Give Credit Where Credit's Due: The Need to Address Flaws in the Calculation of ODA in Loans

List of Annexes

Annex 1

The Previous Method for Calculating the ODA of Concessional Loans

Until 2018, the DAC calculated the ODA in concessional loans using a cash flow method, counting outflows and inflows of principal. Under this method, the full-face value of a loan was counted as ODA on disbursement and repayments of principal (ignoring payments of interest) were then counted as negative ODA.

The interest rate of such loans was only taken into account in the calculation of the "grant element", which was calculated using a discount rate of 10% (i.e. the Net Present Value of all future repayments of principal and interest were discounted at 10%), and the grant element was deemed to be the level by which the NPV of all cashflows fell short of the full face value of the loan. The "hurdle rate" (the minimum percentage of the grant element represented against the full-face value of the loan to qualify as ODA) was set at 25%. Having cleared that hurdle, both interest rate payments and the grant element were in the calculation of ODA.

This methodology was fundamentally flawed for host of reasons, including:

- It ignored the "time value of money", taking no account of the fact that, over time, money gradually loses its value.
- It did not distinguish any difference in "donor effort" between highly concessional loans (say a 20-year loan with zero interest rate and a bullet repayment at year 20) and loans on much less generous terms (for example, a loan over the same 20 years but with an interest rate of 7% requiring equal annual repayments of principal).
- It inflated the ODA at the time the loan was extended (by counting the full face-value, it yielded the same ODA as a grant) yet when fully repaid, every concessional loan, regardless of its terms, counted as zero ODA (as each repayment of principal counted as negative ODA until the loan was fully repaid).
- The 10% discount rate was far too high to represent either the cost of funds (to donor governments) or even a commercial borrowing rate for the governments of most developing countries.
- The common discount rate of 10% also took no account of significant differences in government financing and lending rates across different currencies, nor the significant difference in credit risk among developing country recipients.

Annex 2:

Treatment of Debt Relief (Commentary on DAC note on "Reporting on Debt Relief in the Grant Equivalent System[1]):

I. Treatment of Debt Relief for ODA Loans

The DAC paper sets out the decision of the DAC in 2020 that additional concessionality on an ODA loan is counted as additional ODA, even though ODA has already been credited for the credit risk (through the additional 1%, 2% or 4% added to the 5% basic discount rate, depending the World Bank income category within which a recipient of an ODA loan falls).

The only caveat/limitation to this decision is that a ceiling is applied so that the new ODA for the additional costs resulting from the debt relief when added to the ODA originally recorded for the loan cannot exceed the original face value of the loan. In other words, the total ODA for a loan can never exceed the ODA value of a grant of an amount equivalent to the full face-value of the loan, regardless of the level or timing of any debt relief.

This caveat does not negate the fact that this is clear double-counting (even though the preamble in the Narrative in section 1.2 in the note recalls that in 2014, the DAC had "had agreed that the cost of risk should…not be double counted"). If the DAC wants to count donor effort in debt relief at the time such costs are borne, there is no justification for adding a credit risk spread to the discount rate.

The justification in the Narrative in section 1.2 of the DAC seeks to convince the reader that the practice of double-counting has some validity. It does not.

The first bullet states that the policy is aligned with the call of the 2014 HLM to bear in mind previous needs to encourage debt relief initiatives. The implication seems to be that counting the costs of debt relief as additional ODA offers an incentive to donors to grant such relief. The objective of incentivizing debt relief at the time this is needed by offering to credit ODA would be met equally well if no credit margin were added to the discount rate and the costs (as is the case now) were simply added to ODA as and when they occur. This alternative approach would avoid the double-counting as the 2014 HLM had urged.

The second bullet argues that loans and debt relief are legitimate means of delivering ODA. That is not questioned here. Indeed, the paper "Give Credit Where Credit's Due" makes clear the benefits than ODA loans can bring. But there are also advantages in providing grants. The double-counting of allowing additional ODA for debt relief while simultaneously adding ODA (via an increased discount rate) up-front for the credit risk exacerbates the exaggeration of donor effort

[1] https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/Reporting-Debt-Relief-In-Grant-Equivalent-System.pdf

in providing loans over grants (which is already overstated due to the 5% base factor in the discount rate that far exceeds the cost of funds for donors).

