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DAC Working Party on Development Finance Statistics

Monitoring ODA grant equivalents

This annual report presents the analysis of the impact of the grant equivalent accounting methodology on the composition and allocation of ODA.

This FINAL version was approved and declassified in November 2024.

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Monitoring ODA Grant Equivalent

Background

1. At its High-Level Meeting in December 2014, the DAC agreed to modernise the reporting on loans in DAC statistics by introducing 1) a quantitative definition of concessionality, based on discount rates and thresholds differentiated by income group (thresholds of 45% for LDCs and other LICs, 25% for LMICS, 10% for UMICs calculated using discount rates of 9%,7%,6% respectively), and ii) the measurement of donor effort in ODA on a grant equivalent basis. This grant equivalent system became the standard for measuring ODA starting with 2019 reporting on 2018 ODA. Data on the grant equivalent measure were also collected and published during a transition period from 2015 to 2017.

2. During discussions on ODA on a grant equivalent basis, members raised the importance of closely monitoring the impact of introducing the new accounting methodology. The Secretariat committed to monitor members' lending practices in this regard and draw members' attention to cases where the new measure of concessionality could have unexpected implications on lending. It produces an annual report since 2020[1]. The present report contains an updated analysis, taking into account the latest figures available (i.e., 2022 detailed ODA figures and 2023 preliminary aggregate ODA figures).

3. Members discussed the report at the WP-STAT meeting in September 2024 and this final version was subsequently approved and declassified (incorporating one edit and a few corrections to two members' loans).

Analysis of the impact of the new accounting methodology on the composition and allocation of ODA loans

4. The report presents the Secretariat's analysis of ODA loans since the introduction of the grant equivalent system in 2018. It compares cash flow and grant equivalent ODA figures, looks at trends in ODA volumes as well as shares, terms and conditions of loans, and their country allocation by income group. The data used for the analysis include loans to multilateral organisations and international NGOs[2] as well as loans to the private sector (PSI)[3], but exclude debt relief.

[1] The latest report was presented at the WP-Stat meeting in May 2023: see DCD/DAC/STAT(2022)25. Previous reports are also available at https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/modernisation-dac-statistical-system.htm.

[2] For loans to multilateral organisations, the discount rate is 5% (6% for sub-regional organisations), and the threshold is 10%. For loans to INGOs listed on Annex 2 of the DAC statistical reporting directives, the discount rate is 6% with a threshold of 10%.

[3] The reporting on loans to the private sector in 2022 – for which data are covered in this report – was still governed by the Provisional Reporting Methods (DCD/DAC/STAT(2023)9/ADD3/FINAL). PSI loans were reported on a cash-flow basis: their grant element was calculated using a 10% discount rate and the eligibility threshold is 25%. At the DAC meeting in October 2023, the DAC approved new reporting methods for reporting PSI on a grant equivalent methodology , which will be implemented as from members' 2024 reporting on flows in 2023 (see DCD/DAC(2023)22 for PSI loans).

- In 2022, five members (Canada, France, Germany, Italy and Japan) provided loans to multilateral organisations, representing 10.6% (USD 4.89 billion) of total loan commitments for all DAC members combined.
- PSI loans are not the focus of this report, which monitors the implementation of the grant equivalent system. They are quite small in volume terms, and their impact on overall ODA figures is limited; they were included in the report for the sake of completeness of the analysis. In 2022, PSI ODA loans reported according to the instrument approach amounted to USD 1.98 billion, representing 4.3% of all ODA loans[4]. Most of the recipients were UMICs.

5. Noting that ODA trends can differ when measured on grant equivalents or net flows, overall, the analysis confirms that the conclusion drawn from the previous monitoring exercises remains valid in 2022. **Since its introduction in 2018, the grant equivalent measure had a significant impact on ODA figures of a few members but little impact on ODA figures overall. Importantly, the grant equivalent system did not lead to significant changes in terms of members' lending practices. However, while the new system was meant to incentivize concessionality, evidence shows that the terms of loans to LDCs hardened during the period under review.**

Comparison of ODA figures: grant equivalent and cash flow bases

6. Although grant equivalent data were collected and published during the three-year transition period (2015-2017 ODA data), the grant equivalent system became the standard for measuring ODA from 2019 on 2018 ODA data. ODA headline figures applying this new standard were published for the first time in April 2019[5]. The latest data related to 2023 ODA preliminary figures were published in April 2024[6].

7. The introduction of the grant equivalent system will, by construction, increase ODA figures in the long term in comparison with a cash-flow system. This is because reflows on loans are no longer deducted[7]. However, in the shorter term, for specific years and countries, the ODA figure based on the grant equivalent system can be lower than the ODA figure based on net flows. See also paragraph 10.

8. The observation of ODA data since the introduction of the grant equivalent methodology shows that the new method has had little impact on overall ODA annual volumes so far (as foreseen when the methodology was agreed at the 2014 HLM). **For all**

[4] Note that, until ODA in 2022, members following the institutional approach have reported the capitalisation of their DFI in ODA and recorded their PSI loans as Other Official Flows (OOF) in DAC statistics. These loans were therefore not included in the analysis but amounted to USD 0.4 billion in 2022. Furthermore, members implement the revised methods for private sector instruments, including grant-equivalent measurement of donor effort in loans to the private sector, in the context of their reporting on ODA in 2023. However, if needed, members may elect to use a transition period of one year during which they continue using the provisional arrangement. in the context of the institutional approach, loans to the private sector may thus still be reported as OOF with no information on their grant equivalents.

[5] Data on actual flows (i.e. disbursements and loan repayments) continue to be collected and published to ensure transparency.

[6] https://www.oecd.org/dac/ODA-summary-2023.pdf

[7] Including a backlog of outstanding amounts due on past loans (approximately USD 239.4 billion) as of end 2022.

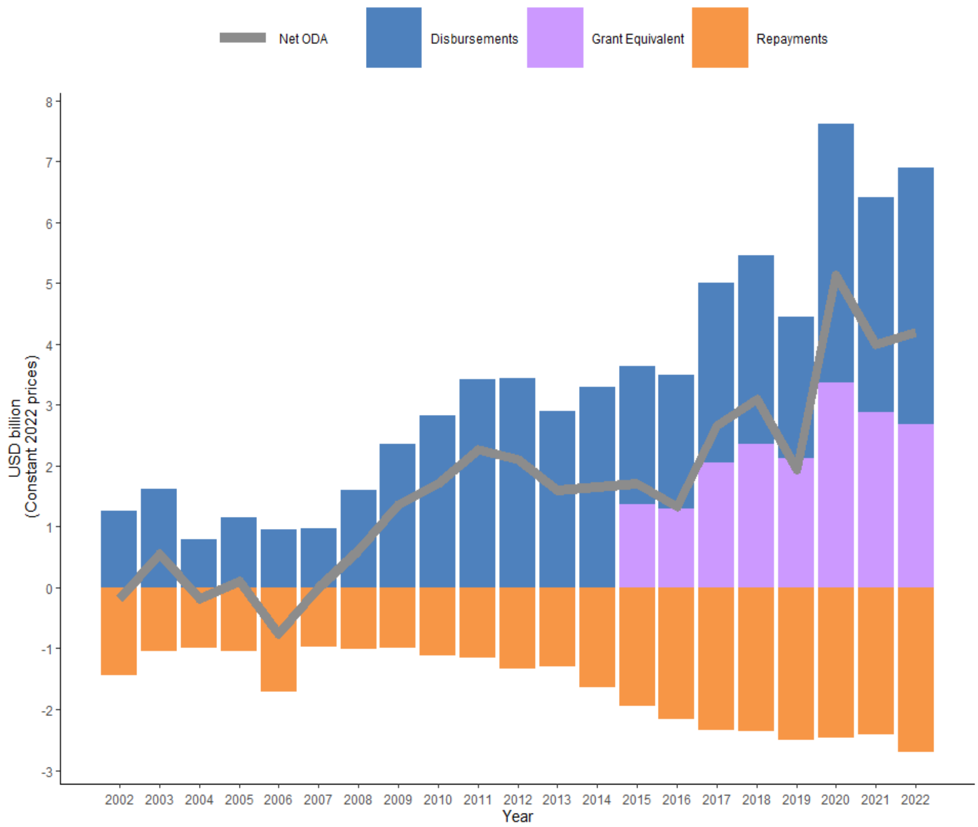
DAC countries combined and compared to the figures calculated by using the cash-flow methods, the new method increased or decreased ODA levels only by small percentage points each year: 2.3% in 2018, 3.6% in 2019, -0.2% in 2020, 0.6% in 2021, -1.3% in 2022. Preliminary data for 2023 indicate that the ODA grant equivalent methodology increased total DAC ODA by 0.7% that year.

