Annex 1: Detailed Response to "The Modernisation of ODA: Frequently Asked Questions" published by the OECD in September 2022

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Introduction:

Below is my analysis of and comments on the FAQs issued by the OECD and dated September 2022 entitled "The Modernisation of ODA: Frequently Asked Questions", which is the only public response offered to the critiques of the Development Assistance Committee (DAC) changes to ODA that I have submitted to the Chair of the DAC since 18 February. The full correspondence is posted here:

Letter dated 18 February 2022 to Chair of the DAC
Analytical Paper, February 2022, Annexes, Q&A
Letter dated 25 March 2022 to Chair of the DAC
Letter dated 5 July to Chair of the DAC

This annex assumes the reader has read the OECD's FAQs, and understands both the terminology they use, and how grant equivalent calculations work (in particular, how the answer they produce depends on the discount rate used in the net present value calculation: the higher the discount rate, the higher the grant equivalent of a loan will appear).

Key Omissions in the FAQ:

Before commenting on the FAQs themselves, it is important to note that they fail to address some of the core questions and criticisms that have been raised in response to the way the Development Assistance Committee (DAC) has exaggerated ODA through the major rule changes it introduced from 2018.

In particular, the important governance issues that I and others have raised are completely avoided, including the observation that the DAC's system for setting ODA rules violates the OECD's own Council-endorsed Recommendation on Good Statistical Practice. In this regard, there is no response to the criticism that rules purporting to measure the donor effort in providing overseas aid are being set by a body comprising only donor countries, with an incentive to exaggerate their own generosity. Neither developing countries nor professionally independent statisticians, who might help to ensure fairness and robustness in the methodology, are part of the decision-making process.

The FAQs also fail to answer many technical critiques that have been made of the new ODA rules over the past several years. Here are some questions that have been raised that the FAQ should have addressed, but didn't, together with the correct answer to each:

- Can donors now score more ODA for forgiving an ODA loan than the amount they forgive? (Correct answer: *Yes*)
- Can a rescheduled loan eventually score as much as a grant, even if it is fully repaid? (*Yes*)

- Can a donor score more for forgiving a non-ODA loan than the loan was worth in the first place (*Yes*)
- Can donors choose whether they report as ODA what they give their development finance institutions, or what the institutions lend or invest in developing countries, and then switch methods whenever they feel like it? (*Yes*)
- Did the DAC admit in 2016 that "private sector instruments" were "non-concessional in nature" but then spend nearly three years trying and failing to work out how to count them as ODA anyway, and is it now restarting this process? (*Yes* and *Yes*).

Organisation of the Analysis in this Note

Below are the questions the FAQ did ask. All of them except FAQ 1 should have elicited a "yes" or "no" response. However, the replies offered largely talk around the issues and avoid such direct answers. Hence, the commentary offers the correct short answers after each question (except FAQ 1) before commenting on the OECD's responses.

FAQ 1. Why change the way of counting ODA?

This reads like a "patsy" question the FAQ asks itself for the purpose of reiterating the in-principle advantages of a grant equivalent system.

By asking it, the FAQ sets up a "straw man" by suggesting that those criticising the DAC for its new methodology were simply opposed to any move towards a grant equivalent method. This is untrue. In fact, as I made clear in the paper submitted to the DAC Chair in February 2022, I had advocated reform to count only the grant equivalent in loans as ODA more than a decade before the DAC adopted such a system. This was because, designed properly, it provides a better measure of donor effort. And I am not alone: others have long advocated and proposed specific mechanisms for measuring aid on a grant equivalent basis. The fact is that, until 2014, the DAC itself opposed such a reform.

The text also muddies the waters by pointing to incremental improvements in recent years in the accuracy and comparability of data with respect to ODA grants (concerning in-donor-country refugee costs and peace and security expenditure). These are indeed welcome, but they comprise routine clarifications and updating of instructions, and do nothing to mitigate the flaws in the new grant equivalent system for counting non-grant ODA.

The criticism being levelled at the DAC is not about the grant equivalent system *per se*, but because of, inter alia, the manifest flaws in the discount rate; the blatant double-counting of credit risk; and the provisional reporting rules for private sector instruments (PSI) which mix grant equivalents and cashflow totals in ODA reporting and in-donor-country payments with cross-border flows.