The third bullet explains the limitation that it is not possible for any single loan to yield more ODA than a grant equal to the face value of the loan. However, this limitation neither negates nor significantly offsets the double-counting[2].

The fourth bullet claims that *"the differential discount rates do not cover for the "cost of default" ex-post, which entails additional donor effort"*. The argument here is disingenuous: the loan was extended in the full knowledge that there WAS a risk of default (otherwise a risk adjustment would not have been added to the discount rate). Of course, it is true that defaulted loan entails more effort than a loan that does not default, but the default risk has already been accounted for in the risk-related adjustment to the discount rate. This argument in the paper ignores the fundamental principle of insurance around spread of risk and that premiums across a portfolio of risks are to pay for losses. Again, the need for debt relief for a particular loan does not mean that the ex-ante risk spread was wrong.

This is like telling a householder whose property has burned to the ground that the insurance premiums s/he has paid are less than the cost of the damage sustained and that, therefore, the policy holder will have to pay the claim…minus the value of the premiums s/he has paid (so that the total amount the householder pays won't be more than the cost he would have borne if the property had burned down on day one, and no insurance had been in place).

The bullet continues, *"The occurrence of debt relief means that the context has changed in comparison with the original decision to extend the loan."*

A risk adjustment was made to the discount rate precisely because the lender knew there was a chance that debt relief would be needed. What about all the loans that don't require debt relief? Arguably, their context has also changed as the credit risk added to the discount rate proved unnecessary. If the DAC wants to add the cost of debt relief to ODA as well as making a credit risk adjustment to the discount rate, it should subtract, ex post facto, the risk-related portion of ODA included in the discount rate from every loan that does not incur any costs associated with debt relief.

Finally, this fourth bullet implies that ODA loans, due to their long repayment schedules, might carry additional risks:

"ODA loans may have long maturities over which it is not possible to foresee all possibilities – conflicts or natural disasters may occur; other external factors such as volatility in resource prices

[2] In fact, under a system where debt relief is counted ONLY at the time such costs are borne to a lender, such a restriction would in inappropriate. A 10-year loan with a single bullet repayment (including accrued interest), forgiven at year 10 DOES involve more donor effort at the time of forgiveness than the original nominal face value of the original loan at year 10.

or contingent liabilities unknown to the creditor may also lead to unforeseen difficulties for the borrower to repay its loan."

Of course, the longer the term of a loan (like any insurance policy), the more likely a default (or claim) will occur. However, this does not mean that the risk is increasing over time. The wording in the DAC paper suggests that the risk of default will be higher in, say 20 years, that it is in, say, five years. Although certainly less foreseeable, there is no reason to assume escalating risk. Indeed, one could argue that the opposite should be assumed for a majority of developing economies. After all, the purpose of development assistance is, at least in part, to both grow and increase the resilience of economies in developing and transition economies, so that they can better withstand shocks and avoid the need for debt relief. Accordingly, surely the development community should assume that their contribution is reducing the year-on-year risk of default of most developing countries so that it should be lower, say, in 2050, than it will be in 2030.

The fifth bullet states that the "*risk-adjusted discount rates will be regularly reviewed*". A review of the rates is beside the point here - although of course, risk premium rates should be reviewed regularly in light of claims experience. In fact, a comparison with the premium rates for export credits that DAC Governments have determined are adequate to cover costs and losses suggest the risk spreads in the ODA discount rates may be too high. In any event, uncertainty about whether current discount rate spreads are commensurate with the risks they are intended to cover does not justify the current practice. Counting debt relief when it happens as ODA obviates the need for ANY risk spread in the discount rate.

The sixth bullet attempts again to justify why costs associated with debt relief of a particular loan should be added to ODA: "*The method for accounting debt relief in a grant equivalent system aims at quantifying [the] additional concessionality by calculating the new grant equivalent of the loan, post treatment, and deducting the original grant element*." Of course, a loan requiring debt relief incurs additional costs for the donor, but to calculate this and add it to ODA is (again) asymmetric treatment, as there is no reduction of the ODA for all the loans that do not require debt relief. The adequacy or otherwise of the credit risk spread needs to be considered over time and over the full portfolio of loans. But again, if the costs of debt relief are simply to be counted as additional ODA, there is (again) no justification for adding a credit risk margin to the discount rate up-front.