9. However, in 2022, the grant equivalent method had a significant impact on a number of members with a substantial loan programme: EU Institutions (-17%), Canada (-16%), France (-9%), Portugal (19%). According to the preliminary figures, this was also the case in 2023: EU Institutions (-29%), Canada (-12%), France (-8%), Portugal (17%)[8].

10. Looking at ODA loans only, the impact of the introduction of the grant equivalent system varies. For all DAC members combined, compared to the figures calculated by using the cash-flow system, ODA loan figures decreased by -26% in 2022 but increased by large percentage points in earlier years e.g., 73% in 2019. For members with a large substantial loan programme, the impact is also variable: EU Institutions (-49%), France (-36%), Germany (-30%), Japan (9%), Korea (-12%). The impact varies depending on whether the member loan programme is expanding or contracting. When a loan programme is in its expansion phase and the amounts disbursed largely surpass the amounts repaid, the grant equivalents recorded in ODA will be lower than the net amounts, as illustrated in the case of France in Figure 1 below. By contrast, when the amounts repaid, including on past loans are larger than the newly disbursed amounts, the grant equivalent is larger than the net flows, as illustrated in the case of Japan, see Figure 2.

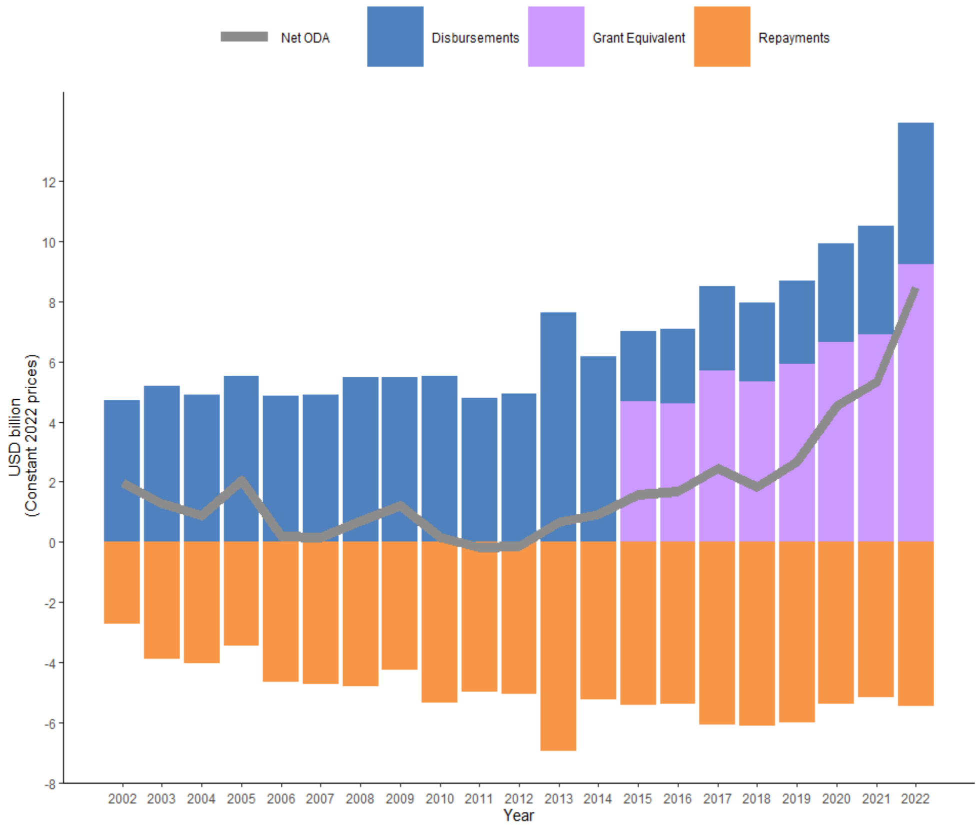
[8] Due to the repayment on earlier ODA loans that are no longer deducted under the grant equivalent ODA measure.

Figure 1. Comparison of ODA figures for loans based on grant equivalents and cash-flows in the case of France



Note: The Grant Equivalent (purple) bar overlays the Disbursement (blue) bar. These two should not be summed together as the Grant Equivalent is a portion of Disbursements proportional to their grant elements.

Figure 2. Comparison of ODA figures for loans based on grant equivalents and cash-flows in the case of Japan



Note: The Grant Equivalent (purple) bar overlays the Disbursement (blue) bar. These two should not be summed together as the Grant Equivalent is a portion of Disbursements proportional to their grant elements.

Trends in volume and share of ODA loans

11. This section reviews ODA flows (commitments) to monitor the trends in members' ODA portfolio in terms of volumes, terms and conditions of loans as well as their allocation by income group. It also looks at the share of loans in ODA on a grant equivalent basis.

12. **From a long-term perspective, from 2009 until 2022, with the exception of Belgium, Portugal and Spain, loan-providing DAC members overall have increased the total volume of their ODA loans. However, the share of loans remained quite stable for those members and overall (around 15%). The bulk of ODA is still provided in the form of grants, and the introduction of the grant equivalent method system in 2018 does not seem to have changed these trends.**

13. Members that have regularly reported ODA loans from 2009 to 2022 are Belgium, EU Institutions, France, Germany, Italy, Japan, Korea, Poland, Portugal and Spain.

Figure 3 illustrates the trend of ODA loans in volume terms and shares in total ODA for all DAC countries combined. Figure 4 focuses on the four DAC members that provided the largest volumes of ODA loans over the period (EU Institutions, France, Germany and Japan). See Annex 1 for other loan-providing members. Members with significant shares in total ODA commitments in 2022 include Canada (27%), EU Institutions (36%), France (36%), Germany (18%), Japan (61%), Korea (50%).

14. In real terms, using 2022 as the base year, the overall ODA loan commitment volume has increased by a multiple of 3 over the period 2009-22, from USD 14.07 billion to USD 46.34 billion. There were large fluctuations in the last four years: 2019 (USD 26.82 billion), 2020 (USD 41.8 billion), 2021 (USD 31.4 billion), 2022 (USD 46.34 billion). The peak in 2020 was found to reflect the impact of the COVID-19 pandemic as members increased their loans in support of an inclusive global recovery. In 2020, loans to COVID-19 activities accounted for USD 9.13 billion and has since decreased to USD 5.7 billion in 2021 and USD 1.6 billion in 2022. In 2022, loans increased significantly due to an increase in commitments to Ukraine, mainly by Canada (USD 1.9 billion) and EU Institutions (USD 8.95 billion) compared to 2021 as Canada did not provide loans to Ukraine and EU Institutions provided USD 825.07 million to Ukraine. Overall, loans to Ukraine increased from USD 1.1 billion in 2021 to USD 12.2 billion in 2022. The share of loans in total ODA commitments has increased from 9% in 2009 to 18% in 2022.

15. These overall fluctuations in volume and share during the period are in large part due to Japan, which accounts for 32% of ODA loans since 2018. Loan commitments can fluctuate a lot from one year to the other as large loan agreements with a few countries in a certain year can significantly affect the total for that year (e.g., in 2022, Japan's ODA loans to Philippines amounted to USD 2.16 billion as well as India, which received USD 3.14 billion in ODA loans). However, another driver in these recent fluctuations, as mentioned earlier, is the EU Institutions, who have increased their shares of total loans from 20% in 2021 to 26% in 2022. This was mainly due to an increase in loans to Ukraine from USD 825.07 million in 2021 to USD 8.95 billion in 2022.

