

Unclassified**English - Or. English****20 March 2025****DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE****Strengthened Process for Graduation from the DAC List of ODA Recipients**

The DAC approved this proposal via the written procedure on 7 March 2025 and communicated its decision at its High Level Meeting on 20 March 2025.

Contact: Eric Bensel; eric.bensel@oecd.org

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Strengthened Process for Graduation from the DAC List of ODA Recipients

1. Context

1. Over the years, calls for the overhaul of the global financing architecture have multiplied. Several factors have contributed to the acceleration of this agenda:

- **The polycrisis and the issue of access to concessional finance** – Within the last 4 years, the world has dealt with a convergence of impacts from the COVID-19 pandemic, escalating regional and local conflicts, economic instability, and the devastating impact of climate change, which have disproportionately affected the poor and most vulnerable populations. At the same time, for many developing countries, repayments on debts were due while tackling a myriad of these crises. This has led to strains in the more traditional global financial architecture, increasing external pressure for the expansion of concessional finance, and the need to accelerate reform of the international financial architecture.
- **The concerns expressed by Small Island Developing States (SIDS) and middle-income countries (MICs) over vulnerabilities and other challenges in achieving sustainable development** – SIDS have raised attention to their unique challenges due to their geographic location and small economies and highlighted that they remain highly vulnerable, in particular to climate change consequences, even after they reach high-income levels. In addition, the World Bank’s *World Development Report 2024: The Middle-Income Trap*¹ corroborates the developmental challenges MICs still face when approaching high-income levels. And the UN Pact for the Future² expresses deep concern over the emergence of unsustainable debt burdens and vulnerabilities and calls for accelerating the reform of the international financial architecture so that countries can borrow sustainably to invest in their long-term development.

2. The Transition Finance work at the DCD³ has collected a wealth of evidence pointing to the need for more sustainable transition once countries graduate from ODA to, for example, avoid countries turning to creditors with more predatory lending practices, adopting non-cooperative tax policies, or implementing ineffective public financial management practices that could eventually harm their sustainable development.

3. While some countries may view graduation with apprehension, it nevertheless indicates and reflects a nation’s progress in sustainable development. A country must make great strides to reach a high-income status, and this should be celebrated as a significant success. The objective of development co-operation is to support countries to arrive at self-reliance and resilience. It is for this reason that the DAC has inscribed in its mandate the overarching objective to contribute to a future in which no country depends on aid.

¹ See <https://doi.org/10.1596/978-1-4648-2078-6>

² See https://www.un.org/sites/un2.un.org/files/sotf-pact_for_the_future_adopted.pdf

³ See <https://www.oecd.org/en/topics/sub-issues/investment-for-trade-and-economic-development/transition-finance-toolkit.html>

2. Strengthening the Graduation Process in Consultation with Partners

4. In light of the above-described context, the DAC convened an informal discussion in September 2024, at which the Committee expressed its desire to strengthen the graduation process for a more sustainable transition from ODA but to exclude the graduation criterion (Gross National Income – GNI per capita) from reconsideration. The Committee therefore established an informal task force – co-led by the DAC delegates from New Zealand and Sweden – to exchange ideas and formulate a proposal on a strengthened ODA graduation process, for transmission to the DAC.

5. With the support of the Secretariat, the Task Force developed the present proposal and solicited the views of external partners. The external stakeholder groups consulted include the following:

- Past five graduates and next five likely graduates⁴.
- Joint Task Force of the DAC and the Alliance of Small Island States (AOSIS).
- The Organisation for African, Caribbean, and Pacific States (OACPS).
- Non-DAC OECD members⁵.
- DAC Working Party on Development Finance Statistics (WP-STAT).
- International Task Force on Total Official Support for Sustainable Development (TOSSD).
- DAC–CSO Reference Group.
- Multilateral institutions: African Development Bank, Asian Development Bank, Caribbean Development Bank, Inter-American Development Bank, International Monetary Fund, World Bank, World Health Organization, UN Development Cooperation Forum.
- The DAC Chair discussed the proposal with developing countries in the margins of the 2nd Session of the UN’s Financing for Development Intergovernmental Preparatory Committee.

