

The OECD's new way of counting ODA loans - what's the impact?

BY MATHILDE GARRET AND RAIMUND ZÜHR, [SEEK DEVELOPMENT](#)

JUNE, 2019

Summary

The OECD DAC's new 'grant-equivalent' methodology for measuring ODA flows is changing the way development loans are reported as ODA. This Donor Tracker [Insights](#) piece sheds light on how the reform has impacted the ODA volume of donors in 2018. It also explains why the reform has so far particularly affected six donors: Japan, Spain, the EU institutions, Germany, France, and South Korea.

What is the ODA loan reform about?

Starting with 2018 data, the OECD's Development Assistance Committee (DAC) is using a new methodology to calculate data on donors' official development assistance (ODA). Called the 'grant-equivalent,' the methodology aims to better reflect donors' real financial effort when disbursing ODA loans. It is the OECD DAC's new standard for publishing headline ODA figures and has a concrete impact on how much of a donors' loan can be counted as ODA.

How were loans counted before the reform?

Under the old reporting system, which used a 'cash-flow basis' to measure ODA, the full-face value of a loan was reported as ODA—as long as its 'grant-element' was at least 25%, regardless of the income level of the borrowing country. The grant element of a loan is a measurement of how 'soft' or concessional the conditions (e.g., interest rate and grace period) of a loan are and is expressed as a percentage.

When a recipient country later repaid the loan, the repaid amount would be subtracted from a donor's ODA. ODA figures that discounted the repaid amount were referred to as 'net ODA' (vs. 'gross ODA', which counted the total amount disbursed by a donor in a given year).

So what changed?

With the new methodology, only the grant-equivalent share of an ODA loan counts towards ODA. The grant-equivalent of a loan is its grant element expressed as a monetary value (e.g., in US\$). In turn, the repayment

of ODA loans is no longer subtracted from ODA headline figures, eliminating the distinction between gross vs. net ODA.

In addition, the minimum grant-element required for a loan to count towards ODA is now differentiated based on the income group of the borrowing country. It must be at least:

- 45% for the groups of low-income countries and least-developed countries;
- 15% for lower middle-income countries;
- 10% for upper middle-income countries.

This differentiation by income group was introduced to promote the stronger use of grants and highly concessional (soft) loans in low-income countries.

How does the reform affect comparability?

The introduction of the grant-equivalent methodology means that ODA data for 2018 using the new methodology cannot be directly compared to spending in previous years, when the methodology was not yet in use. To allow for comparison of ODA figures over time, the OECD DAC will continue to publish ODA data using the old, cash-flow basis methodology.

How does the reform impact donors' ODA?

It is still too early to fully assess the impact of the reform on donors' ODA given that grant-equivalent figures have only recently become the standard.

Figure 1: Grant-equivalent ODA vs cash-flow basis ODA, percentage change, 2018 *



* Ranked by total ODA levels
Source: OECD DAC.

The OECD's preliminary data for 2018 indicates that the application of the methodology has led to a small increase in ODA. All 29 DAC member countries combined provided US\$153 billion in ODA in 2018 using the new grant-equivalent methodology. This is 2.5% higher than ODA using the previous cash-flow basis methodology (US\$149.3 billion).

A closer look at the 14 major OECD donors covered by the [Donor Tracker](#) reveals more nuances. The reform affected six donors significantly (defined here as a change in ODA by more than 2.5%, which is the percentage change of all DAC donors; see Figure 1):

- Japan (+40.8%)
- Spain (+11.4%)
- EU institutions (-4.3%)
- Germany (-3.5%)
- France (-2.8%)
- South Korea (-2.7%)

These are all countries that currently disburse large shares of their ODA as loans or have done so in the past (see Figure 2).

The following section takes a closer look at these six donors and why the ODA loan reform impacts them more than others.

Japan

The reform currently affects Japan more than any other donor. [Japan's](#) ODA in 2018 was 40.8% higher under the grant-equivalent methodology than using the cash-flow basis methodology. This is due to three main factors: First, Japan disburses almost two thirds of its bilateral ODA (61% in 2017) as loans. This is much higher than the average share among DAC members (8% in 2017). Japan prefers ODA loans as they are a way to promote greater ownership by partner countries and represent a smaller fiscal burden for Japan's national budget than grants.

Second, Japan's loans—primarily targeting Asian countries for infrastructure projects—are usually delivered under soft conditions (with low interest rates and long grace periods), and thus have a high grant-equivalent. Above two thirds (68% in 2017) of the full face-value of ODA loans are also reported as ODA under the new methodology (well above the average among DAC members reporting loans: 52% in 2017).

Third, under the new methodology, the repayment of previous ODA loans is no longer subtracted from its ODA, leading to increases in ODA figures when comparing to the cash-flow basis methodology.