16. Since the introduction of the grant equivalent system, from 2015 to 2022, the share of ODA loans in members' total ODA evolved as follows[9]:

- It increased for Austria, Canada, Korea, EU Institutions
- It decreased for France, Germany, Portugal, Poland
- It remained stable overall for Belgium, Italy, Japan, Australia.

[9] Some donors did not provide ODA loans consistently over this period and it is not possible to derive a trend in their case. Information on all ODA loan providing donors can be found in Annex 1.

Figure 3. Trends in total ODA loan commitments (all DAC members combined): volume and share in total ODA

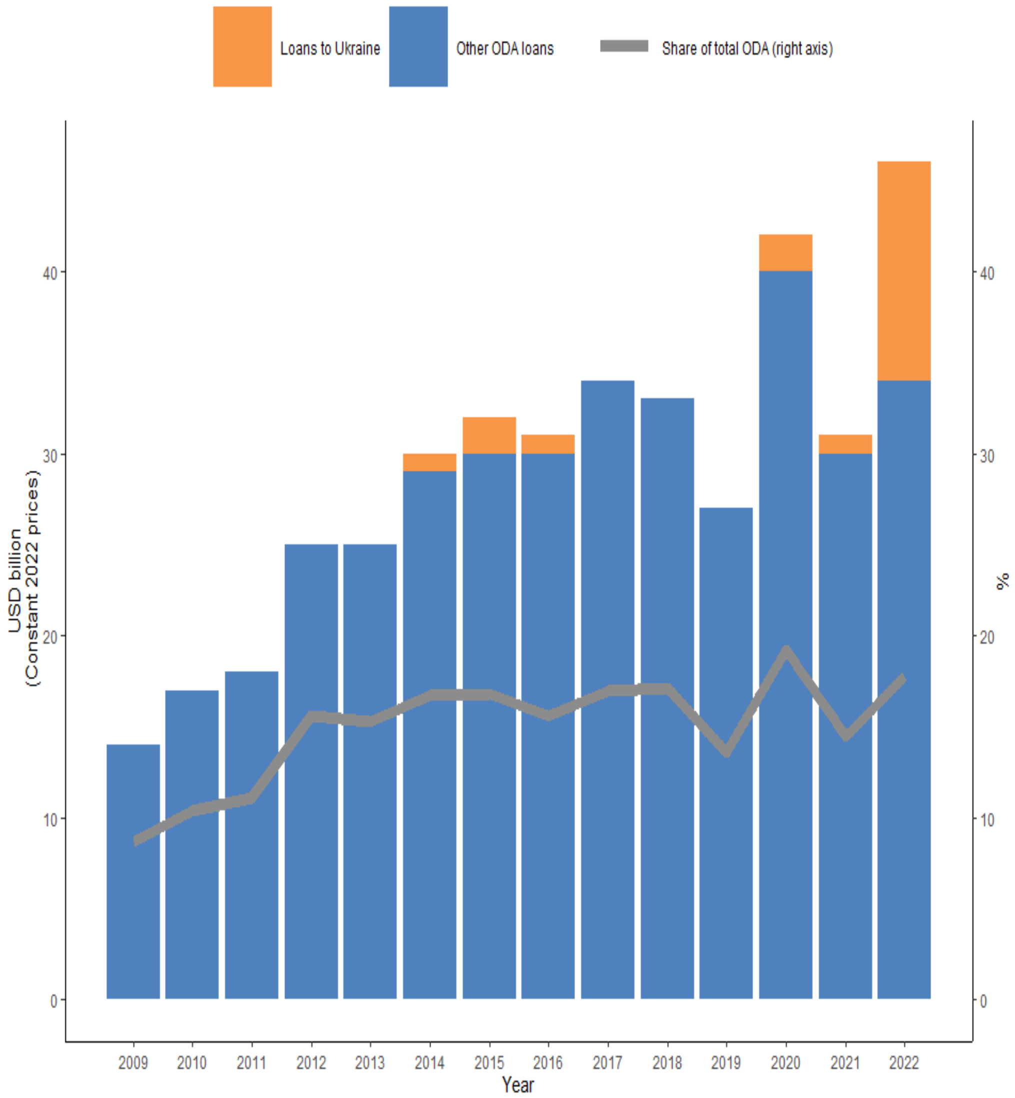
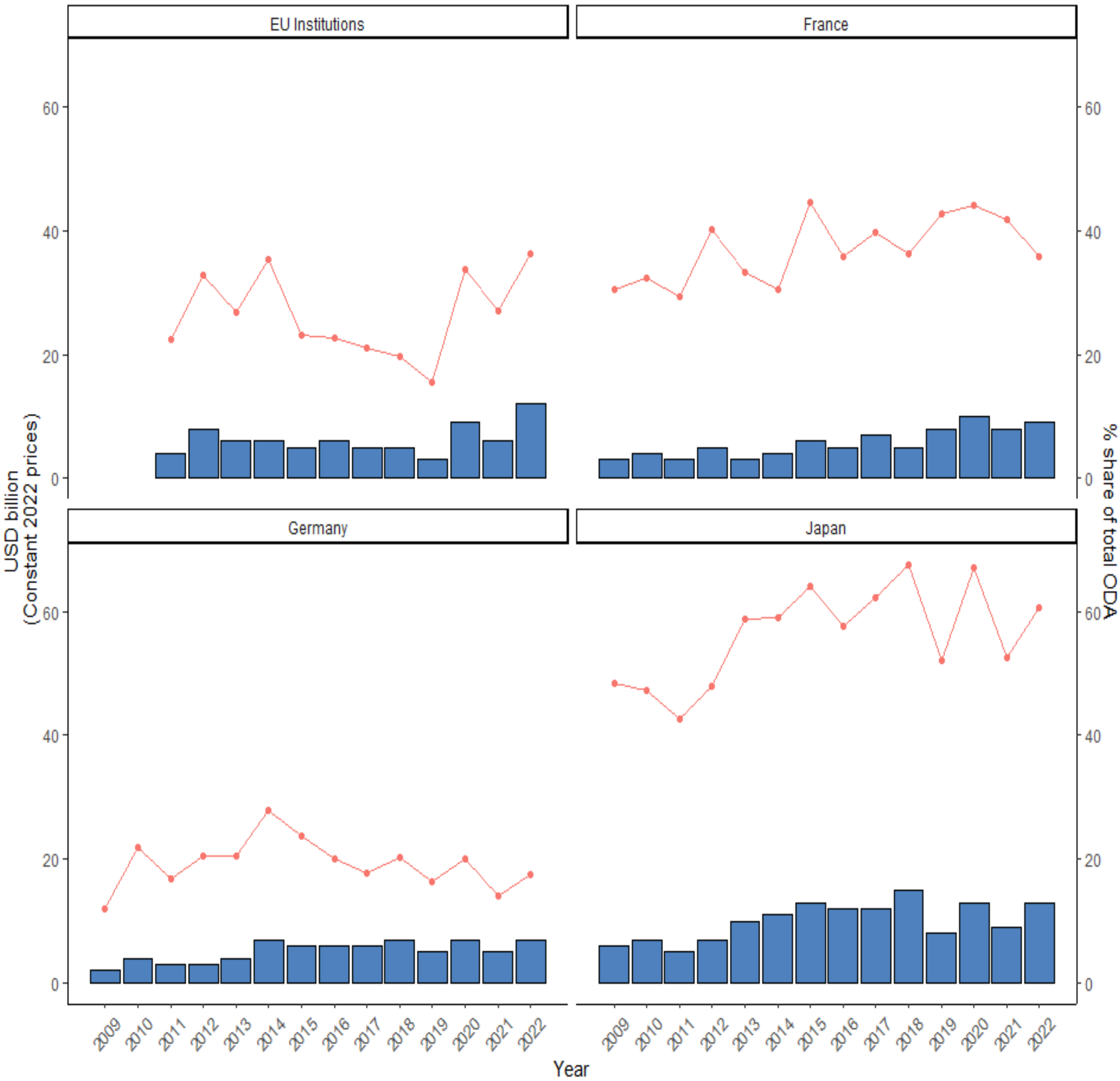


Figure 4. Trends in total ODA loan commitments for individual loan providing members: volume and share in their total ODA



17. **When measured based on grant equivalents, ODA loans have increased (+30% from 2015 to 2022). The share of loans in ODA is larger: loans represented 7.4% of total ODA in 2022 compared to 5.7% in 2015, due in part to loans provided to Ukraine.** For most loan-providing members, the share of loans in ODA increased. The largest increases are observed for Japan (40% in 2015 to 53% in 2022), EU Institutions (11% in 2015 to 22% in 2022), Canada (1% in 2015 to 9% in 2022), Austria (0% in 2015 to 6% in 2022). Over the same time period, the largest decreases were for Portugal (13% in 2015 to 0% in 2022) and Poland (7% in 2015 to 1% in 2022).