6. Written comments were received from Chile; Cook Islands; Uruguay; the Chair of the Alliance of Small Island States (AOSIS); the Asian Development Bank; the Caribbean Development Bank; the UN Development Co-operation Forum (DCF); the Overseas Development Institute (as CDP member); the Organisation of African, Caribbean, and Pacific States (OACPS); the DAC–CSO Reference Group; and the DAC Working Party on Development Finance Statistics (WP-STAT). The task force considered these comments and, for those within the scope of its terms of reference and where appropriate, made amendments to the present proposal.

7. Many comments submitted were out of scope of the task force’s terms of reference. Of note were comments on the need for reform of the criterion for ODA eligibility, indicating the DAC was missing an opportunity to incorporate broader concepts of sustainable development such as multidimensional vulnerability and other ‘Beyond GDP’ measures. The task force did not consider these comments in its deliberations, but the co-chairs wish to draw them to the Committee’s attention. These matters were raised at the DAC meetings of 22–23 January 2025 and 20 February 2025.

3. Content of Strengthened ODA Graduation Process

8. Through a strengthened ODA graduation process, the Committee seeks to address the legitimate concerns of and add value for graduating countries. The new process will be applicable to all potential

⁴ Past 5 graduates: Antigua and Barbuda, Chile, Cook Islands, Seychelles, Uruguay. Next five projected graduates: Guyana, Panama, Montserrat, Cuba, Nauru.

⁵ These countries currently include Chile, Colombia, Costa Rica, Latvia, Israel, Mexico, and Türkiye.

graduates and not to a single country grouping. It aims to be clear, predictable, non-discriminatory, easy to explain, and helpful for developing countries to transition away from ODA.

9. To achieve these objectives, the strengthened process extends the notification period to potential graduates and accompanies them in the transition to graduation through the optional formulation and implementation of a sustainable ODA graduation strategy. The intent of the strategy is to embed partnership in the lead-up to, and following, graduation and to ensure application of the principles of development co-operation effectiveness (country ownership, focus on results, inclusive partnerships, and transparency / mutual accountability). The potential graduate is encouraged to take full ownership of, and to drive, the development of the strategy in collaboration with development partners and in alignment with existing national development plans. The strengthened process contains the steps outlined below.

Step 1. Forecast (n-9, where ‘n’ = the planned year for graduation)

- The Secretariat will conduct annual updates to its forecasts of countries likely to graduate over a ten-year time horizon, measure the ODA dependence⁶ of those forecasted graduates and identify each country’s top five DAC ODA providers (and the other main aid providers) as a guide to support the country’s collaboration with its co-operation partners. These details will be communicated to the Committee and to the DAC Working Party on Development Finance Statistics (WP-STAT).
- The Secretariat will then issue a communication to the potential graduate’s Minister of Finance to notify that the country is forecast to graduate from the DAC List of ODA Recipients by a certain date, encouraging the country – in particular if it is highly dependent on ODA⁷ – to consider developing a “sustainable ODA graduation strategy” and if they so desire in collaboration with DAC members, other co-operation providers, civil society, private sector, and other relevant stakeholders active in that country (hereafter collectively referred to as “development partners”).
- While some partners may view a notification nearly a decade before graduation as an overly lengthy timeline, such estimations can nevertheless be useful to developing countries and their development partners for planning purposes. Furthermore, potential graduates may choose to wait a few years before embarking on a strategy design process.
- If the country chooses to develop the strategy in collaboration with its development partners, the Secretariat will inform the Committee of this, reminding them of the top five DAC ODA providers (and the other main aid providers) active in that country and encouraging them to reach out to the country’s development partners to offer support on the strategy development. DAC members active in that country will be strongly encouraged to help the government and its development partners to develop and implement the strategy, including through modifying their bilateral development co-operation strategies and plans, to address the country’s priorities appropriately and to support an effective transition to ODA graduation.

