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**THE DAC DEVELOPMENT INDICATORS AND LIST OF AID RECIPIENTS
THE 1995 AGREEMENTS**

(Note by the Secretariat)

The attached note reflects the discussions at the DAC meetings of 24 March and 6 April 1995. If there is no objection by a Member BEFORE 21 APRIL 1995, this note and its annexes will be considered as ADOPTED by the DAC. No announcement is planned until the results are integrated into the next Development Co-operation Report. A brief information note will be prepared for Members' information purposes in the meantime.

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THE DAC DEVELOPMENT INDICATORS AND LIST OF AID RECIPIENTS

THE 1995 AGREEMENTS

Explanatory note

The agreements set out in this paper complete a major effort to establish the way that DAC Members will in future analyse the development status of different countries and territories. Their purpose is to help the DAC and its Members to deal better in many ways with the increasingly diverse circumstances and needs of aid partners. As one specific function, they will provide new aids to judgement and procedures for adjusting periodically the DAC List of Aid Recipients.

Discussions have continued for several years in the DAC to respond to the profound changes that have been taking place in the income levels and economic structures of developing countries and territories -- as well as the emergence of other groups of aid partners in the post Cold War world. The following agreements now represent the accepted base for the Committee's approach to these questions. They build on changes accepted in both 1992 and 1993 -- as outlined in Annex 1, with the interim changes of December 1993 interpreted in that Annex in order to mesh with the final agreements set out herein.

Annex 2 provides a sample form (without data) of the Development Threshold Matrix to be examined by the DAC every three years, beginning in 1996. Annex 3 outlines the definitions and sources for the new system of DAC Indicators.

The new three-yearly review (and coverage in peer reviews) will be built mainly on the DAC Indicators as available from the prescribed sources and on aid and other resource flow data as reported at present. There would be some additional research on supplementary case data, mainly carried out by the DAC Secretariat and Members proposing changes to the listing of particular countries or territories. Any additional information to be supplied on the content of their programmes by Members would be expected to be readily available in their normal country programme materials.

In discussion of the DAC List, it is important to reiterate that its essential function is to provide the basis for the collection and reporting of comprehensive and comparable data on financial flows to all aid partner countries. The actual allocations of aid among different partner countries and territories remain matters of national decision and responsibility.

I. Background

1. **The new diversity of partner country situations.** Classifying aid recipients is no longer a simple matter. A growing number of countries are moving into a "threshold zone" where they exhibit various mixtures of development characteristics, strengths and needs. At the same time, official development assistance (ODA) is recognised as a scarce resource that needs to be strategically targeted in relation to priority development needs and the availability of other resource flows.

2. **The new DAC indicators as an important "aid to judgement".** There is no substitute for the exercise of the best-informed judgement (by the developing countries involved and by DAC Members) in periodic reviews as to whether a country should remain classified as a developing country on Part I of the DAC List of Aid Recipients. The use of selected indicators of development and financial capacity can be a valuable, but not automatic, mechanism for assisting DAC Members to reach consistent and understandable judgements. While such indicators, taken together, will do much to clarify a country's status, they do not permit the setting of automatic thresholds. The indicators for a given country or territory must be considered as a group and against broad reference levels.

3. **Concentration of aid.** DAC donors have expressed their intention to continue or intensify the concentration of their aid in countries whose GNP per capita falls below the World Bank lending ceiling (\$4 865 in 1993), with some countries wishing to maintain selected and especially targeted assistance activities in countries and territories above that ceiling [DCD/DAC(93)27/REV3, para 6b)].

II. The DAC Monitoring and Assessment System

A. The DAC development indicators

4. A set of ten reference indicators has been selected as the best reflection of the range of economic, social and financial areas in which sustained achievement over adequate periods would suggest that a country or territory is no longer in the "developing" category. The indicators cover income, economic diversification, education, gender, demography and financial capacity. While other measures, such as measures of income distribution, environmental and political status are also relevant, they cannot be captured in manageable and reliable indicators, but will be included in "supplementary case data" as supporting evidence. The ten reference indicators are:

Economic development indicators

1. Gross national product (GNP) per capita
2. Agricultural output/Gross domestic product (GDP)

Social development indicators

3. Life expectancy at birth
4. Mean years of schooling
5. Female : male years of schooling
6. Total fertility rate

Financial capacity indicators

7. Reliance on aid
8. Financial intermediation
9. Total external debt*
10. Sovereign risk

* Modified if possible to reflect some measure of present value.