Evolution of terms and conditions of ODA loans

18. This section analyses trends in the overall terms and conditions of members' loan programmes, as well as by income group. The analysis also looks at the specificities of various channels i.e., loans to the public sector, multilateral and NGOs as well as loans to the private sector.

19. **This year's report confirms the trend that, on average, the terms of loans to LDCs hardened during the period 2015-22 (see Table 2).**

20. The grant equivalent was introduced as a fairer measure of donor effort: a loan to a riskier beneficiary conveys a higher grant element and records a higher ODA amount than a loan with the same terms and conditions to a less risky beneficiary such as a multilateral institution. The average grant element for all loans combined can still be calculated (see Annex 2) but is no longer relevant to draw conclusions on the evolution of terms and conditions of ODA loans overall[10]. Instead, average grant elements need to be studied by income group (and channel of delivery) as discussed further down in the report (see also Table B in the Annex 2 as well as Tables 2 and 4). The analysis of terms and conditions of loans needs to look also at the interest rate and maturity periods (see Table 1 below and Table 1a in Annex 2):

- Interest rate: the DAC average increased over the period (from 0.95% in 2015 to 1.89% in 2022[11]). Overall and for each individual member concerned, the interest rate is on average higher for PSI loans than for loans to the public sector (3.31% compared to 1.77%).
- Maturity period: the DAC average decreased over the period from 26 years in 2015 to 24 years in 2022 (11 years for PSI loans). All members with the exception of EU Institutions, Germany, Spain applied shorter maturity periods in 2022 than in 2018.

[10] For example, Table A in Annex 2 shows that the average grant element for Belgium reached exceptionally low levels in 2018 and in 2021 (67% and 68% respectively). In both years, Belgium provided a multilateral loan to the World Bank with highly concessional terms (maturity period: 40 years and interest rate: 0%), representing the bulk of its ODA loans for these years. Therefore, although the average grant element for Belgium in 2018 and 2021 decreased, it should not be interpreted as a sign of hardened lending terms overall. These loans, despite their highly concessional terms, conveyed a grant element of 67% and 68% by using the agreed 5% discount rate for loans to multilateral institutions (87% using the old method).

[11] The rise in interest rates for 2022 (1.89%) compared to 2021 (1%) can be attributed to the rise in rates for both UMICs (2.44% in 2022) and LMICs (1.50% in 2022 excluding Ukraine) as well as the large increase in both volume and interest rates for loans to Ukraine (USD 12.2 billion in 2022 with an average interest rate of 2.44%). These interest rate increases can be seen in Figure A in Annex 2.

Table 1. Characteristics of 2022 ODA loans by loan provider

(Weighted averages, see Table 1a in Annex 2 for a breakdown by channel of delivery)

	Australia	Austria	Canada	EU Institutions	France	Germany	Italy	Japan	Korea	Poland	Spain	**DAC Total**
Average interest rate	2.08%	3.18%	2.28%	2.60%	2.51%	2.67%	0.98%	0.63%	0.24%	0.59%	3.64%	**1.89%**
Average maturity (years)	22	10	13	21	19	17	15	33	35	25	17	**24**

21. The average grant element of ODA loans to LDCs decreased from 78% in 2015 to 71% in 2022 (see Table 2). This is explained by higher interest rates (from 0.35% in 2015 to 0.72% in 2022) and shorter maturity periods (from 36 years in 2015 to 30 years in 2022). The declining trend in the grant element is mainly due to Japan (the average grant element to LDCs decreased from 84% in 2015 to 72% in 2022 with higher interest rates and shorter maturity periods). The following members also provided less concessional loans to LDCs in 2022 than in 2015: France (55% in 2015 to 53% in 2022), Italy (92% in 2015 to 82% in 2022), Japan (84% in 2015 to 72% in 2022), Poland (77% in 2015 to 74% in 2022). Increase in concessionality was observed for EU Institutions (48% in 2015 to 53% in 2022), Germany (34% in 2015 to 48% in 2022), Korea (88% in 2015 to 89% in 2022).

Table 2. Characteristics of ODA loans to LDCs

(Weighted averages, see Table 2a in Annex 2 for a breakdown by channel of delivery)

	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Average grant element (new)	78%	75%	75%	73%	70%	73%	70%	71%
Average grant element (old)	81%	78%	78%	77%	73%	76%	73%	74%
Average maturity period (years)	35.7	33.4	32.5	32	28.3	30.4	27.2	29.6
Average interest rate	0.35%	0.49%	0.59%	0.67%	0.80%	0.44%	0.63%	0.72%

Note: Calculated using 10% discount rate ("old" method) and discount rates differentiated by income group i.e., 9%/7%/6% for bilateral loans to the public sector, 5%/6% for loans to multilateral/regional institutions and 6% for loans to INGOs ("new" method)

Allocation by income group

22. **There is no significant change in the allocation patterns by income group following the introduction of the grant equivalent system in 2018.** Table 3 shows the breakdown by income group for the four largest loan providers.

23. For these providers - EU Institutions, France, Germany and Japan, LDCs received better terms and conditions on their loans relative to LMICs as seen through a higher grant

element. This is also the case for terms and conditions on loans to LMICs relative to UMICs. In the case of EU Institutions, the average maturity is longer for LDCs (22.3 years) than both LMICs (21.8 years) and UMICs (19 years), while the average interest rate is more favourable for LDCs (1.8%) and UMICs (2.2%) in comparison to LMICs (2.6%). This results in a higher grant element for LDCs (53%) compared to LMICs (43%) and for LMICs compared to UMICs (28%).

Table 3. Characteristics of 2022 ODA loans by income group for largest loan-providing members

(Weighted averages)

EU Institutions		LDCs	LMICs	UMICs
Share of income group in total loans		1.3%	84.3%	11.7%
Average maturity (years)		22.3	21.8	19
Number of loans with maturity < 15 years		1	5	9
Average interest rate		1.8%	2.6%	2.2%
Average grant element (new)		53%	43%	28%
Of which:	Loans to the Public Sector	53%	43%	28%
Of which:	Loans to the Private Sector		33%	31%
France		**LDCs**	**LMICs**	**UMICs**
Share of income group in total loans		11.3%	50.8%	29.2%
Average maturity (years)		19.6	22.5	16.3
Number of loans with maturity < 15 years		6	13	14
Average interest rate		1.4%	2.3%	3.5%
Average grant element (new)		53%	42%	19%
Of which:	Loans to the Public Sector	55%	42%	18%
Of which:	Loans to the Private Sector	28%	28%	27%
Germany		**LDCs**	**LMICs**	**UMICs**
Share of income group in total loans		2.3%	42.5%	32.4%
Average maturity (years)		17.9	21.1	15.9
Number of loans with maturity < 15 years		0	3	15
Average interest rate		1.8%	2.7%	3.0%
Average grant element (new)		48%	35%	21%
Of which:	Loans to the Public Sector	48%	35%	21%
Japan		**LDCs**	**LMICs**	**UMICs**
Share of income group in total loans		20.6%	63.0%	15.0%
Average maturity (years)		30.2	35.8	26.8
Number of loans with maturity < 15 years		4	4	4
Average interest rate		0.7%	0.6%	0.6%
Average grant element (new)		72%	70%	53%
Of which:	Loans to the Public Sector	75%	71%	57%
Of which:	Loans to the Private Sector	25%	29%	28%

Note: In 2022, the share of loans to LDCs, LMICs and UMICs combined accounted for 97.3%, 91.4%, 77.2%, 98.6% of the total ODA loans provided by EU Institutions, France, Germany, Japan respectively, due to their loans unallocated by income and loans to multilateral institutions.