The seventh bullet acknowledges the risks of freezing the credit risk margins of discount rates based on WB country group classifications, noting that the market would make periodic adjustments to account for changing risks. As noted elsewhere in the paper, the DAC seems to have overlooked the work undertaken by OECD Member Countries in the context of the Export Credit Arrangement in pricing non-repayment risks and placing developing and emerging economies from across the globe into eight risk categories[3]. This work – as well as a review of the findings of any of the major credit risk agencies (Standard and Poors, Moodys, Fitch etc.) - shows

[3] https://www.oecd.org/trade/topics/export-credits/arrangement-and-sector-understandings/financing-terms-and-conditions/country-risk-classification/

that the DAC's approach of assigning the same credit risk to all countries in the same World Bank income category is deeply flawed (see separate section of the paper).

This bullet also notes that the Secretariat plans a first review of the ODA discount rates in 2023. This review should not wait and should be undertaken by an independent body given the serious flaws in the current methodology and the impacts they are having.

Finally, the eighth bullet commits the Secretariat to "*monitor closely the implementation of the grant equivalent system…[and] the impact of the debt relief methodology*." The DAC paper notes that under its methodology there is a risk of members "*circumventing the rules (instead of debt relief, providers give grants for borrowing countries to repay their loans).*" It should be noted that should the alternative explored in this paper be adopted – that debt relief costs be counted as ODA instead of (rather than as well as) including an additional risk spread in the initial discount rate - this risk would be effectively mitigated for ODA loans as either approach (counting the costs of the debt relief as ODA or giving a grant of equal value) would yield identical additional ODA.

II. Treatment of Debt Relief for Non-ODA claims (OOF, export credits and private flows at market terms)

The DAC makes a simple case for counting the costs of debt relief for non-ODA loans as new ODA:

"As no ODA grant equivalents will have been recorded for the original claims, the donor effort involved in concessional debt relief (forgiveness and concessional rescheduling) of non-ODA claims should give rise to ODA equivalents."

There are (at least) two major flaws in this reasoning.

The first is that many of these loans are for projects that do not meet the DAC's own definition of ODA:

"**Official development assistance** (ODA) is administered with the promotion of the economic development and welfare of developing countries as its main objective.[4]"

Some of the loans may even be for "unproductive expenditure" or military goods.

It is not clear why the costs associated with debt relief should qualify as ODA when the underlying loans would not have qualified as an ODA loan, even if they had met the grant equivalency criteria.

Secondly, and perhaps even more fundamentally, recipient countries (the borrowers of these loans) pay risk premiums to cover the risk of debt relief and its costs, and (for export credit loans

[4] https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/officialdevelopmentassistancedefinitionandcoverage.htm

and guarantees at least) these have been set at rates that are adequate to cover long term operating costs and losses as this is a requirement on all export credit agencies under the WTO Subsidies Code. Therefore, the DAC is effectively allowing donors to claim ODA credit for debt relief costs that are paid from the funds collected from developing countries, with no “donor effort” whatsoever.

The practice of allowing donors to count ODA for debt relief of these instruments is justifiable neither on development nor on donor effort grounds.

Annex 3

Three Options for ODA Accounting for Credit Risk/Debt Relief.

Option 1:

Include a risk-related adjustment to the discount rate up-front (current practice), with no additional ODA for actual debt relief

Arguments For:

- No double counting as the costs of the debt relief should have been covered in the up-front fee.
- Provides for more market-comparable discount rates (a commercial lender would always price in the risk up-front).

Challenges

- This does not provide an additional incentive on donor countries to provide debt relief (although it should be noted that they have already received ODA credit for this risk up-front)
- Experience would need to be monitored over time to ensure the inferred "credit risk premium" included in the discount rate was neither excessive nor inadequate to cover long-term losses (it is understood that such monitoring is undertaken by the Export Credit Participants with respect to the Minimum Premium Rates cited in this paper).
- There is an "ODA allocation" issue in that those countries that benefit from debt relief are not shown as having received any more ODA than those that haven't. This is a reporting challenge - a country that has its debts forgiven has received more ODA than those countries that repay their loans in full. However, this does NOT justify donors counting the forgiveness as additional ODA that they have given - the "loss" has already been accounted as ODA through the risk spread across all the loans extended. There is no additional donor effort, provided the margin in the discount rate is commensurate to the credit risk.