5. The DAC development indicators are expected to be used to deepen discussion of development status and development co-operation activities in general and particularly as an aid to judgement about future listing of aid partner countries.

B. Application of the system

6. The DAC has agreed that, with respect to countries and territories on Part I of the List:
 - a) Those which have maintained for not less than three years a per capita GNP above the World Bank high-income threshold (\$8 625 in 1993) will progress to Part II of the DAC List unless a case is made by a Member, and accepted by consensus, to retain them on an exceptional basis. This transfer would take place after a transition period of three years (or earlier if agreed by consensus).
 - b) Those between the World Bank lending limit (\$4 865 in 1993) and the World Bank high-income countries threshold (viewed as a "development threshold zone") will remain on Part I of the List unless a case is made by a Member, and accepted by consensus, to move them to Part II of the List, in which case the transfer would take place after a transition period of three years (or earlier if agreed by consensus).

Consideration of cases under both a) and b) above would be expected to draw substantially on the Indicators.

7. The DAC will examine a development threshold matrix¹ every three years, beginning in 1996:
 - a) The Secretariat will circulate the development threshold matrix with as complete and up-to-date a coverage of data as possible, together with summaries of Members' activities in these

¹ The development threshold matrix is the list of countries and territories in the development threshold zone, together with the data relating to each country for the indicators listed above.

countries and territories, derived from the regular DAC reporting. The Secretariat and Members will work to assemble supplementary case data to compensate for missing indicators or cover other aspects of development status as relevant.

- b) In the triennial review DAC Members will discuss:
 - i) The aid they are providing or planning to these countries and territories in the threshold zone, with reference to the Indicators, and sectoral and other priorities in the countries concerned. These questions would also be covered in the course of the DAC's regular peer reviews.
 - ii) Any proposal by a Member that a country or territory falling within the zone should progress to Part II of the DAC List. Any such proposal would be subject to stipulations of para 6b) above, i.e. acceptance by consensus and a three-year transition period.

Annex 1

Concordance with 1992 and Interim 1993 DAC Agreements on the DAC List

A. Decisions up to End-1992

The decisions on the DAC List taken in 1992 as listed in DCD/DAC(93)27/REV3 remain unaffected by the new agreements. They are:

- presentation of developing countries and territories in terms of LLDCs and income groups aligned with regularly reviewed World Bank thresholds;
- addition of five Central Asian Republics;
- removal as of 1996 of the Bahamas, Brunei, Kuwait, Qatar, Singapore, and the United Arab Emirates;
- extension of the DAC Reporting Systems to cover all Central and Eastern European Countries and the New Independent States of the former Soviet Union (CEECs/NIS);
- aid to CEECs/NIS defined as contributions which meet the concessionality and qualitative standards of the DAC ODA definition and consequently of DAC aid policy principles.

B. Agreed Outcome of December 1993

The operational agreements are contained in paragraphs 5 to 7 of document DCD/DAC(93)27/REV3. These paragraphs are reproduced below with, in bold, their application under the 1995 decisions.

1. Structure and nomenclature

1993 outcome agreement

- [para 5] a) A single list of aid recipients encompassing, in addition to the "traditional" developing countries and territories, all CEECs/NIS as new recipients and all countries and territories "progressing" from ODA status.

b) The list to be entitled "DAC List of Aid Recipients" and presented in two parts:

i) Developing Countries and Territories (Part I)

- . Includes "traditional" developing countries and territories and those CEECs/NIS which the DAC has agreed to assimilate into this category.
- . Only aid to these recipients will be termed "Official Development Assistance" and count towards the 0.7 per cent UN target.

ii) Countries and Territories in Transition (Part II)

- . This part of the List will distinguish between:
 - Other CEECs/NIS;
 - "Traditional" developing countries and territories progressing from Part I.
- . Aid to these countries will have the same concessional and qualitative features as ODA, but will not count toward the 0.7 per cent UN target.

Application under 1995 decisions

The agreements on a single "DAC List of Aid Recipients" and its presentation in two parts remain exactly as outlined in paragraph 5 of the agreed outcome.

2. Entry to and progression from Part I status

i) Assessment of development status

1993 outcome agreement

[para 6 a)] The DAC will develop a comprehensive, systematic approach to the assessment of the developmental status of individual recipients, based on objective development indicators and an analysis of aid needs. This system will be applied to entry and progression cases as from 1996. With this objective in view, a focused work programme will be conducted in 1994-95, in consultation with other relevant international bodies on:

- the use of other development indicators to supplement GNP per capita, with a special focus on Purchasing Power Parities (PPP), and the Human Development Index (HDI), together with other relevant indicators;

- trends in financial flows to developing countries and, in this perspective, changing aid requirements among recipient countries.