24. LMICs have long been the largest beneficiaries of ODA loans, followed by UMICs. In 2022, members continued providing ODA loans primarily to middle-income countries (See Figures 5 and 6) i.e., LMICs (63%) and UMICs (18%). Although the gap between low-income countries and middle-income countries has been decreasing since 2016, the

gap in 2022 has also decreased from 2021. For 2021 the UMICs accounted for 29% (USD 9.07 billion) and LDCs accounted for 17% (USD 5.25 billion), while for 2022, UMICs accounted for 18% (USD 8.42 billion) while LDCs accounted for 11% (USD 5.15 billion).

Figure 5. Breakdown of ODA loans in 2022

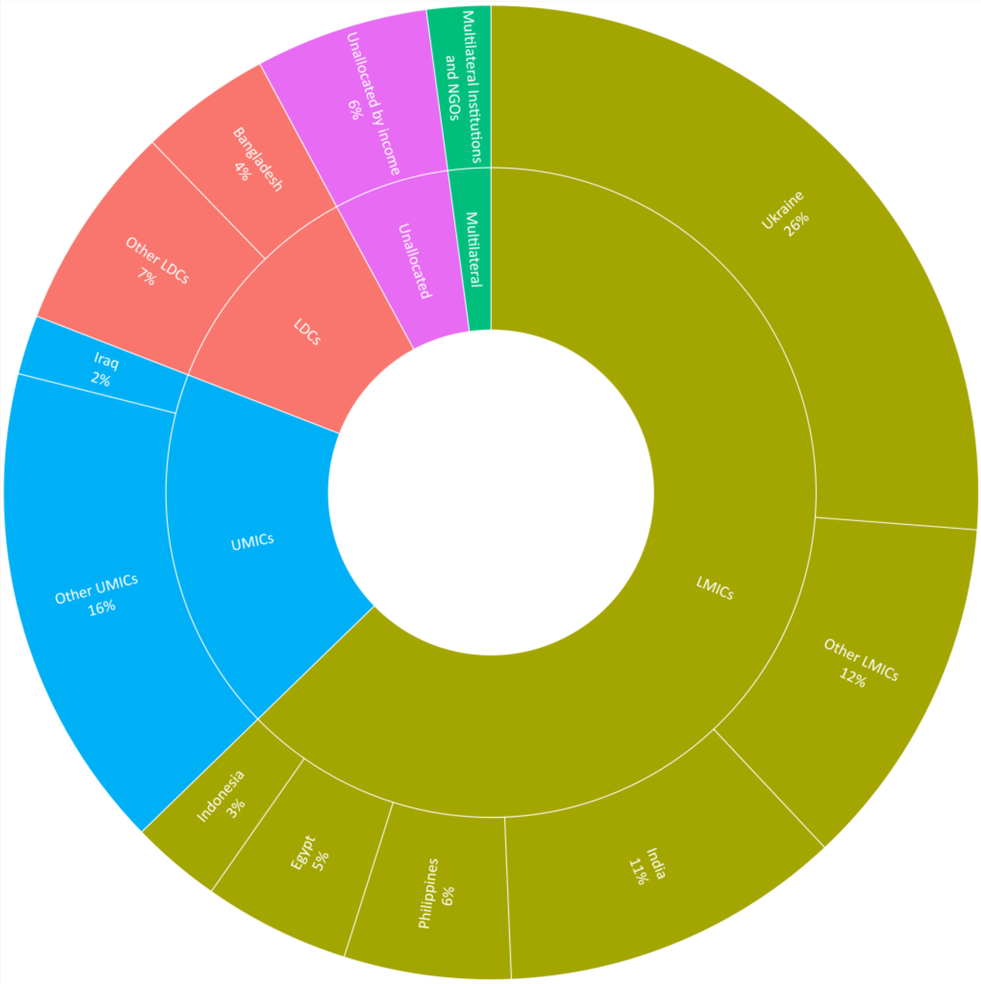
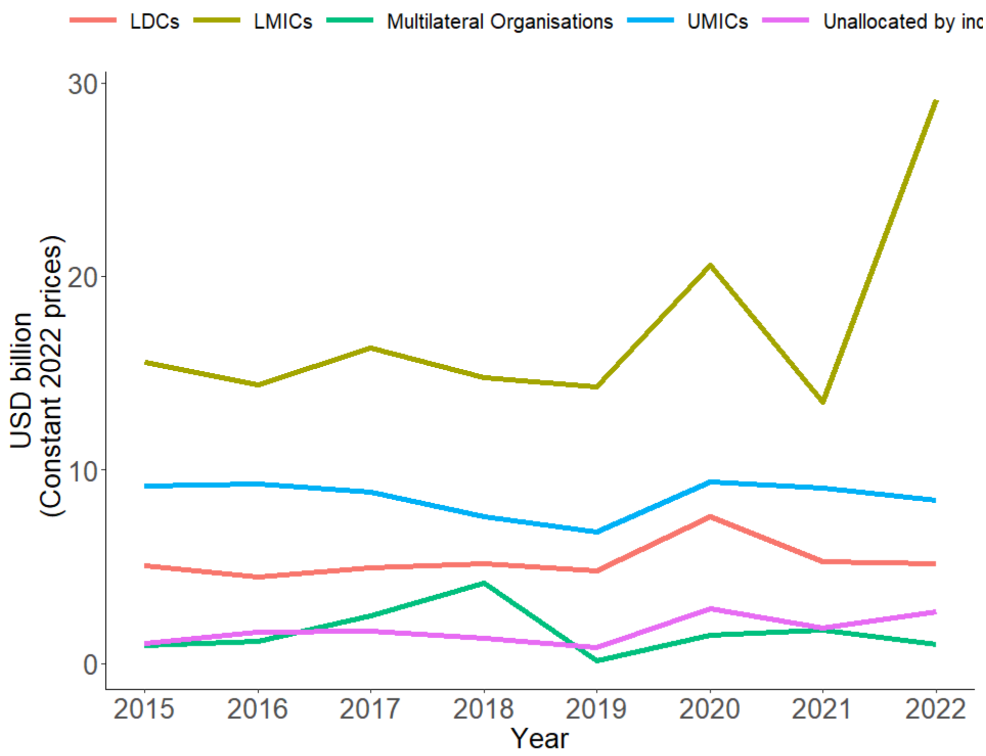


Figure 6. Distribution of ODA loans by income group, 2015-2022



Implementation of the 1978 DAC Recommendation on Terms and Conditions of Aid

25. This section presents the results of the monitoring of the 1978 DAC Recommendation on Terms and Conditions of Aid [OECD/LEGAL/5006] (hereafter referred to as the DAC Recommendation). It also recalls the need to update it in light of the decisions at the 2014 HLM.

Monitoring of the DAC Recommendation

26. Most but not all Adherents (DAC members) meet the minimum grant element of ODA commitments of 86%, as provided for by the 1978 DAC Recommendation. In 2022, Canada, EU Institutions, France and Japan did not meet the 86% target (see Figure 7). Moreover, all members except Austria, France and Japan met the specific norms for LDCs (90% annually for all LDCs combined or 86% over a 3-year average for each LDC) in 2022. (See Figure 8 and Table 5).

27. All other things being equal, the application of the new discount rates systematically lowers the grant element of loans. This is illustrated in Figures 7 and 8.