Option 2:

No up-front adjustment to the discount rate for credit risk (discount rate to be based on donor cost of funds only). Costs of debt relief added when defaults/rescheduling/forgiveness occurs

Arguments For:

- Accurate accounting of donor effort as ODA and no need to review assumptions about credit risk in light of loss experience. (After all, the actual and full costs of debt relief are

recorded as ODA at the time the costs are incurred, so there is no additional donor effort that would warrant ODA being counted additionally through an adjusted up-front discount rate.)

- The ODA figures accurately reflect the benefit that each developing country receives through debt rescheduling/forgiveness. In other words, the "ODA allocation" issue under Option 1 is avoided.
- This is consistent with the treatment of tied aid, as administered by the OECD. The Differential Discount Rates for calculating the concessionality level of tied aid include no margin for the credit risk of non-repayment by the borrower.

Challenges

- Intuitively, it can look strange to apply the same discount rate to loans for countries with very different credit risks (in fact, this is because the ODA budget is, separately, acting like an unconditional guarantor of the loan – it will fund any losses, so there's no need to price in credit risk)
- There is an administrative challenge with this option. In order to avoid under-counting ODA, it would be important to monitor loans where the interest rates neither include the full credit risk in their interest rates, yet nor do they qualify as ODA loans (as their grant element does not meet the ODA eligibility criteria)[5]. In the event of debt relief, there is donor effort for these loans that has not been fully offset by a risk-related premium/spread. This might require the maintenance of a simple shadow database of such loans, detailing their grant equivalent, so that appropriate ODA can be counted should debt relief be needed..

Option 3 (Based on Current Practice):

Current Practice: Include an adjustment for credit risk in the discount rate, and then add additional ODA to reflect the donor effort in affording debt relief for individual loans

Arguments For:

- Ensures no under-counting of ODA due the credit risk-related adjustment to the discount rate being inadequate to cover real losses.
- Ensures that ODA is "allocated" to those countries which benefit from debt rescheduling or forgiveness.

[5] A simple hypothetical example could be where a donor with cost of funds of 2% extends a loan to a developing country with a credit risk warranting a 4% spread. If the interest rate of the loan is 5% (implying a credit risk spread of 3%), this would not qualify as an ODA loan as it would yield no grant element using a discount rate of 2%. However, in case of debt relief, a donor could argue legitimately that the credit risk had been subsidised. Accordingly, a "quota share[5]" of the costs of the debt relief equivalent to the portion of the risk not covered by the credit spread in the loan - in this case 25%: (4% - 3%)/4% – could legitimately be considered as additional ODA.

Challenges

- This involves significant double-counting of ODA, giving credit for the assumption of the credit risk up-front, and again when losses are realized.
- In order to avoid the current asymmetric treatment of only adjusting the ODA for loans that require debt relief, it would be necessary to deduct ODA in respect of all the loans that do not require debt relief – after all, the adjustment to the discount rate for credit risk proved to be unnecessary. This would be complex, cumbersome and, intuitively, would end up in the same situation as option 2 (only through much more administrative effort).

Overall Conclusion:

There is no option that does not entail an administrative challenge.

The choice between Option 1 and Option 2 depends on the weight one places on the need to incentivise debt relief compared with the desire for simplicity.

Option 3 is the most complex and administratively burdensome to manage if done properly, i.e. without the current asymmetric treatment, yet offers little (if any) benefit over Option 2.

There is need for further work whichever option is selected, to ensure clarity and transparency of reporting without sacrificing the integrity of ODA figures based on true donor effort.

Annex 4

Credit Risk: Country Classifications and Appropriate Risk Spreads in the Discount Rate

Measuring credit risk is never an exact science, but governments that provide official export credit support are required under the subsidies code of the WTO to ensure that they collect risk-related premiums that are sufficient to cover the risk of future losses.