Application under 1995 decisions

The objectives and work programme mandated by the 1993 outcome agreement have been successfully implemented by the work leading up to the 1995 agreements and embodied in the DAC Development Indicator system.

ii) Progression from Part I to Part II

**Treatment of countries and territories already in the World Bank high-income category
Aid concentration policies**

1993 outcome agreement

[para 6 b)] By the end of 1995, the DAC will introduce a threshold for progression from Part I to Part II, beginning in 1996, on the basis of a composite set of objective indicators to be derived from the DAC work programme (and including the appropriate level of GNP per capita to be agreed by the Committee together with the other indicators). In the meantime, it is already agreed that countries and territories that are classified as "high income" by the World Bank will be placed on Part II of the List as of 1996, with provision for exceptions on a case-by-case basis [see c) below]. The Committee agrees that this latter move is a step towards a satisfactory long-term system and does not constitute a precedent for an eventual solution and that the whole system will once again be subject to full review by the Committee if a satisfactory further step is not agreed by the end of 1995. DAC donors further express their intention to continue or intensify the concentration of their aid in countries whose GNP per capita falls within the World Bank lending threshold (\$4 715 in 1992), with some countries wishing to maintain selected and especially targeted assistance activities in countries and territories above that threshold.

Application under 1995 decisions

The approach to "thresholds" is adjusted by the 1995 agreements. It is confirmed that countries and territories remaining above the World Bank high-income threshold for not less than three years will progress to Part II of the DAC List unless a case for exceptional retention is made by a Member and accepted by consensus (drawing on the Indicators). Transition arrangements are also specified in the 1995 agreements.

The decision to place the ten countries and territories categorised as "high income" at the time of the 1993 Agreed Outcome on Part II of the DAC List as of 1996, with provision for exceptions on a case-by-case basis, is confirmed. As in the case of the six countries removed from the developing country list in 1992, a three-year transition period will apply and they will thus shift to Part II of the DAC List at the end of 1996. Members may propose exceptions (or delayed progression to Part II). Such proposals may be examined (with reference to the Indicators) in the context of the first triennial review, in 1996, and will be subject to agreement by consensus.

For countries which remain below the high-income level, the 1995 agreements mean that there will be no automatic trigger for progression from Part I to Part II of the List, but provision is made for any DAC Member to make a case for such progression (drawing on the Indicators) during the regular triennial reviews. Any such case must be accepted by consensus. The DAC Development Indicators for all countries and territories falling between the high-income level and the World Bank lending threshold will be available for the reviews.

In the 1995 agreements, the DAC Members have also explicitly reconfirmed their 1993 statement of intention on the concentration of their aid.

iii) Retention on Part I***1993 outcome agreement***

[para 6 c)] As of 1996, progression from Part I to Part II of the List will be the normal procedure for countries and territories to whom the agreed thresholds apply (unless a case is established within the DAC for retaining them on Part I because of their developmental and resource status). A case for retaining such a country or territory on the ODA List would be established if, following a special Secretariat assessment, requested by a DAC Member, of developmental and resource status, incorporating all the relevant indicators and other information, the argument for retention secures substantial support within the DAC, as determined by the Chair.

Application under 1995 decisions

The procedures proposed in this paragraph have been superseded by the 1995 agreements [applied as described in paragraphs 6 and 7 of the 1995 agreements and in para 2ii) above].

iv) Additions to Part I

1993 outcome agreement

[para 6 d)] Countries and territories not on Part I will be added to this part of the DAC List (following an indication of their interest in being included) when there is a consensus within the DAC on their developmental and resource status, based upon a set of agreed indicators. Prior to the completion of the study programme and agreement on a criteria-based approach, entry to Part I will be by consensus, with careful reference to the development indicators available at present.

Application under 1995 decisions

Proposals by Members to include any additional country and territory on Part I of the DAC List can be considered by the DAC as they arise with reference to the DAC Development Indicators and subject to agreement by consensus. A decision to place a country or territory on Part I would normally follow an indication of their interest in being so included.

v) 1992 decision on progression of six countries to Part II

1993 outcome agreement

[para 6 e)] The six countries already scheduled to be removed from the current List in 1996 will be placed on Part II of the "New" List.