- Applying a 10% discount rate, the Adherents who would not have reached the DAC Recommendation between 2011 and 2022 are as follows: Canada (2022), EU Institutions (2012-2014,2020 and 2022), France (2011-2022), Germany (2014), Japan (2017, 2020-2022) and Portugal (2011-2012)

- Applying the differentiated discount rates of 9%/7%/6%, the Adherents who would not have reached the DAC Recommendation between 2011 and 2022 are as follows: Canada (2022), EU Institutions (2011-2015, and 2020-2022), France (2011-2022), Germany (2012-2015), Japan (2011-2022) and Portugal (2011-2014)

Need to update the DAC Recommendation

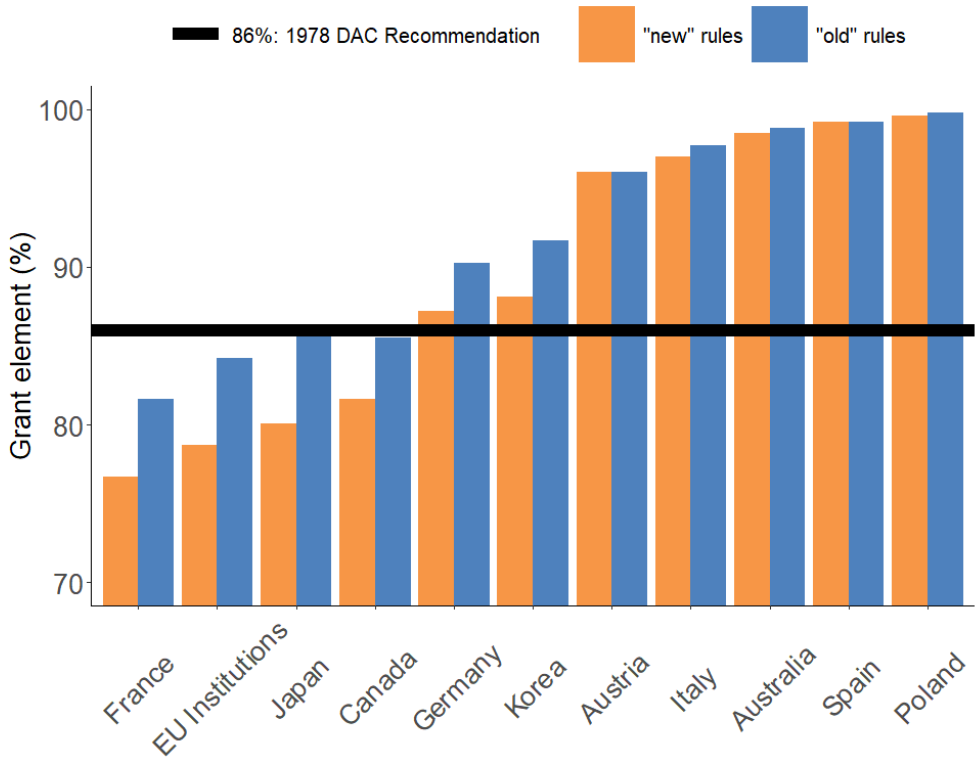
28. The Recommendation is unchanged since 1978 and still refers to the definition of ODA as it stood before 2014, including a discount rate of 10% for calculating the grant element. As stated above (see paragraph 20), the average grant element can still be calculated but is no longer relevant to draw conclusions on the evolution of terms and conditions of ODA overall.

29. When renewing the mandate of the DAC end 2022, the OECD Council invited members to consider a possible revision of this DAC Recommendation, to ensure that it remains fit for purpose, coherent and relevant for DAC members and beyond, and aligns with other existing standards [12]. The Council document notes that "An assessment of the need to update the DAC Recommendation was shared with the WP-STAT and the DAC [see DCD/DAC(2020)70]. In follow-up [DCD/DAC(2021)27], the Secretariat noted that the DAC Recommendation had become outdated and that a policy-level discussion was needed at the DAC to decide on any relevant changes in light of the 2014 HLM decisions, but that DAC members had expressed little interest in revising the DAC Recommendation for the moment." The Council document also includes a footnote that specifies: "Pending these discussions, in order to ensure transparency and mitigate the reputational risk to the Organisation, the Secretariat, as a temporary measure, provided factual classifications in the background section of the Compendium of OECD Legal instruments booklet of the DAC Recommendation as well as in the statistical tables produced to monitor the implementation of the DAC Recommendation. (See table 20 and 21 on the DAC statistics website.)"

30. Based on the Council decision, the DAC will be invited to consider a possible revision to the DAC Recommendation in the first half of 2025.

[12] See C(2022)208, Annex B, pages 10 and 11

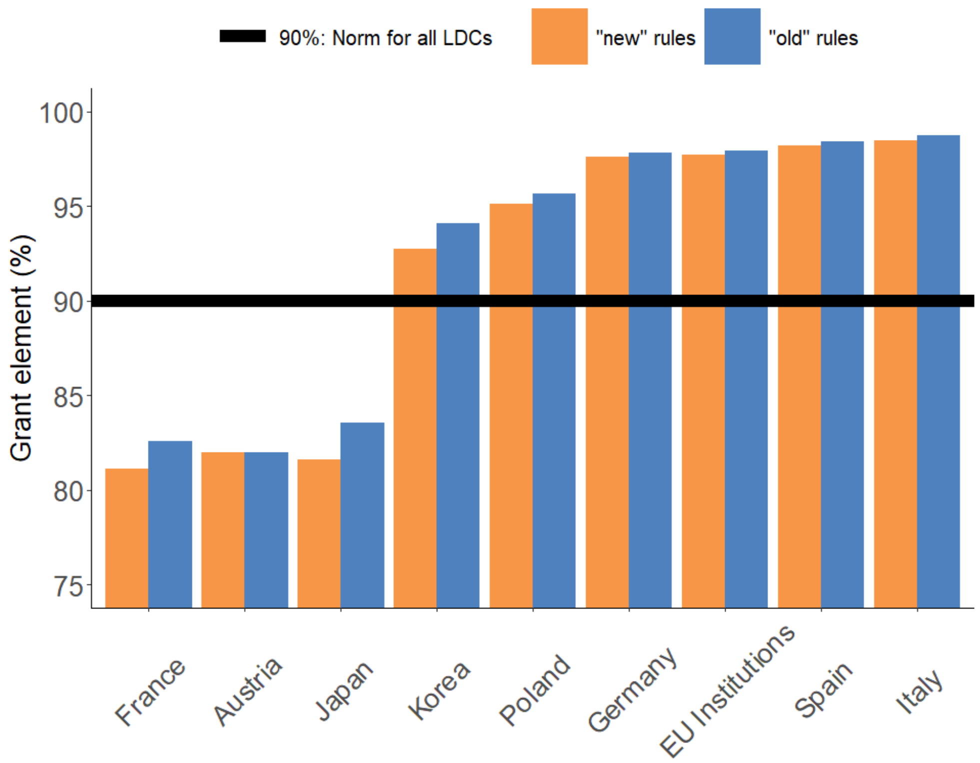
Figure 7 - Grant element percent of ODA commitments



Note: Calculated using 10% discount rate ("old" method) and discount rates differentiated by income group i.e., 9%/7%/6% for bilateral loans to the public sector, 5%/6% for loans to multilateral/regional institutions and 6% for loans to INGOs ("new" method)

Grant element of bilateral ODA commitments to LDCs in 2022, two alternatives

Figure 8 - Annually for all LDCs, norm: 90%



Note: Calculated using 10% discount rate ("old" method) and discount rates differentiated by income group i.e., 9%/7%/6% for bilateral loans to the public sector, 5%/6% for loans to multilateral/regional institutions and 6% for loans to INGOs ("new" method)

Table 4 - Three-year average grant element for each LDC, norm: 86%

Austria		EU Institutions		France		Germany		Japan		Poland	
Bangladesh	50.8	Zambia	82.7	Burkina Faso	84.1	Bangladesh	82.9	Bangladesh	73.9	Tanzania	80.9
		Nepal	82.3	Niger	83.6			Cambodia	73.7		
		Senegal	78.6	Guinea	82.1						
		Sao Tome and Principe	77.0	Benin	81.0						
		Angola	74.6	Myanmar	80.8						
		Benin	74.1	Senegal	77.5						
		Guinea	72.7	Togo	76.2						
		Gambia	72.1	Cambodia	72.7						
		Cambodia	71.1	Rwanda	68.3						
		Lao People's Democratic Republic	67.9	Bangladesh	64.5						
				Mozambique	64.4						
				Uganda	63.1						
				Angola	57.7						
				Tanzania	57.0						