There is agreement that the former flow-based system was not a good way to measure the donor effort in loans as, once repaid, they all counted zero whatever their level of concessionality. Indeed, that system undervalued the ODA in concessional loans by 100%. However, extraordinarily, the DAC has managed to create an even more distortive system, exaggerating the ODA in loans by more than 500% in the case of some donor-lenders (see indicator 2.1 of the official French Treasury Report which boasts of this overcounting as evidence of its "effective and rigorous management" of its ODA loans).

The reference in the FAQ to the "Expert Reference Group" is misleading and needs to be clarified. While this group did include some outside experts, it did not recommend risk-adjusted discount rates; it did not envisage ODA being claimed through both risk-adjusted grant equivalents of loans and actual forgiveness; and in any case it was NOT the body that developed the recommendations that were finally accepted by the DAC (see response to FAQ 2 below).

The DAC's rejection of the Expert Reference Group's majority recommendation to use risk-free discount rates is one of numerous decisions where the DAC has gone against the advice provided by outside bodies and experts in favour of a more generous approach to scoring its members' efforts.

FAQ2. Was the ODA modernisation process transparent? Who was involved?

The correct answer is *No, it was not and is still not transparent.*

As explained above, the Expert Reference Group to which the FAQ refers was NOT the group that made the final recommendations accepted by the 2014 DAC High Level Meeting. The origin of those recommendations was a different and later group of eight senior DAC representatives under the chairmanship of the UK DFiD's Permanent Secretary at the time, Mark Lowcock. In accordance with long-standing DAC practice, this group met and negotiated in private, and no records of its discussions have ever been published.

It is therefore very far from the truth for the FAQ to claim that all papers on the 2014 DAC decisions on grant equivalents and ODA loans "*were circulated as 'unclassified' documents*". Moreover, two of the documents to which the FAQ itself provides links are marked "For official use" and were only declassified some years after the decisions on them had been made.

In any case, the FAQ does not address the core criticism – that the development of statistical measures should, according to the OECD's own Council Recommendation, be assigned to independent experts. DAC members, drawn as they are from policy and administrative departments and not from statistical institutions, have in fact demonstrated the wisdom of the Recommendation by providing a classic example of how, if policy departments are in charge, they may be tempted to distort statistics to flatter their own efforts.

FAQ 3. Has the measurement of ODA deteriorated? Has the quality of aid declined?

A reasonable answer here would be *Yes, the measurement of ODA has deteriorated in multiple dimensions, but while the ODA rule changes clearly encourage lower-quality aid, it will take years for their full effects to be felt.*

The text in the FAQ sidesteps the key deterioration of ODA measurement of ODA loans and new financial instruments (PSIs) discussed elsewhere in this note. Instead it deflects the discussion onto the improved coverage of individual transactions in its Creditor Reporting System (CRS).

It is true that the CRS includes a great deal of information, including at the level of the terms of individual loans. On the other hand, the statement that "*During the first decades of measuring ODA, only aggregate data were collected and published and could hardly be challenged*" is not correct. In fact, the DAC's CRS system started recording loan-by-loan data in the 1960s, and these data have been published back to 1973.

However, more importantly, while transaction-specific transparency allows those with the requisite time and understanding to undertake detailed analysis, what matters to most users is the methodology for counting ODA, as this is what yields the headline ODA figures against which people judge a donor country's progress towards the 0.7% of GNI international target, and its share in the collective global aid effort.

It is also unfortunately not true that CRS data offers "*uniform, consistent and comparable reporting*" under the grant equivalent system, as there are inconsistencies in the underlying statistical methodologies used. An analysis of the "ODA loans" in the CRS reveals a great deal of mixing of incommensurable data:

- ODA of sovereign loans extended after the reform is recorded as the grant equivalent of such loans;

- Loans to private sector entities are reported on a cashflow basis, where the entire face value of such loans is reported as ODA and repayments on these loans are generating "negative" grant equivalents (which makes no sense in a grant equivalent system where the grant equivalent is calculated at the outset for the loan as a whole); and

- so-called "reimbursable grants" are recorded as the equivalent of grants when they are extended, even though these are repayable under certain conditions. For these instruments, repayments are reportable as negative ODA even if they exceed the original contribution, (which may be fair but is inconsistent with the "cap on reflows" decreed for equity investments – see FAQ 11 below).