Step 2. Consideration / Guidance for Strategy Development (n-9 to n-6)

⁶ Depending on the availability of data, the Secretariat will calculate the country’s ODA dependence through several methods: the share of ODA within a country’s mix of external financing, ODA per capita, ODA as a share of GNI, ODA as a share of government revenue, net ODA disbursed as a share of gross domestic product (GDP), and net ODA disbursed as a share of central government expense.

⁷ It is recognised that ODA dependence can be measured through many different metrics. A potential graduate is of course free to define its ODA dependency however it chooses. The Secretariat will share its various calculations on the country’s ODA dependence in its communication.

- Should the country so decide, the potential graduate, in collaboration with its development partners, will design a strategy for sustainable graduation from ODA. DAC members are strongly encouraged to accompany potential graduates in the design and implementation of their strategies, both to support sustainable ODA graduations and to lighten any burden on potential graduates.
- The strategy should be based on the country's context / needs, assess and address any vulnerabilities and inequalities, and align with and use country-led and -owned frameworks (e.g., national development plan and financing frameworks). Elements relevant for a successful ODA graduation may already be part of a country's existing economic or sectoral development plans and strategies: a sustainable ODA graduation strategy should therefore draw on those existing processes, not only to ensure coherence across national plans but also to reduce the duplication of effort.
- DAC members call on the Secretariat to prepare guidance, based for example on quantitative and qualitative evidence and knowledge gathered through DAC peer reviews and country case studies, on the development and implementation of sustainable ODA graduation strategies and good practice in supporting countries in the lead-up to graduation. The OECD Secretariat will stand ready to support the country and its development partners in the design of the strategy and its action plan, should the country and/or its development partners make such a request.

Step 3. Implementation (start n-6)

- If it has developed a sustainable ODA graduation strategy, the potential graduate undertakes the actions spelled out in its strategy with support from its development partners as necessary. This step represents the normal course of DAC members' and other partners' operations in the field to support the country's development efforts in a collective manner. It should apply effectiveness principles, ensuring country ownership, co-ordination of development providers, and mutual accountability.
- The Secretariat will issue a communication to the Ministers of Finance of all potential graduating countries to remind them of their upcoming graduation and, as necessary, of the usefulness of a sustainable ODA graduation strategy if the country has not yet developed it.

Step 4. Mid-term Progress Report (n-3)

- If it has developed a sustainable ODA graduation strategy, the potential graduate, in collaboration with its development partners involved in supporting the implementation and financing of the strategy, may wish to produce a mid-term progress report on the strategy. That report could reflect on the progress in implementing the strategy, including steps taken to explore potential financing scenarios post-graduation identified in Step 2, and could usefully identify those DAC members who have helped implement the strategy and the level of such support, if financial in nature. The report could also identify lessons learned from the strategy design and implementation.
- The potential graduate and/or interested DAC members are invited to provide this review to the Secretariat for circulation to the DAC. The Secretariat would then review the implementation's alignment with DAC practices and effectiveness principles, through for example the involvement of the DAC peer review team and drawing on data from the global monitoring process of the Global Partnership for Effective Development Co-operation. The DAC will also review its own members' support to the implementation of the strategy. If the potential graduate submits a progress report to the Secretariat, the country will be invited to address the DAC in a meeting (in Step 4 and/or Step 5) and share its experiences in designing, implementing, and

aligning the strategy with existing national development processes. In the event the potential graduate chooses not to prepare or submit a progress report to the Secretariat, the country's development partners will be encouraged to share details on strategy progress with the Secretariat and the DAC.

- This step will also be an opportunity for the potential graduate and its development partners not only to review but also to consider any necessary arrangements to adjust the strategy to appropriately reflect current country needs in reaction to external shocks (e.g., pandemic, climate event) as well as the persistence of any relevant vulnerabilities and/or consider possible changes to the trajectory for graduation. If the review reveals that a country has suffered a setback in GNI per capita that is projected to disqualify it from graduation, the country and its development partners are encouraged to continue implementation and adjust the strategy's action plan to address the issues identified.
- Regardless of whether the country has developed a strategy, the Secretariat will notify all potential graduating countries of their trajectory for ODA graduation from n-3 onwards.