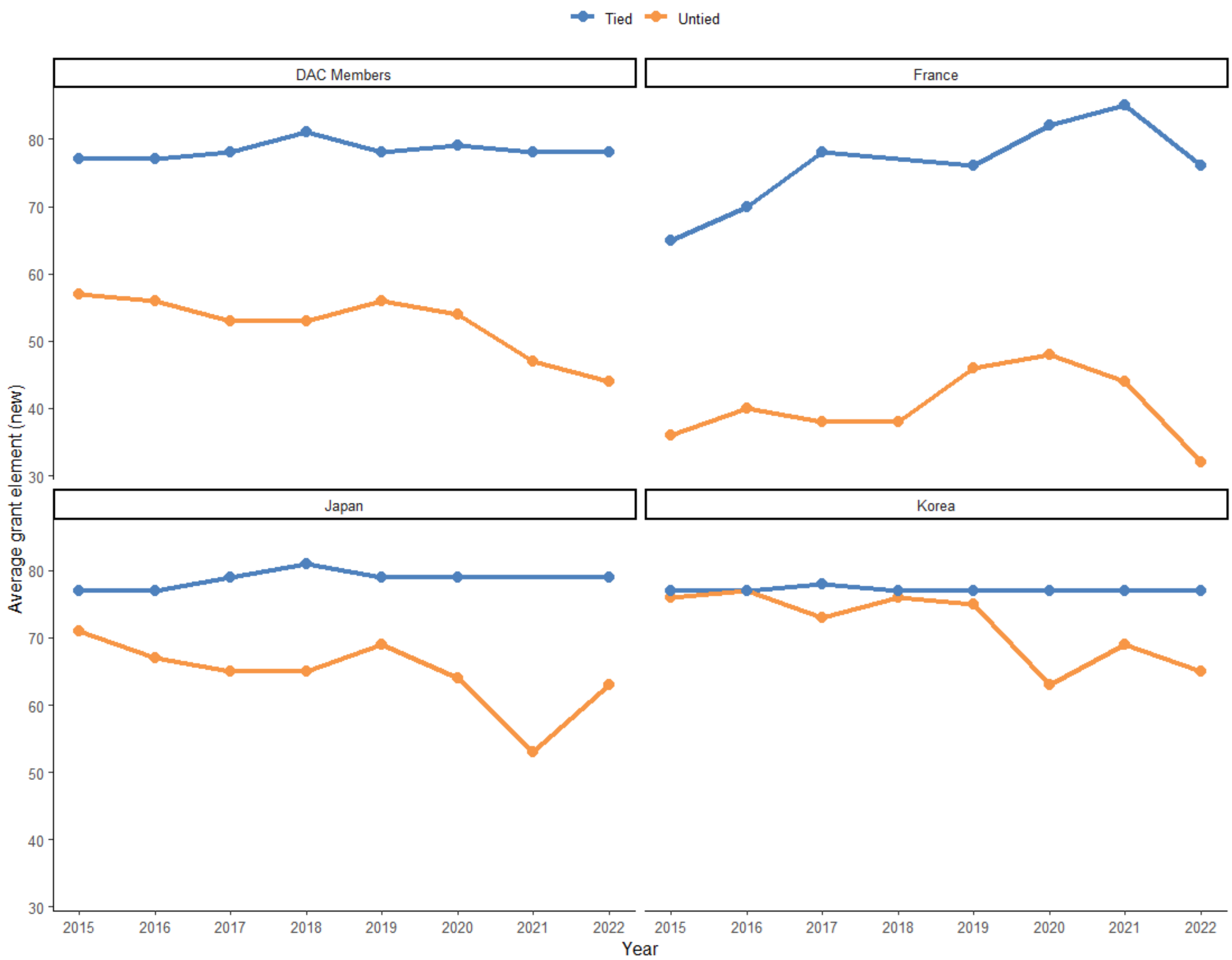
Monitoring the DAC Recommendation on Untying ODA

31. The new grant equivalent methodology could also potentially have an impact on the trends, as well as the terms and conditions, of untied ODA loans vis-à-vis tied ODA loans. The reason is that while the new accounting methods – including the new concessionality thresholds and discount rates that are different by income group – may affect the terms and conditions of untied loans, they have a more limited impact on tied aid loans, which still need to comply with the tied aid disciplines agreed in the DAC New Measures in the Field of Tied Aid [DCD/DAC/STAT(2023)9/ADD2/FINAL] and in the OECD Arrangement on officially supported export credits [TAD/PG(2023)7]. The tied aid disciplines include, among other things, minimum concessionality levels,[13] which have historically been higher than those required for untied loans, as a mechanism to minimise the incentives for tied aid and to compensate its inefficiencies.

32. Tied loans are concentrated in Lower Middle-Income Countries (LMICs), which received nearly 80% of tied credits in 2022. This is because the DAC Recommendation on Untying ODA commits donors to untie their aid to LDCs, and the tied aid disciplines have significant restrictions for tied loans to UMICs. Accordingly, a possible divergence between the financing terms of tied and untied loans would in principle primarily affect LMICs. Figure 9 suggests that the differential grant element between tied and untied loans has been on an upward trend since 2015, since the grant element of tied loans has remained relatively stable, while at the same time the grant element of untied loans has decreased.

[13] The tied aid disciplines relate to (i) country eligibility requirements: no tied aid to countries whose per capita Gross National Income according to the World Bank is above the upper limit for lower middle-income countries for at least two years in a row (unless the concessionality reaches at least 80%), and (iii) project eligibility: no tied aid for commercially viable projects. Concessionality in the Arrangement is calculated based on a currency-specific discount that varies annually according to the commercial interest reference rates (CIRR).

Figure 9 – Average Grant Element of tied vs untied loans to LMICs



Note: Calculated using discount rates differentiated by income group i.e., 9%/7%/6% for bilateral loans to the public sector, 5%/6% for loans to multilateral/regional institutions and 6% for loans to INGOs ("new" method)

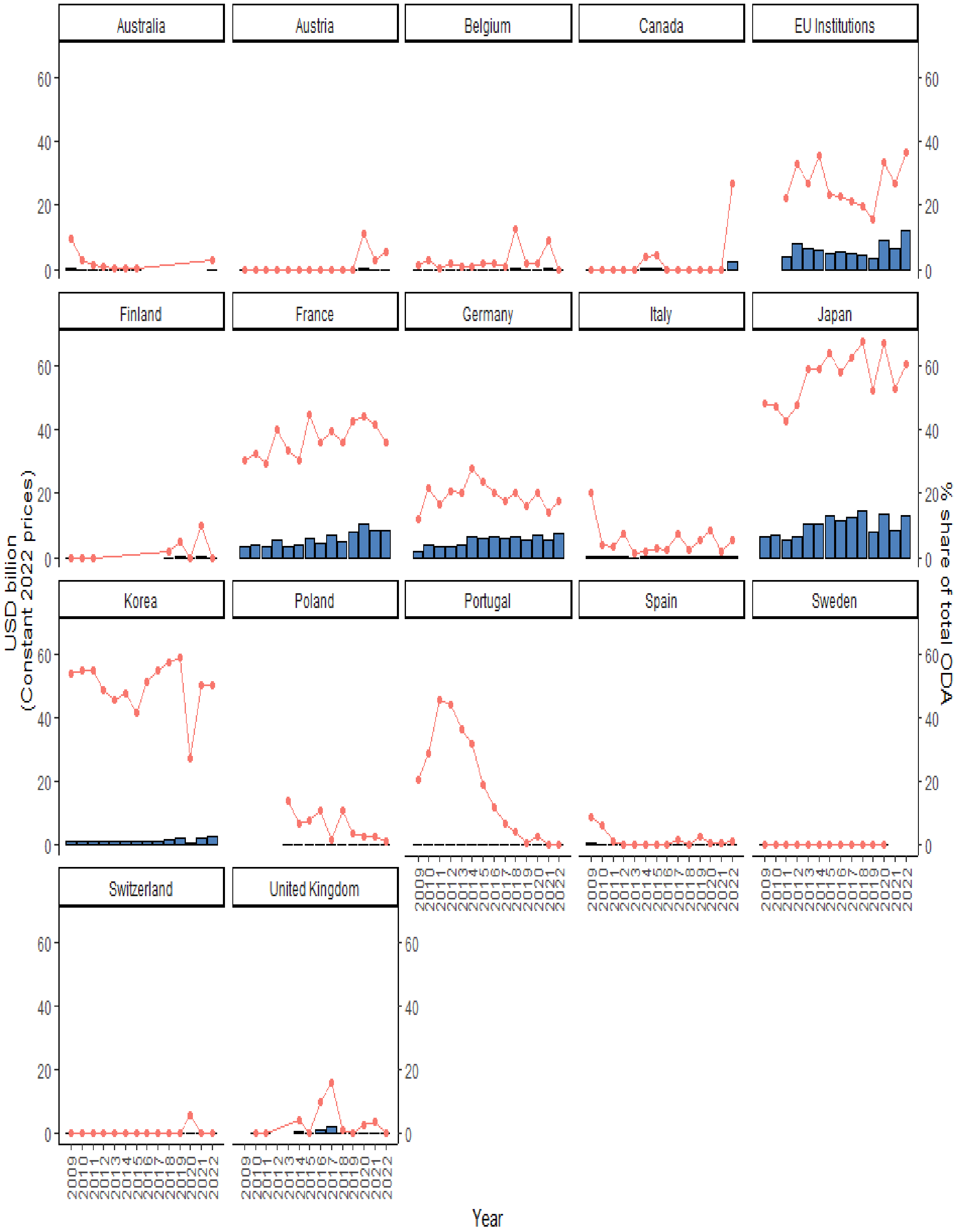
33. A theoretical effect could have been that by requiring higher concessionality for untied loans for LDCs, the new accounting method would have narrowed the relative cost of tied loans vis-à-vis untied loans, and as such provide incentives to offer more tied loans. As shown in Table 2, the financing terms for LDCs have rather deteriorated since 2015. In any case, **the tying status data collected so far do not show a major increase in the volume of tied aid loans towards LDCs** (See table 5). It is notable that France, which has traditionally reserved its tied aid programme for middle-income countries to align with the DAC Recommendation on Untying ODA, has started offering tied credits to LDCs. However, as mentioned by France in the 2024 DAC Peer Review[14], out of the total volume of loans to LDCs, tied credits should remain marginal.