Application under 1995 decisions

1992 agreement fully maintained (see Section A above).

vi) Introduction date

1993 outcome agreement

[para 6 f)] The threshold and procedures specified in para 6b) and c) above will be applied as from 1996.

Application under 1995 decisions

Dates for the application of procedures are now specified in the 1995 agreements (first triennial review in 1996) and by the application of paragraph 2ii) above.

3. Other key elements in the agreed outcome

1993 outcome agreement

[para 7] The DAC has agreed to:

- a) Reconfirm that the DAC List is established for statistical purposes and that geographic aid allocations are national decisions and responsibilities.
- b) Not only record but also present and analyse the whole range of aid and other resource flows to all countries and territories on the DAC List of Aid Recipients, with particular attention to the distribution of aid flows among the various income and other groups identified in the List.
- c) Invite executive agencies and OECD bodies dealing with aid to the CEECs/NIS to make use of the long experience of development assistance agencies in dealing with aid programming, co-ordination and delivery as reflected in the *DAC Principles for Effective Aid*. In line with this stance, the DAC will respond positively to the proposal in the Report on the Assessment of the CCET Programme to hold a special meeting (probably jointly with the recently established CCET Working Party) to determine the contribution that relevant bilateral and multilateral aid officials can make to the CCET programme.

Application under 1995 decisions

The provisions of paragraph 7 of the agreed outcome remain in effect, with the need to follow up on the proposal to draw on the expertise of development assistance agencies to contribute to the work of the OECD's Centre for Co-operation with Economies in Transition.

Annex 2

The DAC Development Threshold Matrix

	GNP per capita	Agricultural output	Life expectancy at birth	Mean years of schooling	Female : Male years of schooling	Total fertility rate	Reliance on aid	Financial intermediation	Total external debt ⁽³⁾	Sovereign risk
UMICs ⁽¹⁾										
Antigua & Barbuda Seychelles Argentina Oman Barbados Korea, Rep. of Saudi Arabia Bahrain Libya Malta										

Aruba Montserrat NL Antilles Virgin Islands (UK)										
HICs ⁽²⁾										
Taiwan Cyprus Israel										

Hong Kong Bermuda Cayman Islands Falkland Islands French Polynesia Gibraltar New Caledonia										
Pro Memoria: Countries graduating in 1996 Bahamas Singapore Brunei Kuwait Qatar United Arab Emirates										

1. UMICs above World Bank lending threshold.
2. To move to Part II in 1996 unless retained in Part I by exception procedure.
3. Modified to reflect net present value if possible.

Annex 3

The DAC Development Indicators: Definitions and Sources

Source codes

DC1	OECD:	Financing and External Debt of Developing Countries
DC2	OECD:	Geographical Distribution of Financial Flows to Aid Recipients
HDR	UNDP:	Human Development Report
IFS	IMF:	International Financial Statistics
WBT	World Bank:	World Tables
WDT	World Bank:	World Debt Tables

Economic development indicators

1. GNP per capita

Source: WBT
Units: \$US World Bank Atlas basis
Definition: (gross national product) / (population)

2. Agricultural output

Source: HDR
Units: per cent
Definition: agricultural output/total GDP

Social development indicators

3. Life expectancy at birth

Source: HDR
Units: years
Definition: the number of years a new-born infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life

4. Mean years of schooling

Source: HDR
Units: years
Definition: average number of years of schooling received per person currently age 25 or over.

5. Female : male years of schooling

Source: HDR

Units: per cent

Definition: (mean years of female schooling) / (mean years of male schooling)

6. Total fertility rate

Source: WBT

Units: births per woman

Definition: the average number of children that would be born alive to a woman during her lifetime if she were to bear children at each age in accord with prevailing age-specific fertility rates

Financial capacity indicators

7. Reliance on aid

Source: DC2

Units: per cent

Definition: (total net ODA receipts) / (total receipts net from DAC countries, multilateral agencies, and Arab countries combined)

8. Financial markets

Source: IFS

Units: per cent

Definition: (bank credit) / (GDP)

9. Total external debt

Source: DC1

Units: per cent

Definition: (total identified debt stocks) / (gross national product)

Note: The possibilities of incorporating a long-term concessionality measure are still being explored

10. Sovereign risk

Source: Moody's Investor Service

Units: grades

Definition: sovereign credit ratings on government bonds in foreign currency