Step 5. Pre-Graduation (starting n-1)

- In advance of the Triennial Review of the DAC List of ODA Recipients:
 - The Secretariat will share with the DAC the latest GNI per capita data for each potential graduate and any strategy implementation progress reports so that the Committee can consider its performance in supporting country-owned priorities as expressed in the sustainable ODA graduation strategy and reflect on lessons across the various countries' progress reports.
 - The Secretariat will inform WP-STAT of each country's GNI per capita, after which the Secretariat will transmit to the DAC its recommendations on graduation for consideration under Step 6.
- This step could be the subject of a formal or informal meeting of the DAC to review the Secretariat papers and also serve as an opportunity for potential graduates to address the Committee.

Step 6. Graduation (n-1)

- Following consideration of the information presented in Step 5, the DAC will be invited to take a decision in a formal meeting of the Committee on the graduation of the country. In that same meeting, the Secretariat will remind the Committee of those countries forecasted to graduate over the coming years.

Post-Graduation

- After a country has graduated, it may wish to consider, in consultation with its development partners, how best to ensure sustainable growth and achievement of nationally and internationally agreed goals. This could include:
 - Pursue continued development co-operation although no longer counted as ODA.
 - Mobilise support through regional or other entities.
 - Continue technical co-operation (via bilateral agreements).
 - Explore triangular co-operation modalities.

- Report to / engage with the International Forum on Total Official Support for Sustainable Development.
- Engage in peer learning, share lessons with the DAC.
- Engage more broadly with the OECD on its priorities using the expertise available across the Organisation (potentially to be outlined in the OECD Strategy on Development currently being elaborated).
- ODA graduates and DAC members are reminded that the Committee has agreed a mechanism to reinstate graduated countries onto the DAC List of ODA Recipients in the event a country suffers a setback that has the effect of dropping it back beneath the high-income threshold⁸.

4. Application of the Strengthened Graduation Process to 2026 and 2029 Graduates

10. The DAC reviews its List of ODA Recipients on a triennial basis. The last such review took place in 2023⁹, with the next one scheduled for 2026. Since the strengthened process described above implies a nine-year cycle, it cannot be applied in full to potential graduates in the 2026 review nor the 2029 review.

11. The Committee will encourage potential graduates in the 2026 and 2029 rounds and interested DAC members to consider the measures to prepare for graduation and post-graduation, even if in truncated form, as per the suggestions described in the above steps including with organisations experienced in designing strategies and conducting assessments, such as multilateral development banks, think tanks, and the OECD Secretariat.

12. At a minimum, the Secretariat and Committee will apply steps 5 and 6 to the 2026 Triennial Review.

13. The Secretariat will prepare a guidance document to support members and potential graduates undertaking the process.

14. The Committee intends to monitor progress, informed where possible by progress reporting from graduating countries and relevant DAC members. All potential graduates will have the opportunity to meet with DAC members prior to the DAC taking the graduation decision.

15. In order to ensure a graduation process that is fit for purpose, the Committee will revisit and review the procedures set out in this strengthened process in 2027, based on the initial experiences from the 2026 graduation process, further consultations with external partners, Secretariat analyses, and potential country pilot studies. This 2027 exercise could include a reflection on broader measures of sustainable development, the eligibility criterion, and the frequency of the review of the DAC List of ODA Recipients, for example to reduce the time between a country's third consecutive year above the high-income threshold and its graduation from the List.

5. Decision for the DAC

16. **The DAC is invited to approve the above-described strengthened process for a sustainable graduation from the DAC List of ODA Recipients.** The DAC is further invited to decide to apply the strengthened process on a pilot basis, and in a truncated form, in advance of the 2026 Triennial Review of the DAC List, after which the Committee will review the process in 2027 with a view to apply it in a further strengthened form going forward. Once the present document is approved, the agreed proposal will be declassified.

⁸ DCD/DAC(2022)43

⁹ See the approved 2023 Triennial Review proposal under cote DCD/DAC(2023)38/FINAL