Item j of the Illustrative List of Export Subsidies prohibited under the WTO Agreement on Subsidies and Countervailing Measures:

> *"The provision by governments (or special institutions controlled by governments) of export credit guarantee or insurance programmes, of insurance or guarantee programmes against increases in the cost of exported products or of exchange risk programmes, at premium rates which are inadequate to cover the long-term operating costs and losses of the programmes."*

Given this requirement, Country Risk Experts (CREs) representing the Participants to the Arrangement on Officially Support Export Credits developed a Model some 25 years ago for assessing the five elements of country risk for virtually all developing countries (text from the Arrangement paraphrased below):

- general moratorium on repayments decreed by the obligor's/guarantor's government or by that agency of a country through which repayment is effected;
- political events and/or economic difficulties arising outside the country of the notifying Participant or legislative/administrative measures taken outside the country of the notifying Participant which prevent or delay the transfer of funds paid in respect of the credit;
- legal provisions adopted in the obligor's/guarantor's country declaring repayments made in local currency to be a valid discharge of the debt, notwithstanding that, as a result of fluctuations in exchange rates, such repayments, when converted into the currency of the credit, no longer cover the amount of the debt at the date of the transfer of funds;
- any other measure or decision of the government of a foreign country which prevents repayment under a credit; and
- cases of force majeure occurring outside the country of the notifying Participant, i.e. war (including civil war), expropriation, revolution, riot, civil disturbances, cyclones, floods, earthquakes, eruptions, tidal waves and nuclear accidents.

The CREs classify countries into one of eight Country Risk Categories (0-7). Risk-related minimum premium rates have been established for Categories 1 through 7, but not for Category 0, as the level of country risk is considered to be negligible for countries in this Category (which are predominantly the High-Income OECD countries).

c) The classification of countries is achieved through a methodology comprising:

– A Country Risk Assessment Model (the Model), which produces a quantitative assessment of country credit risk which is based, for each country, on three groups of risk indicators: the payment experience of the Participants, the financial situation and the economic situation.

The methodology of the Model consists of different steps including the assessment of the three groups of risk indicators, and the combination and flexible weighting of the risk indicator groups.

– The qualitative assessment of the Model results, considered country-by-country to integrate the political risk and/or other risk factors not taken into account in full or in part by the Model. When deemed appropriate, these lead to an adjustment to the quantitative Model assessment to reflect the final assessment of the country credit risk.

Country Risk Classifications are monitored on an on-going basis and reviewed at least annually and changes resulting from the Country Risk Classification Methodology are immediately communicated by the Secretariat.

The country risk classifications are made public by the OECD Secretariat; the latest listing is here: https://www.oecd.org/trade/topics/export-credits/documents/cre-crc-current-english.pdf

The minimum premium rates are, however, NOT made public by the Secretariat. Nevertheless, a number of Export Credit Agencies do provide public calculators that effectively give these rates. Here are links to US EximBank's calculator and explanatory note

https://www.exim.gov/tools-for-exporters/exposure-fees/long-term-exposure-fee-help

https://www.exim.gov/tools-for-exporters/exposure-fees/medium-term-indicative-fees

The premium fees are expressed on an upfront basis. For a sovereign borrower of a 10-year loan requiring with immediate drawdown, the US Eximbank calculator reveals that the Minimum Premium Rates (unfinanced) for each of the seven risk categories are as follows:

Category 1	1.32%
Category 2	2.50%
Category 3	4.13%
Category 4	6.37%
Category 5	9.05%
Category 6	11.60%
Category 7	14.92%

To equate these to a risk-based spread (so that the DAC risk spreads of 1%, 2% and 4% can be compared), we applied current OECD rates[6], using "Convention B" to determine the discount rate applicable to premium fees collected after the starting point of credit for the US Dollar[7] (see also Annex 9).

This shows that the equivalent risk spreads would be:

Category 1	0.25%
Category 2	0.48%
Category 3	0.79%
Category 4	1.22%
Category 5	1.73%
Category 6	2.22%
Category 7	2.85%

This suggests that the DAC is overstating the credit risk in its spreads added to the base factor in the discount rates it applies for the calculation of ODA.

Moreover, a closer look at the countries in the different credit risk categories suggests another major problem with the DAC methodology.

