LETTER TO THE CHAIR OF THE OECD DEVELOPMENT ASSISTANCE COMMITTEE, MS SUSANNA MOOREHEAD

Giving Credit Where Credit's Due - Addressing Flaws in the Calculation of Official Development Assistance (ODA) in Loans

Developing countries are being made to pay for a climate change they did not cause, while OECD countries are claiming credit for aid they have not given.

Dear Ms. Moorehead,

I am writing to follow-up my letter dated 18 February. While I have not yet received a response, I am of course aware that a massive global crisis has developed in recent weeks. I know that this will have placed great pressure on you as DAC Chair and on senior officials across the OECD, including in the development field.

However, I decided to write again to stress the importance of addressing the issues I raised and the urgency in resolving them. I shared my paper with several civil society organisations and senior OECD ex-staffers, as well as former Chairs and senior delegates of the DAC and Export Credits Committees. I have received many strong messages of encouragement and offers of active support going forward.

The issue is clearly important because of the magnitude of the exaggeration of donor effort in loans. Since my last letter, I have used the OECD's Creditor Reporting System (CRS) database to estimate this exaggeration for the main lenders in 2019. In addition, the Centre for Global Development (CGD) have kindly allowed me to use their own estimates that will appear in a forthcoming CGD publication. Here are the results[1]:

Lender	Recorded ODA using DAC discount rates (US$ Billions)	Author[2] estimate of "true" ODA. using DDRs minus 100BP[3] (US$ Billions)	CGD[4] estimate of ODA using DDRs minus 100BP (US$ Billions)
France	1.62	0.23	0.15
Germany	1.10	0.11	0.09
Japan	6.26	2.17	1.65
Korea	0.69	0.52	0.44

1 For simplicity the analysis focuses only on the four largest DAC lenders. Like all grant equivalent calculations, the figures can only be estimates.

2 The simplified methodology used in the author estimates here assumes that, inter alia, each lender offers the same "average" terms for all loans - whether MICs or LICs; and that each loan is in the lender's own currency.

3 As explained in the earlier papers, the DDRs carry forward an additional 100 basis points above the cost of government borrowing that are in the CIRRs (reflecting commercial lending rates rather than government cost of funds). This margin is similarly excluded from the discount rate for deferred premium fees under the Export Credit Arrangement administered by the OECD.

4 CGD's estimate performs a more detailed loan-by-loan analysis. I am grateful to CGD for giving permission to use their data here.

The figures show how the DAC's method is massively inflating the aid effort involved in loans, especially for those lending governments with a low cost of funds.

As you know the DAC's calculation produces such high figures because it uses high discount rates that combine a base factor of 5%, which exceeds the costs of the donors in providing the loans, with risk margins of 1, 2 or 4% for different country groups, which are inappropriate given the DAC's decision to count further ODA when risk materialises and debt relief is provided.

It is also important to deal with this problem because it is growing rapidly. As you know, in 2020, bilateral sovereign loans by DAC members on a grant equivalent basis increased by 38.7 per cent compared with the previous year (while ODA overall rose by only 3.5 per cent)[5]. The data also showed that more countries were responding to the incentives to provide loans and receive disproportionate ODA credit for doing so in 2020 than in the previous year.

Fundamental reform is not only important, but increasingly urgent. Climate finance will again feature heavily at this year's UN COP27 Meeting in Cairo, when Egypt assumes the presidency, taking over from the UK. I note that, following discussions at last year's Glasgow COP26 Summit, the UNFCCC reporting framework now asks donors, on a voluntary basis, to report the "grant equivalent" of both official and officially mobilised loans for publication in future reports on climate financing[6]. The transparency is laudable, but this also places the OECD at considerable reputational risk.

Given that 79% of climate finance in 2019 was from public funds and most of this (71%) was provided in the form of loans rather than grants, developing country governments and many more NGOs will pore over these new figures. The grant equivalent data will not withstand the rigorous analysis to which they will be subjected; most of these loans will be seen to be at or close to market terms but will falsely be shown to have a significant grant element. The OECD will be accused by NGOs and developing countries of providing misleading data about the real fiscal effort of its member countries in climate finance, and the criticism will be justified. It will be apparent that ODA data are neither impartial nor objective and do not comply with the OECD's own Recommendation on Good Statistical Practice[7].

Other analysts will realise, and not be slow to publicise, how the DAC's "grant equivalent" system gives huge incentives for donors to provide loans rather than grants to developing countries. Many such loans will be for adaptation projects that merely protect poor countries against further climate damage and do nothing to generate the revenue needed to repay them. The OECD risks being blamed, not only for the flaws in its accounting methodology, but for driving climate finance away from grants and indebting developing countries for a climate change they have not caused. This could damage the OECD's reputation for promoting

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[5] https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2020-detailed-summary.pdf
[6] https://unfccc.int/sites/default/files/resource/cma2021_L21E.pdf
[7] https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0417

equitable environmental policy and sound statistics, as well as its general standing with the concerned international public.

This is why I have copied this letter to the Secretary-General and relevant OECD Directors. The Secretary-General has final accountability for the statistical and analytic output of the Organisation. And, I assume, he is accountable for managing the most serious strategic risks that face the Organisation as a whole.

I am acutely conscious that many of the issues raised here and in my previous correspondence are specialised and may appear esoteric to those unfamiliar with the concepts. Accordingly, I am attaching a Q&A that I finalised immediately after I sent my last letter. This strives to answer some of the main questions, clarify the main concepts and present information in an accessible way.

I remain available to discuss these issues further with you or any interested stakeholders and can be contacted at ODAreform@icloud.com

Yours sincerely,

Stephen J. Cutts 25 March 2022

CC OECD Secretary-General
OECD Chief of Staff
OECD Director of the Development Co-operation Directorate
OECD Chief Statistician
OECD Director of the Environment Directorate