[14] See the OECD Development Co-operation Peer Reviews: France 2024 , https://doi.org/10.1787/102d5469-en

Table 5 – Tied loan commitments for LDCs, USD million

	2015	2016	2017	2018	2019	2020	2021	2022
France							9	
Italy			19					
Korea	368	257	217	467	273	100	229	586
Poland	45	79	13	87	13	8	2	3
Portugal	29	16	10	10	4	11		

Annex 1. Trend in ODA loan commitments for individual loan providing members: volume and share in their total ODA



Annex 2. Statistics on average grant elements and terms and conditions of loans

Table A. Average grant element of ODA loans over 2015-2022

Calculated using 10% discount rate ("old" method) and discount rates differentiated by income group i.e., 9%/7%/6% for bilateral loans to the public sector, 5%/6% for loans to multilateral/regional institutions and 6% for loans to INGOs ("new" method)

	2015		2016		2017		2018	2019	2020	2021	2022
	old	**new**	**old**	**new**	**old**	**new**	**new**	**new**	**new**	**new**	**new**
Australia	74%	64%									44%
Austria									24%	32%	30%
Belgium	87%	85%	88%	84%	93%	90%	67%	83%	85%	68%	
Canada	26%	17%									31%
EU Institutions	49%	33%	49%	40%	49%	35%	38%	39%	45%	43%	41%
Finland							79%	67%		66%	
France	54%	40%	54%	40%	53%	40%	44%	45%	44%	42%	35%
Germany	46%	31%	47%	32%	46%	31%	35%	36%	40%	34%	27%
Italy	93%	88%	95%	89%	85%	77%	81%	65%	36%	27%	45%
Japan	81%	71%	77%	67%	76%	66%	68%	70%	68%	57%	67%
Korea	88%	82%	87%	81%	88%	81%	80%	77%	72%	72%	76%
Poland	79%	77%	76%	73%	76%	73%	79%	68%	68%	64%	64%
Portugal	67%	56%	59%	46%	58%	47%	47%	49%	46%		
Spain					51%	35%	41%	34%	27%	25%	39%
Switzerland									26%		
United Kingdom			61%	40%	72%	52%	31%		31%	31%	
DAC Average	**65%**	**53%**	**64%**	**52%**	**64%**	**52%**	**55%**	**54%**	**52%**	**47%**	**47%**

Table B. Average grant element of ODA loans for 2022, by channel of delivery

(Weighted Averages)

	Overall	Loans to the Public Sector	Loans to the Private Sector	Loans to Multilateral Organisations and NGOs	Other
Australia	44%	49%	27%		
Austria	30%		30%		
Canada	31%			31%	
EU Institutions	41%	42%	34%		
France	35%	36%	28%	23%	
Germany	27%	30%		19%	
Italy	45%	56%		52%	13%
Japan	67%	70%	28%	12%	
Korea	76%	76%			
Poland	64%	64%			
Spain	39%	73%	25%		
DAC Average	47%	50%	30%	26%	13%

Table 1a. Characteristics of 2022 ODA loans by loan provider, breakdown by channel of delivery

(Weighted Averages)

		Australia	Austria	Canada	EU Institutions	France	Germany	Italy	Japan	Korea	Poland	Spain	DAC Total
Average grant element (new)	**Overall**	**44%**	**30%**	**31%**	**41%**	**35%**	**27%**	**45%**	**67%**	**76%**	**64%**	**39%**	**47%**
	Loans to the Public Sector	49%			42%	36%	30%	56%	70%	76%	64%	73%	**50%**
	Loans to the Private Sector	27%	30%		34%	28%			28%			25%	**30%**
	Loans to Multilateral Orgs. & NGOs			31%		23%	19%	52%	12%				**26%**
	Other							13%					**13%**
Average interest rate	**Overall**	**2.08%**	**3.18%**	**2.28%**	**2.60%**	**2.51%**	**2.67%**	**0.98%**	**0.63%**	**0.24%**	**0.59%**	**3.64%**	**1.89%**
	Loans to the Public Sector	1.34%			2.58%	2.53%	2.81%	0.04%	0.46%	0.24%	0.59%	0.75%	**1.77%**
	Loans to the Private Sector	4.75%	3.18%		3.02%	3.36%			3.44%			4.76%	**3.31%**
	Loans to Multilateral Orgs. & NGOs			2.28%		1.31%	2.21%	0.40%	3.42%				**2.16%**
	Other							3.57%					**3.57%**
Average maturity (years)	**Overall**	**22**	**10**	**13**	**21**	**19**	**17**	**15**	**33**	**35**	**25**	**17**	**24**
	Loans to the Public Sector	24			22	21	19	17	34	35	25	38	**26**
	Loans to the Private Sector	16	10		12	10			11			9	**11**
	Loans to Multilateral Orgs. & NGOs			13		10	10	19	10				**12**
	Other							10					**10**

Table 2a. Characteristics of ODA loans to LDCs, by channel of delivery

(Weighted Averages)

		2018	2019	2020	2021	2022
Average grant element (new)	**Overall**	73%	70%	73%	70%	71%
	Loans to the Public Sector	76%	71%	73%	70%	72%
	Loans to the Private Sector	55%	42%	41%	38%	26%
	Loans to Multilateral Organisations and NGOs			34%		
Average grant element (old)	**Overall**	77%	73%	76%	73%	74%
	Loans to the Public Sector	79%	74%	76%	73%	76%
	Loans to the Private Sector	59%	42%	41%	38%	26%
	Loans to Multilateral Organisations and NGOs			61%		
Average interest rate	**Overall**	0.67%	0.80%	0.44%	0.63%	0.72%
	Loans to the Public Sector	0.57%	0.74%	0.43%	0.62%	0.63%
	Loans to the Private Sector	1.63%	2.92%	2.21%	1.37%	2.83%
	Loans to Multilateral Organisations and NGOs			1.32%		
Average maturity period (years)	**Overall**	32	28.3	30.4	27.2	29.6
	Loans to the Public Sector	33.3	28.6	30.4	27.4	30.6
	Loans to the Private Sector	20.5	17.1	16.8	13.2	8
	Loans to Multilateral Organisations and NGOs			19.6		

Figure A. Average Interest rates by income group with a highlight on Ukraine, 2015-2022