The DAC approach of equating the different income categories of countries with their credit risk is flawed. In fact, the data from the country risk experts involved in the risk pricing of export credit loans does not show a strong correlation. While it is true that all LICs and LLDCs fall within Categories 6 and 7, suggesting a discount rate of around 3% maximum (not 4%) is justifiable, UMICs and LMICs are scattered across the different risk categories. Specifically, UMICs are found in Group 2 through 7 and LMICs are found in Groups 3 through 7. This demonstrates that it is not appropriate to assign a single discount rate to all countries in a specific World Bank income category.

By way of example, the Country Risk Experts assess that the country risk of Iraq (a UMIC in Group 7) is far higher than that of Botswana (Group 3) and warrants nearly four times the premium rate.

The ODA calculation needs to take a far more differentiated approach, based on assessed credit risk, and apply different discount rates for loans to different developing countries to reflect, more accurately the risk of default, debt rescheduling and debt forgiveness. Otherwise, some of the estimations of donor effort and grant equivalence will be highly inaccurate. Moreover, the current overestimation of risk in the adjustments needs to be corrected.

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[6] https://www.oecd.org/trade/topics/export-credits/documents/pdr-en.pdf (dated 8 February 2022)

[7] It should be noted that these spreads are "currency sensitive" as the discount rate is based on the CIRR. Although not a huge difference, the spreads are even smaller for the Euro and Yen (currencies of many ODA loans) as the CIRRs are much lower than that of the US Dollar.

Recognising the desire for a simple system for taking account of credit risk in the discount rate, this paper applies the following adjustments for risk based on the findings above:

Category 1	Not needed as no ODA eligible countries in this Category
Category 2	1%
Category 3	1%
Category 4	1%
Category 5	2%
Category 6	2%
Category 7	3%

Annex 5

Prevailing Country Risk Classifications (from the Country Risk Methodology of the Export Credit Arrangement)

Group 1

Chinese Taipei	HIC

Group 2

China (People's Republic of)	UMIC
Hong Kong (China)	HIC
Kuwait	HIC
Malaysia	UMIC
Saudi Arabia	HIC
United Arab Emirates	HIC

Group 3

Azerbaijan	UMIC
Botswana	UMIC
Bulgaria	UMIC
India	LMIC
Indonesia	LMIC
Mauritius	UMIC
Mexico	UMIC
Morocco	LMIC
Peru	UMIC
Philippines	LMIC
Qatar	HIC
Romania	UMIC
Thailand	UMIC
Trinidad and Tobago	HIC
Uruguay	HIC

Group 4

Bahamas	HIC
Colombia	UMIC
Costa Rica	UMIC
Croatia	HIC
Dominican Republic	UMIC
Guatemala	UMIC
Panama	UMIC
Russia	UMIC
Serbia	UMIC
South Africa	UMIC
Viet Nam	LMIC

Group 5

Albania	UMIC
Algeria	LMIC
Bangladesh	LMIC
Brazil	UMIC
Cote d'Ivoire	LMIC
Curacao	HIC
Egypt	LMIC
Fiji	UMIC
Honduras	LMIC
Jordan	UMIC
Kazakhstan	UMIC
Northern Macedonia	UMIC
Paraguay	UMIC
Senegal	LMIC
Turkey	UMIC
Uzbekistan	LMIC

Group 6

Angola	LMIC
Armenia	UMIC
Aruba	HIC

Bahrain	HIC
Belarus	UMIC
Benin	LMIC
Bhutan	LMIC
Bolivia	LMIC
Cabo Verde	LMIC
Cambodia	LMIC
Cameroon	LMIC
Ecuador	UMIC
El Salvador	LMIC
Eswatini	LMIC
Gabon	UMIC
Georgia	UMIC
Ghana	LMIC
Guyana	UMIC
Jamaica	UMIC
Kenya	LMIC
Kosovo	UMIC
Lesotho	LMIC
Namibia	UMIC
Nepal	LMIC
Nigeria	LMIC
Oman	HIC
Papua New Guinea	LMIC
Rwanda	LIC
Tanzania	LMIC
Timor-Leste	LMIC
Togo	LIC
Tunisia	LMIC
Uganda	LIC
Ukraine	LIC

Group 7

Afghanistan	LIC
Antigua and Barbuda	HIC
Argentina	UMIC
Bosnia and Herzogovina	UMIC
Burkina Faso	LIC
Burundi	LIC

