are, however, fatal to the cause of consistent, reliable statistics, as the recent history of ODA rule changes shows. In 2014 the DAC reversed its 2012 decision to maintain the definition of ODA. In 2016 it changed its 2014 decision by removing loans to the private sector from its coverage. In 2018 it failed to implement its 2016 decision to count private sector instruments on a grant equivalent basis. In 2020 it broke its 2014 promise not to double-count loan risk. Such ***constant zigzags produce inconsistent, non-comparable statistics***.

Diplomacy also involves a search for mutually beneficial trade-offs. In practice this has damaged the integrity of ODA rules as countries whose figures benefit from one distortion have “gone quiet” on proposed new distortions so as to preserve their existing advantage. A specific example was raised. It illustrated the ***“ratchet effect” of overly-generous rules***. Once they were used it became politically impossible to abandon them except in favour of even more generous rules.

Another useful tool in the armoury of diplomacy is to keep negotiations secret until agreements are reached. It is easier to conciliate conflicting national interests behind closed doors, and the DAC does this as a matter of course. However, on statistical matters it means that ***the DAC has insulated itself from outside opinion*** and analysis which might have saved it from some of its missteps.

A further source of error has been the DAC’s emphasis on creating appropriate incentives through the design of statistical rules. It has, for example, promoted the changes it has made by stating that they would encourage debt relief, or encourage lending at concessional terms to low-income countries. Various participants of the workshop ***rejected the DAC’s arguments about incentives***, but for differing reasons:

- Some observed that the creation of incentives was inconsistent with the need for statistics to provide a neutral and objective picture of reality: on this view, incentives should be offered through ODA targets against which performance would be measured objectively, rather than by altering statistical rules to give more ODA credit for certain actions.
- Some others who had analysed the incentives contended that they did not, in reality, operate as advertised: e.g. they actually encouraged delaying debt relief, and lending at market terms to middle-income countries.
- A third opinion was that incentives arguments were really only a smokescreen to conceal the real aim of changing the rules, which was to artificially inflate reported ODA figures.

Another important factor is the ***excessive focus on the 0.7% ODA/GNI target*** as the sole measure of development effort. Donors unable to meet the target through real spending have sought to improve their image by widening ODA coverage. Until 2014 this trend was contained by adherence to the ODA definition fixed in 1972. But moving to grant equivalents required changing the ODA definition, which has since become a perpetual “work in progress”, ballooning from 80 words to 800, and now studded with footnotes about unresolved issues.

The tendency to dilate the ODA concept has been enabled by a ***lack of internal and external correctives***. The last internal OECD “quality review” of DAC statistics was in 2014, and the DAC is not answerable on statistical matters to the central statistical department of the OECD, to the UN, or to any international coordination mechanism, such as those that guide rule development for the balance of payments, the system of national accounts, or other international statistics.

The road to recovery

The situation with DAC statistics was recognised as being unusual, and in some respects bizarre. One participant observed that no one would imagine finance ministries colluding to alter GDP measurement so as to fake growth, yet that was what the DAC was doing with ODA measurement.

Still, the meeting saw recovery as possible, since ***technical solutions are available***. Loans could continue to be scored in their grant equivalents, as long as credible comparator rates, such as the OECD's own Differentiated Discount Rates (DDRs), were used. All loans should be scored the same way, using the DDRs. It would then no longer be double-counting to count relief on ODA loans as a new aid effort. ODA should not count forgiveness of insured market-terms loans, since the insurance should cover the cost. The DAC should drop its work on grant equivalents for private sector instruments: these had no real grant equivalents, and should rather be reported as "other official flows" on a cashflow basis, with ODA only being counted for real subsidies to PSI-extending agencies. All these changes would not only remove abuses, but also greatly simplify the practical work of collecting the statistics.

Yet it was unrealistic to imagine that such reforms could be achieved without ***political reforms in the way the DAC operated***. It had to recognise that its statistics should be neutral and objective measures of reality. To this end, it needed to give technical bodies full responsibility to develop statistics free from political pressures – as foreseen in the OECD's own Recommendation on Good Statistical Practice. The DAC should give more weight to non-ODA development flows and actions, increase the transparency of statistical discussions, and invite and strengthen review processes.

There were real ***incentives for the DAC to do this***. By doing so, it would avoid getting bogged down in emotionally draining debates over what were, in the end, technicalities. Straightening the ODA rules would make its statistical system easier to operate and understand. DAC Peer Reviews and aid effectiveness work would benefit from cleaner and clearer ODA figures. The DAC could spend more time on genuine policy issues. Reforming its processes for developing statistics would also improve its reputation. It could gain particular kudos by taking up suggestions to invite experts from developing countries and international agencies to participate as equals in ODA rule development.

There were also ***disincentives for the DAC to continue down its present path***. If it did so, criticism, already widespread, would continue and grow. In any case, DAC members were getting little or no credit for the minor apparent increases in ODA that they had gained from changing the rules. Few had made significant progress towards the UN target as a result of the changes, while "stuffing" ODA with non-concessional flows had made their aid programs look worse on key issues such as poverty focus, aid to Africa, the share of aid to least-developed and low-income countries etc.

The DAC's ***present course was in any case untenable in the long run***. The "new ODA" it had created was incoherent, and could only get worse with further "political compromises". This was already an open secret in the aid community, and it was starting to affect the OECD's reputation as a provider of reliable evidence for policy making. This was one of the organisation's reasons for existence, and the threat to it might provoke stern action to reform the DAC if it did not reform itself.

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