FAQ 4. Is official support for the private sector unduly recorded as ODA?

The correct answer to this question is clearly *Yes*.

The OECD's FAQ just offers procedural points on this issue, and these fail to address what is really happening.

First, donors are reporting loans to private sector institutions on the old cash flow basis (i.e. ODA records 100% of the face value of such loans as disbursements, and then subtracts each reflow of capital) alongside the grant equivalents of loans to sovereign borrowers. The numbers produced by these two methods have different meanings and should never be added together, but the DAC does so in its "grant equivalent" totals.

This decision to allow the full face value of loans to count pending the promised "review" may allow such lenders the best of all worlds: by over-counting such loans as equivalent to grants at this early stage of such programmes, but then enabling the lenders to avoid ever having to discount the repayments as negative ODA as, by the time these repayments are made, the DAC is expected to have switched to a grant equivalent methodology following its upcoming review of "PSI rules".

In addition, ODA for equity investments is also overcounted (again, see FAQ 11 below).

FAQ 5 Does the grant equivalent system over count loans in ODA? What is the impact of ODA modernisation on ODA figures overall?

The correct answer here is *Yes, the new system overcounts loans and thus inflates ODA figures overall.* I explain this in detail under FAQ 6.

In its answer to this question, the FAQ takes comfort from the apparently small differences in total ODA between the total numbers in the old net capital flow system and the new grant equivalent system. But this comfort is completely misplaced.

First, and as a matter of principle, comparing total ODA figures under the new methodology with those under the cashflow system is a nonsensical test. If the grant equivalent system is to be deemed robust merely because it yields the same results as the previous cashflow system, then why move away from the previous system?

More fundamentally, it is undeniable that a grant equivalent system, even if calculated using far lower discount rates equating to the lender's costs in extending loans (and not double counting credit risk), will always show higher ODA over time. This is simply because, under the cashflow methodology, every single loan, once repaid, yields net zero capital-flow ODA, whereas under the new system a positive grant equivalent is recorded in perpetuity for every concessional loan.

Thus, the argument that the DAC's new methodology, using excessive discount rates and double-counting the credit risk, exaggerates the ODA in loans does not rest on needing to show that overall ODA has increased in the few years since the reform, since the two systems have different temporal effects. In fact, one might well have expected to see *lower* grant equivalent figures in the short term, as many of the lending programmes of DAC donors were still relatively immature (in other words they were still at the stage where the outflow on new loans far exceeded the reverse flow of repayments of older loans). The fact that this did not happen is, in reality, just further *prima facie* evidence that the discount rates the DAC is using are too high, and certainly not confirmation of the validity of the new system.

FAQ 6. Do the discount rates agreed by the DAC unduly inflate ODA? Would differentiated discount rates (DDRs) be a better option?

The correct answers here would be *Yes* and *Yes.*

The FAQ avoids giving these answers by stating that *"It is a matter of interpretation whether ODA figures are inflated against…the Differentiated Discount Rates (DDRs) used by the Participants in the Arrangement on Officially Supported Export Credits".*

Below, I argue why ODA figures are being inflated as a measure of "donor effort". But, on the narrower question, it is an unarguable fact and not a question of interpretation that ODA figures are inflated when compared with the figures that would result from using the OECD's own Differentiated Discount Rates. For every DAC member currently reporting ODA loans, the DDRs would have yielded far lower grant equivalents than they have claimed as ODA, and this is true for every year since the new system was introduced in 2018.

Given that "grant equivalent" ODA is defined as a measure of donor effort, discount rates used in its net present value calculation should reflect the cost of finance for the government extending the loan. And the cost of finance for an individual government lending in its own currency is determined by the yield at the time on its own government bonds at a similar maturity. The DDRs are based on this principle; the 5% is not.