Central African Republic	LIC
Chad	LIC
Congo	LMIC
Cuba	UMIC
Democratic People's Republic of Korea	LIC
Democratic Republic of the Congo	LIC
Djibouti	LMIC
Equatorial Guinea	UMIC
Eritrea	LIC
Ethiopia	LIC
Gambia	LIC
Guinea	LIC
Guinea-Bissau	LIC
Haiti	LMIC
Iran	LMIC
Iraq	UMIC
Kyrgyzstan	LMIC
Lao People's Democratic Republic	LMIC
Lebanon	UMIC
Liberia	LIC
Libya	UMIC
Madagascar	LIC
Malawi	LIC
Maldives	UMIC
Mali	LIC
Mauritania	LMIC
Moldova	UMIC
Mongolia	LMIC
Montenegro	UMIC
Mozambique	LIC
Myanmar	LMIC
Nicaragua	LMIC
Niger	LIC
Pakistan	LMIC
Sierre Leone	LIC
Somalia	LIC
South Sudan	LIC
Sri Lanka	LMIC
Sudan	LIC
Suriname	UMIC

Syrian Arab Republic	LIC
Tajikistan	LMIC
Turkmenistan	UMIC
Venezuela	UC/UMIC
West Bank and Gaza	LMIC
Yemen	LIC
Zambia	LMIC

Currently not reviewed or clasified

Barbados	HIC
Belize	LMIC
Brunei Darussalem	HIC
Comoros	LMIC
Dominica	UMIC
Kiribati	LMIC
Liechtenstein	HIC
Macau (China)	HIC
Marshall Islands	UMIC
Micronesia	LMIC
Nauru	HIC
Palau	HIC
Saint Kitts and Nevis	HIC
Saint Lucia	UMIC
Saint Vincent and the Grenadines	UMIC
Samoa	LMIC
Sao Tome and Principe	LMIC
Seychelles	HIC
Sint Maarten	HIC
Solomon Islands	LMIC
Tonga	UMIC
Tuvalu	UMIC
Vanuatu	LMIC

Annex 6

Comparison of DAC's Income-Based Approach and the Export Credit Arrangement's Risk Categories and Risk Spreads

Country Risk Cat.	Risk-related spread (MPRs)	HICs (not ODA eligible)	UMICs 1% spread (DAC)	LMICs 2% spread (DAC)	LICs (including LDCs) 4% spread (DAC)	Proposed simplified spread
1	0.25%	1	0	0	0	N/A
2	0.48%	4	2	0	0	1%
3	0.79%	3	7	4	0	1%
4	1.22%	2	8	1	0	1%
5	1.73%	1	9	6	0	2%
6	2.22%	3	9	18	4	2%
7	2.85%	1	13	15	24	3%

The Risk-Related spreads were calculated from the up-front premium fees from the US ExImBank calculator (see Annex 4) and are consistent with the Minimum Premium Rates of the Participants to the Export Credits Arrangement.

Annex 7:

A Comparison of DAC Calculations with Donor Effort (all calculations using DAC Tool[8]).

All assume equal annual repayments of principal

Based on the risk spread equivalents (see annex 4) but also the needs for simplicity, these calculations apply risk spreads of 1% for Country Risk Categories 2, 3 and 4; 2% for Country Risk Categories 5 and 6; and 3% for Category 7

Loan 1:

Donor:	Japan
Recipient:	Indonesia
Loan Value:	Yen 100 million
Repayment term:	30 years
Grace Period:	10 years
Interest Rate:	1%
DAC Discount Rate:	7% (LMIC)
DDR:	2.1%
Minimum Risk Spread:	1% (Country Risk Category 3)
DAC Calculation of ODA:	**61.6579% (Yen 61.6579 million)**
Donor Effort using DDR:	**17.5398 % (Yen 17.5398 million)**
[Adding Risk Spread[9]:	30.3240% (Yen 30.324 million)]

Loan 2:

Donor:	Germany
Recipient:	India
Loan Value:	Euros 5 million
Repayment term:	10 years
Grace period:	1 year
Interest Rate:	3%
DAC Discount Rate:	7% (LMIC)
DDR:	3%
Minimum Risk Spread:	1% (Country Risk Category 3)
DAC Calculation of ODA:	**17.0081% (Euros 850,405)**