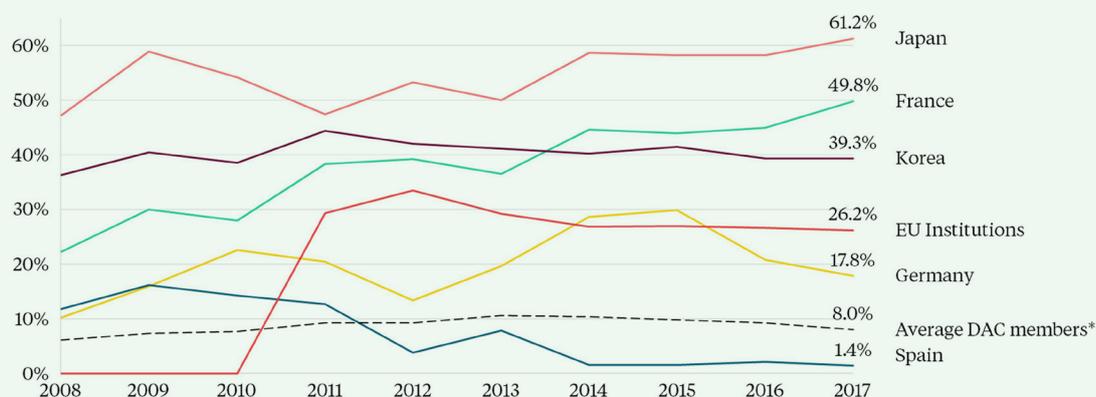
Spain

[Spain](#) is the second-most affected donor by the reform: its ODA in 2018 was 11.4% higher under the new grant-equivalent methodology than using the cash-flow basis methodology. This is because Spain still receives repayments from previous ODA loans. These negatively affect its net ODA based on the cash-flow basis but are no longer subtracted from its ODA under the grant-equivalent methodology.

Prior to 2012, Spain disbursed large shares of its bilateral ODA as loans (14% on average between 2008 and 2011). This is no longer the case: in recent years, administrative bottlenecks within Spain's Development Promotion Fund FONPRODE—the main instrument for Spanish loans—have led to significant underspending, leading to a drop in ODA loans (only 1.4% of bilateral ODA in 2017; see Figure 2).

EU institutions

The [EU Institutions](#) are the DAC member for which the new methodology has had the largest negative impact: its grant-equivalent ODA was 4.3% lower in 2018 than using the cash-flow basis methodology. All the EU's ODA loans

Figure 2: Share of bilateral ODA disbursed as loans *

* Average includes DAC donor countries and the EU institutions
Source: OECD CRS, gross disbursements, in constant prices

are delivered by the European Investment Bank (EIB). In 2017, loans made up 26% of the EU's bilateral ODA.

The European Commission started reporting loans as ODA in 2011. This followed a decision by the OECD DAC that the terms of these loans were soft enough to qualify as ODA. However, EU loans are not as concessional as ODA loans of other donors, such as Japan, which explains the negative impact of the reform on its ODA. In 2017, the grant-equivalent of the EU's loan portfolio was 50% only of its full value, thus slightly below the DAC average of 52%. This means that under the grant-equivalent methodology, only half of the EU's loans will count as ODA, bringing ODA levels down.

Germany

Germany is the OECD donor on which the grant-equivalent methodology had the second-largest negative impact so far: its ODA was 3.5% lower in 2018. This is mainly because Germany delivers loans that are not very concessional. In 2017, almost a fifth (18%) of Germany's bilateral ODA was made up of loans, the bulk of which (96%) was extended by Germany's development bank KfW. Among the six donors in focus, German loans have the strictest terms: in 2017, the grant-equivalent of German total loans portfolio was below a third (31%) of their full value.

France

In 2018, France's ODA was 2.5% lower under the new grant-equivalent methodology than it would have been under the cash-flow basis methodology. Like Germany, this is because France disburses large amounts of loans which are not very concessional: in 2017, the grant-equivalent of France's loans amounted to 49% of their full value, which is below the DAC member average of 52%. In 2017, loans made up almost half of France's bilateral ODA (50%). This is due to the strong role of the French Development Agency (AFD), which acts both as a development bank and as an implementing agency, disbursing 95% of France's ODA loans (2017). AFD differentiates partner countries based on their income-level: it focuses loans on emerging economies and grants on low-income countries

South Korea

South Korea's ODA in 2018 was 2.7% lower according to the new grant-equivalent methodology. This is due to the large share of loans within South Korea's bilateral ODA (39% in 2017; the government has set a 40% share as a target objective for 2016-2020). The drop also comes despite the high concessionality of South Korea's loans: their grant-equivalent amounted to 80% of their full value in 2017. However, South Korea still receives low levels of loan repayments (4% of its total ODA in 2017). These repayments, which are no longer subtracted under the new methodology, are not enough to offset the lower level of loans reported as ODA. This results in lower total ODA un-

der the grant-equivalent methodology.

South Korea's preference for loans is the result of its positive experience with this instrument as an ODA recipient—South Korea received development assistance until 1995—but also of the political will to promote fiscal discipline in partner countries.

Key Resources

- OECD DAC; High level meeting final communique, 2014 <http://www.oecd.org/dac/OECD%20DAC%20HLM%20Communique.pdf>
- OECD DAC; What is ODA; 2019 <https://www.oecd.org/dac/stats/What-is-ODA.pdf>
- Development Initiatives; Accounting for ODA loans; 2018 <http://www.devinit.org/wp-content/uploads/2018/03/Accounting-for-ODA-loans-Feb-2018-briefing.pdf>