Therefore, grant equivalents based on DDRs are certainly closer to the truth than the DAC's fixed and arbitrary discount rates. But it is worth noting that the DDRs are based on an average of Commercial Interest Reference Rates (CIRRs) to correspond to the funding costs of first-class commercial borrowers. Accordingly, the DDRs are already inflated by 100 basis points (1 per cent) above the borrowing costs of governments. Discount rates that reflect true donor effort should omit any margin above government cost of funds. If this were done, and a discount rate of DDR minus 1% were applied, the exaggeration produced by the DAC discount rates would appear even larger.

These OECD FAQs continue to reference the decision of the IMF to move to a single 5% discount rate, even though the paper I submitted in February explained that the reasons behind the IMF decision did not apply to DAC members providing ODA loans. To recall, the IMF's reasons were as follows:

- the previous system of using multiple CIRRs for different currencies was complex for an organisation extending loans in many different currencies;

- the reduction in discount rates had pushed up the value of LIC debt and was thereby narrowing the assessed borrowing space of recipient countries; and

- the IMF was increasingly providing loans in currencies for which CIRRs were unavailable.

The second of these reasons is simply a market observation at the time (2013), and the other two reasons do not apply to the DAC whose members overwhelmingly lend in major international currencies.

In addition, it should be noted that the purpose of the IMF calculation is totally different from the DAC's stated purpose of measuring the donor effort in a loan. The purpose of the IMF rule is that low-income countries under debt management should not accept a new loan unless it has at least a 35% grant element, calculated against a 5% discount rate. In practice, the high 35% threshold makes this a stringent test, so that, for example, even a 15-year interest-free loan with a 3-year grace period would only barely qualify (using the default settings on the IMF grant element calculator, its grant element would be 35.41%).

The IMF certainly does not claim (unlike DAC members implicitly do for themselves) that a 5% discount rate reflects its borrowing costs in major currencies, such as the US Dollar, Euro or Japanese Yen. (Indeed, as the OECD FAQ note states, "*The grant equivalent system does not apply to MDBs and has no bearing on their financing decisions*.")

Moreover, the DAC does not apply the IMF 5% discount rate itself anyway; it only uses it as a "base rate" to which it adds risk margins, even for middle-income countries with good credit ratings. For those countries, it also uses far lower grant element thresholds of only 10% or 15%. As a result of these two differences, the DAC scores as ODA many loans to middle-income countries that are not truly concessional and that the IMF's concessionality test would reject if they were offered to a low-income country; and the OECD also overscores every bilateral loan compared with what the IMF discount rate of 5% would produce.

This FAQ further claims that "*the new discount rates (between 6 and 9%) are lower than the discount rate applied before the reform (10%) which should be acknowledged as progress*". This is also misleading. As the DAC Secretariat is well aware, under the old system, the 10% discount rate was not used to calculate the ODA in loans, but only as a "hurdle" discount rate to determine whether loans would qualify as ODA. Maintaining unjustifiably high discount rates under the new system is far more pernicious in its impact, as it permanently locks in an exaggeration of donor effort in loans, which did not happen under the cashflow system, where repayments eventually netted out all the ODA claimed at loan disbursement. The discount rate of 10% under the previous cashflow methodology and the new discount rates of 6% to 9% are therefore not directly comparable.

The FAQ also states the following:

> *"Using uniform rates for ODA calculation allows to keep a certain stability while using a volatile base rate and risk premia would have introduced instability: a loan counted in ODA one year would no longer count the next year and could again count the year*

> *after. The ensuing lack of predictability in ODA budgets would create a major problem for both donor governments and beneficiary countries."*

This is also misleading. Under the grant equivalent system, the ODA in a loan is calculated only once – at the time the loan is extended. From that moment on, the grant equivalents reportable for each disbursement are entirely predictable, and do not change, whatever happens to discount rates.

Any suggestion that changing the discount rate annually and applying this to new loans that year would be challenging or confusing for financial institutions lacks plausibility. The likes of KfW, the EIB and the numerous other providers of ODA loans are well accustomed to adjusting the terms of their loans, whether concessional or non-concessional, as well as their net return calculations, when bond yields and base interest rates change, which can be much more frequently than once per year. Many of them are already extending loans on flexible rates anyway -- rates that adjust to market conditions continuously. All this is core business for financial institutions (and for that matter governments). A yearly change of discount rates would not represent a "*major problem*" for such institutions.