[8] https://www.oecd.org/dac/financing-sustainable-development/modernisation-dac-statistical-system.htm

[9] ONLY valid if the policy of debt relief as additional ODA is reversed

Donor Effort using DDR: **-8.8836% (minus Euros 444,180)**

[Adding Risk Spread: 4.7228% (Euros 236,140)]

Loan 3:

Donor:	France
Recipient:	Albania
Loan Value:	Euros 1 million
Repayment term:	15 years
Grace Period:	1 year
Interest Rate:	4%
DAC Discount Rate:	6% (UMIC)
DDR:	1.5%
Minimum Risk Spread:	2% (Country Risk Category 5)

DAC Calculation of ODA: **11.7506% (Euros 117,506)**

Donor Effort using DDR: **-18.4055% (minus Euros 184,085)**

[Adding Risk Spread: (-3.3168% (minus Euros 33,168)]

Loan 4:

Donor:	Spain
Recipient:	Honduras
Loan Value:	Euros 4 million
Repayment term:	10 years
Grace period:	1 year
Interest Rate:	3%
DAC Discount Rate:	7% (LMIC)
DDR:	1.3%
Minimum Risk Spread:	2% (Country Risk Category 5)

DAC Calculation of ODA: 1 **17.0081% (Euros 680,324)**

Donor Effort using DDR: **-8.8836% (minus Euros 355,344)**

[Adding Risk Spread: 1.4536% (Euros 58,144)]

Annex 8

Differentiated Discount Rates (DDR)
Effective as from 15 January 2022

Repayment Period: R (Years)		R < 15	15 =< R < 20	20 =< R < 30	R >= 30
Margin (included)		**0.75**	**1.00**	**1.15**	**1.25**
Australian Dollar	AUD	2.8	3.0	3.2	3.3
Canadian Dollar	CAD	3.0	3.2	3.4	3.5
Czech Koruna	CZK	4.0	4.2	4.4	4.5
Danish Krone	DKK	1.4	1.6	1.8	1.9
Hungarian Forint	HUF	4.6	4.8	5.0	5.1
Japanese Yen	JPY	1.7	1.9	2.1	2.2
Korean Won	KRW	3.7	3.9	4.1	4.2
New Zealand Dollar	NZD	3.6	3.8	4.0	4.1
Norwegian Krone	NOK	3.1	3.3	3.5	3.6
Polish Zloty	PLN	3.8	4.1	4.2	4.3
Swedish Krona	SEK	1.8	2.0	2.2	2.3
Swiss Franc	CHF	1.4	1.6	1.8	1.9
UK Pound	GBP	2.4	2.7	2.8	2.9
US Dollar	USD	3.0	3.3	3.4	3.5
Euro	EUR	1.3	1.5	1.7	1.8

Notes

1. The DDR is subject to annual change on the 15th January. 2. The formula is as follows :

DDR = Average of the CIRR + Margin
The values of the Margins are set out in Article 40 of the Arrangement.

The average of the CIRR for all currencies is calculated taking an average of the monthly CIRRs valid during the six-month period between the 15th August of the previous year and the 14th February of the current year.

Annex 9

Calculations of risk spread from upfront premium fees in Exim bank loan: 10-maturity, equal repayment of principal

		Exim Bank risk category e.g. C7						
		1	2	3	4	5	6	7
Upfront Premium fee		1.32%	2.50%	4.13%	6.37%	9.05%	11.60%	14.92%
Implied annual premium*	[1]	0.25%	0.48%	0.79%	1.22%	1.73%	2.22%	2.85%
Interest rate (US$ CIRR)	[2]	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%
Total annual charge	[1]+[2]	2.95%	3.18%	3.49%	3.92%	4.43%	4.92%	5.55%

PDR = 1.70%

CIRR = 2.70%

* Charged on the outstanding loan balance from origination and using a Premium Discount Rate (PDR) after the Zero point.

https://www.exim.gov/tools-for-exporters/exposure-fees/long-term-exposure-fee-calculator
https://www.oecd.org/trade/topics/export-credits/documents/cirrs.pdf

https://www.oecd.org/trade/topics/export-credits/documents/pdr-en.pdf
https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/officialdevelopmentassistancedefinitionandcoverage.htm