Even if the periodic change of discount rates were a legitimate concern, this would not justify using 5% as a risk-free "base" discount rate for years on end while major DAC lenders' bond yields remained far below this level.

The FAQ also claims that "*The impact of the choice of discount rates on the valuation of loans is relatively low*". This is demonstrably untrue. The French Government has, for example, acknowledged (see FAQ 1 above) that it has been reporting more than 5 euros in ODA for each 1 euro of cost of providing such loans. A 500% uplift in the grant equivalent of loans caused by using the DAC discount rates is hardly "relatively low".

The note then states that "*Importantly, there are no significant changes in members' lending practices since the introduction of the grant equivalent system*".

This is not a statistical point; it is only an argument about whether the new rules overscoring loans have yet influenced donor behaviour. In fact, the DAC's own statistics show that there has been a significant upturn in the volume of loans in bilateral ODA. So far, this has been due more to existing lenders expanding their programs than to the entry of new donor-lenders. However, this is not surprising as it is still early days, and it can take years to put in place the institutional, financial and administrative arrangements to switch into providing ODA loans. In any case, the relatively moderate expansion of ODA lending so far does not negate the injustice of inflating the donor effort of the few DAC members that provide the bulk of their ODA through loans, allowing them to score more ODA for less real fiscal effort, while leaving donors that provide only grants to pick up the slack.

The use of a flat 5% discount rate as a base rate is also unfair to some smaller DAC donor countries with higher borrowing costs than the main DAC lenders (and this may be a further reason why they have not yet started their own loan programmes in response to the changes). Those that are currently choosing to provide large volumes of loans – France, Germany, Japan - are scoring ODA that massively exceeds the costs they are incurring, as their borrowing costs are far below 5%. But other DAC countries have higher borrowing costs (some even above the DAC discount rates) and 5% is not nearly so generous as a benchmark for them. The uniform rate, undifferentiated by country, discriminates against them and does not provide a level playing field for assessing donor effort, which should be a key aim of ODA measurement.

The FAQ holds out the promise of a DAC review of discount rates in 2023, nine years after they were originally set, and five years after they started generating bloated figures. However, it is difficult to be optimistic about the outcome of this review, unless it is referred to an independent body of qualified statisticians. If the decision stays with the DAC, the same political pressures that led to the original over-generous accounting will probably once again determine the outcome.

FAQ 7. Is risk double-counted in the reporting on ODA loans and ODA relief?

The correct answer to this question is *Yes*, as I and others have repeatedly pointed out.

To avoid admitting this, the FAQ response repeats the obfuscations of the DAC note on "Reporting on Debt Relief in the Grant Equivalent System", ignoring the manifest flaws in these arguments already demonstrated in Annex 2 in my paper submitted to the Chair of the DAC 8 months ago, and discussed at length with DAC representatives in May.

The FAQ's statement that "*There is no double-counting: only additional concessionality involved in debt restructuring is counted as ODA*", for once appears to give a direct answer, but in reality it is a *non sequitur* and completely misleading, since the fact that ODA counts only the additional concessionality of relief does not in any way disprove that it is double-counting risk.

By including a risk margin in the discount rate used to calculate the "grant equivalent" of the original loan, a donor has already claimed ODA upfront equivalent to the cost of insuring each loan against default, i.e. it has claimed extra ODA to cover the estimated credit risk of that loan not being repaid in full and of the additional costs that it would then face. Thus, the donor has already implicitly assumed in its reporting of EVERY original loan that some loans will not be repaid in full, and has "banked" ODA in advance for the additional concessionality that some loans will acquire through relief (without knowing, of course, which loans will require relief). This is the whole point of including a risk margin in the discount rate used to determine the ODA grant equivalent of each loan.

It is also why, when the DAC decided in 2014 to include risk margins in its discount rates (against the advice of a majority of members of its own Expert Reference Group), it gave an undertaking to stop counting the costs of debt relief on ODA loans as additional ODA:

> *"Given that the new system would value upfront the risk of default on ODA loans, the eventual forgiveness of these loans would no longer be reportable as a new aid effort."*

The decision to count, as a new aid effort, the "additional concessionality" involved in forgiving a defaulting ODA loan is a clear breach of this commitment.

To illustrate the point, one can use a simple analogy of a property insurer that has a portfolio of 100 houses dotted around the country. Let's say that by the end of the year, the insurer expects to have claims amounting to no more than 2% of the total value of the property insured. On that basis, the insurance company can reasonably charge a 2% premium on each policy to cover the overall risk and ensure its own commercial viability.

What the insurance company cannot then do is to visit a householder the morning after their house burns down and claim that overnight the risk increased because their house caught fire, and that therefore the householder has to pay an additional insurance premium to cover the other 98% of the value of the property.

Yet this is what the DAC is doing in claiming ODA for the "additional concessionality" (i.e. the value of relief) associated with a loan default. The donor has already booked ODA credit for effectively self-insuring its whole portfolio of loans, so it cannot claim additional ODA just for those loans that are not repaid in full. That is clearly "double-counting" the risk.

Looked at another way, donors could only justify scoring extra ODA for the "additional concessionality" in relief if they were also to score negative ODA for all the loans that were repaid without problems and where the extra ODA scored upfront for risk therefore turned out to be unwarranted….but in that case it would be a far neater solution to just score ODA for relief when it occurred and remove the credit margin in the upfront discount rate used to calculate the ODA grant equivalent of every loan.

(Incidentally, the ceilings on counting such additional ODA credit for relief that are cited in the FAQ as "*strong safeguards*" would, in the analogy of the property insurer, only limit and not eliminate the double-counting, by capping the amount demanded after the fire to the full original value of the house minus premia previously paid.)

Notwithstanding the 2014 undertaking, the FAQ (and the previous DAC note) argues that allowing additional ODA for granting debt relief when it is needed provides a powerful incentive for the donor to grant such relief. Here it must again be pointed out that appealing to "incentives" is a policy argument, not a statistical one. However, it is true that there are valid statistical arguments for counting debt relief when it occurs, since it ensures that there is an accurate accounting of "realised" credit risk (rather than scoring ODA on a mere estimate of the credit risk at the time a concessional loan is extended). In addition, it ensures that ODA statistics accurately record ODA against the recipient countries where debt relief is actually applied.

What is not excusable is the fact that, having determined to continue to count ODA for the costs of debt relief at the time it is granted (contradicting the undertaking from the DAC High Level Meeting in 2014), the upfront credit margins in the discount rates were left in place. It was incumbent on the DAC to remove these immediately, and the failure to do so has significantly exacerbated the exaggeration of ODA in loans. Removal of the margins is still imperative to avoid double-counting.

Incidentally, although not addressed in the OECD FAQ, even if credit risk margins in the discount rate were justifiable, those applied by the DAC are far too inaccurate to be credible. A system that measures ODA on the assumption that the country credit risks of China and Iraq, for example, are identical (as the DAC system does) is simply not fit for purpose. The DAC would do well to draw on the work undertaken elsewhere in the OECD in classifying developing countries into country credit risk categories (and from the OECD's work on setting premium fees for country credit risk which, inter alia, suggest that the DAC's credit risk margins are too high).

FAQ 8. Does the new methodology encourage donors to provide loans rather than grants, potentially worsening the debt crisis?

The correct answer to this is clearly _*Yes.*_

The FAQ gives no direct answer but instead asserts that "[*under the new rules]…lenders have to extend more concessional loans for them to be recorded…as ODA*".

This statement is ambiguous – it could mean that, for ODA to be recorded in future, either the number of concessional loans has to increase (which is incorrect) or that the concessionality in each loan has to increase (not necessarily), or simply that the floor for counting a loan in ODA has been raised (correct).

Taking the only one of these interpretations that is correct, while it is true that a higher level of grant equivalent is now required for a loan to qualify as ODA, this has not necessarily resulted in higher real concessionality in ODA loans, given the exceptionally low interest rates prevailing in 2018-21. Real concessionality depends on the difference between a loan's interest rate and the current market rate (i.e. the long term bond yield), and reducing the discount rate in the grant element calculation only ensures greater concessionality if in the meantime the market rate has not fallen by more than the discount rate.

Given the very low interest rates in major currencies in 2018-21 – far lower than the DAC discount rates – the new system allows non-concessional loans to score as ODA, and so has given donors a big new incentive to provide loans rather than grants, increasing recipients' debt burdens. Under the previous system, all loans, no matter how "soft" their terms, counted for zero ODA once repaid. The new methodology massively over-corrects this, scoring ODA at many times donors' costs in extending the loans. As France explained in its Treasury paper (see above), thanks to the DAC, it has been claiming more than 5 euros of ODA for each 1 euro of real taxpayer effort in its loans.

And, as noted in the comments to FAQ6 above, there has been a significant upturn in loans in bilateral ODA, thereby increasing the debt-servicing burden in developing countries.

FAQ 9. Does the reform affect the composition of climate finance negatively? Are OECD figures inflated?

Again, the correct answer to this question is *Yes*.

The FAQ deflects here by pointing out that the Multilateral Development Banks provide the bulk of climate finance loans. While this is true, bilateral donors are in a unique position to provide the grants that all parties agree are desperately needed, as too much climate finance is currently being extended in the form of loans. Yet the proportion of grants is significantly lower for climate finance than for other bilateral aid. And the DAC's exaggeration of donor effort in loans over grants now provides a powerful incentive against changing this. Moreover, the terms of the ODA loans being extended are barely concessional: an analysis of disbursements of bilateral "ODA loans" in 2019 and 2020 shows that whereas the DAC recorded significant grant equivalents for France, Germany and Japan, in reality only Japan made any significant donor effort in extending these loans when realistic discount rates (even including margins for credit risk) are applied.

The fact remains that, even if one thought providing incentives was a valid aim of statistical measurements, the real incentives in the present ODA rules are to provide loans with little or no real concessionality instead of grants as climate finance to developing countries. This burdens those countries with debts for a climate change they haven't caused, while DAC creditors score significant ODA for aid they haven't given.

FAQ 10. Does the methodology over-score ODA on relief for non-ODA debt?

Again, the correct answer to this question is *Yes*.

The OECD FAQ again evades the question, this time by noting that the practice of counting ODA for debt relief for non-ODA loans was not introduced by the 2014 "modernisation". No one has claimed otherwise. However, this counting had been criticised on numerous occasions in the old "capital flow" system for ODA, and it is indefensible in a "grant equivalent" system that lacks reverse-flow entries for the cancellation of loans, and that explicitly claims to represent real donor effort.

It was therefore incumbent on the DAC, when it introduced the grant equivalent system, to examine whether there was any real effort in relief on non-ODA debt. Instead, the DAC Secretariat simply asserted in its new instructions that since no grant equivalents would previously have been reported for a non-ODA loan, its forgiveness should be recorded as a new grant equivalent, and that the amount of this grant equivalent should be the total amount forgiven. The instructions thus completely ignored the question of whether there was any real donor effort.

The FAQ now tries a different justification. It points out that debt relief for export credit loans provides a benefit for developing countries. But this is beside the point. The DAC has defined grant equivalent ODA as a measure of donor effort, not recipient benefit.

Only real donor effort could justify scoring grant equivalent ODA for relief of non-ODA loans. But there is no donor effort involved in debt relief for export credit debt (or similar loans) where risk-related premium fees or loan margins have been levied from developing country borrowers (or commercial exporters) to cover those same costs, as is required under WTO rules.

There is simply no valid excuse for DAC members claiming ODA credit for using these resources – which were not their own money – for the purpose for which they were collected. In effect, the DAC is "hijacking" private/commercial funds (often in vast quantities) for the official sector when relief of non-ODA debt is granted, and is misleading the public that this entails "donor effort".

FAQ 11. Buying shares in financial structures counts as aid but selling them is not deducted. Does the treatment of private sector instruments unduly increase aid figures?

This time the wording of the question itself is wrong, as the proceeds from selling equity shares in financial structures are still deducted; it is just that the amount deducted is capped at the original purchase price, so that ODA figures hide any profit that has been made and thus overstate net financial effort.

In any case the answer to the question is *Yes*.

The FAQ does not explicitly deny this but it tries to give the opposite impression by saying:

> *"The DAC's 2016 decision removed the disincentives for using equity in development co-operation by introducing a cap on reflows. The profits made are not hidden, however: under the provisional reporting arrangement, members shall provide the OECD with detailed information on the sales and dividends to allow the necessary oversight to ensure the data report is sound."*

This is misleading. The reflows are not capped – only the reporting of them is capped at the amount invested. This means that profits are being hidden in the ODA figures that the DAC reports (regardless of any side communication of equity profits to the DAC). So the DAC's new rules are not just "*removing the disincentives for using equity*", they are introducing a powerful incentive to favour equity instruments, by showing only the net losses as ODA expenditure, and showing zero net ODA when big profits are made.

Once again, this FAQ skates around the real point, diverting onto the side-issue of transparency at the level of an individual transaction. The real issue is not about whether data is provided to the OECD, it is about the asymmetric rules that score investments that lose money as positive ODA, but avoid scoring profitable investments as negative ODA.

Given that grant-equivalent ODA is explicitly defined as measuring donor effort and therefore the ultimate cost to the taxpayer, any positive returns that donors earn for taxpayers on such investments should logically be included. Just like debt relief for export credits, it is not denied that there may be a developmental benefit to the recipient in private sector investments. But, once again, ODA claims to measure donor effort, not recipient benefit, and if investments yield profits, these reduce net donor effort and should be recorded.

Of course, if donors' equity investments are actually intended and designed to be commercially viable and to have the potential to generate profits, then no donor effort is being envisaged in the first place and the transactions do not belong in ODA anyway.

FAQ 12. Are rich countries sending doses of vaccines purchased for their own populations – in some cases outdated – to poor countries, and counting them as ODA?

The correct answer is *Yes, donors have counted ODA for donating vaccines purchased for their own populations,* and the FAQ implicitly admits as much.

However, it still blurs perspectives by once again appealing to recipient benefit. Now, of course donation of vaccines, even if nearing their use-by date, may be beneficial to developing countries. But that is not what ODA measures – it is intended to record the financial sacrifice of donors in favour of development. These vaccines were typically purchased for use in the donor's own country. The fact that they became surplus for that requirement and were therefore given away entailed no additional financial effort on the part of the donor, apart from delivery costs (which are claimed as additional ODA).

Hence the answer to the question "*Are rich countries sending doses of vaccines purchased for their own populations to poor countries and counting them as ODA*?" is surely an unequivocal "yes".

On the question of whether donors have scored more ODA for donating vaccines than they actually paid, the FAQ's claim that "*in many cases, the USD 6.72 average price is an under-estimate of real costs incurred by DAC countries*" may be true, but there is still zero transparency around what donors paid for the vaccines brand new (for their own populations). It has been widely reported that some donors paid far lower prices, and although the FAQ states that "*When donor countries donated mostly lower-price vaccines, they adjusted their 2021 figures not to overstate their ODA, as per the guidance enforced by the OECD during the data processing*", the details of these adjustments are not given. Nor did the guidance actually appear to require any such downward adjustment, saying only that:

> *the Secretariat recommends applying a price of USD 6.72 per dose with safeguards as detailed in DCD/DAC/STAT(2021)29/REV1….If a member decides not to report in line with this guidance, that member is requested to include information on the price it has paid… If confidentiality constraints prevent from indicating the price, the Secretariat recommends applying the price of USD 6.72 per dose instead, or abstaining from reporting the donations in ODA.* [my underlining]

It is recognised that the revised Secretariat paper on the "Valuation of donations of excess COVID-19 vaccine doses to developing countries in ODA" urged that:

> *"For the sake of ODA integrity, members should verify the aggregate ODA figure reported for donations against their actual outlay in 2021 and make an adjustment if needed. "*

However, it is not clear whether this guidance was binding.

In any case no deduction seems to have been made for the age of the vaccines, and the rules allowed extra costs to be claimed as ODA for re-forwarding them from the donor country to the recipient, whereas the Covax reference price of USD 6.72 included delivery.

Finally, the FAQ claim that "*By default, donated doses are required to have a shelf life of minimum 10 weeks upon arrival in country…*" leaves out the fact that this requirement can be waived if agreed by both donor and recipient, yet the $6.72 in ODA may still be claimed.