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Monitoring the Implementation of the Grant Equivalent system

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

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Monitoring the implementation of the grant equivalent system

Background

1. At its High Level Meeting in December 2014, the DAC agreed to modernise the reporting on loans in DAC statistics by introducing i) a quantitative definition of concessionality, based on discount rates and thresholds differentiated by income group (thresholds of 45%/15%/10% calculated using discount rates of 9%/7%/6%), 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. In the course of discussions on the ODA grant equivalent measure, 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. In this context, the first monitoring exercise covering the transition period (2015-17) and 2018 was carried out, and the result was shared with the WP-STAT in February 2020[1], and a second report was presented to members at their meeting in June 2021.[2] The analysis in these reports showed that the new accounting methodology had little impact on ODA figures, and there were no signs of significant changes in members' lending practices. The present report contains an updated analysis, which takes into account the latest figures available (i.e. 2020 detailed ODA figures and 2021 preliminary aggregate ODA figures).

3. Members discussed the report at the WP-STAT meeting in June 2022 and the report was revised to incorporate edits and factual corrections. This final version was approved and declassified in November 2022.

[1] DCD/DAC/STAT(2020)11/REV1

[2] DCD/DAC/STAT(2021)22

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.[3] It presents a comparison of 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[4] as well as loans to the private sector (PSI)[5] but excludes data on debt relief. As explained below, PSI loans are quite small in volume terms, and their impact on overall ODA figures is quite limited.

5. In 2020, six members (Austria, the EU institutions, France, Germany, Italy and the United Kingdom) provided loans to multilateral organisations, representing 7.7% (USD 3.51 billion) of total loan commitments for all DAC members combined.

6. PSI loans are not the focus of this report, which monitors the implementation of the grant equivalent system; they were included in the report for the sake of completeness of the analysis. Note that PSI loans by members following the institutional approach are recorded as OOF in DAC statistics and were therefore not included in the analysis. In 2020, PSI loans reported according to the instrument approach amounted to USD 2.53 billion, representing 5.6% of all ODA loans.[6] Most of the recipients were middle-income countries.

7. In 2020, there was also one loan to an INGO by Switzerland which accounted for 0.5% (USD 0.21 billion) of total loan commitments for all DAC members combined, as well as two loans to donor-country based NGOs by France (USD 0.31 billion)[7].

8. Overall, the analysis confirmed that the conclusion drawn from the previous monitoring exercises remained valid in 2020. **Since its introduction in 2018, the grant equivalent measure had a significant impact on the ODA figures of a number of members, but little impact on ODA figures overall. Importantly, there are no significant changes in members' lending practices.**

Comparison of ODA figures: grant equivalent and cash flow bases

9. Although grant equivalent data were collected and published during the three-year transition period (2015-17 ODA data), the grant equivalent system became the standard for measuring ODA from 2019 on

[3] It should be noted that 2020 data may be an outlier year due to the impact of the COVID-19 pandemic. All conclusions drawn however, remain valid based on these data.

[4] 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%.

[5] Based on a provisional agreement by the DAC, PSI loans are reported on a cash-flow basis. Their grant element is calculated using a 10% discount rate and the eligibility threshold is 25%. A review of the provisional reporting methods for PSI is ongoing, see DCD/DAC(2021)40/FINAL.

[6] Additionally, USD 0.40 billion of PSI loans were reported under the institutional approach, under OOF.

[7] The treatment of loans to donor-country based NGOs in the grant equivalent system has yet to be discussed by the WP-STAT.

2018 ODA data. ODA headline figures applying this new standard were published for the first time in April 2019.[8] **The latest data relate to 2021 ODA preliminary figures that were published in April 2022.[9]**

10. 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 due to the fact that reflows on loans are no longer deducted[10]. 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 13.

11. 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 DAC countries combined and compared to the figures calculated by using the cash-flow method, it led to higher ODA levels in 2018 (+2.3%) and 2019 (+3.6%), and decreased ODA in 2020 (-0.2%).** Preliminary data for 2021 indicate that the ODA grant equivalent methodology added 0.7% to total DAC ODA that year.

12. **However, in 2020, the grant equivalent method had a significant impact on a number of individual members with a substantial loan programme: EU Institutions (-7%), France (-12%), Japan (+19%), and Spain (+9%)**. According to the preliminary figures, this was also the case in 2021: Japan (+12%), Spain (+9%) and France (-7%).

13. Looking at ODA loans only, the impact of the introduction of the grant equivalent system naturally appears more significant: compared to the figures calculated by using the cash-flow method, ODA loan figures increased in 2018 (+32.6%) and 2019 (+62.3%), and decreased in 2020 (-3.9%) for all DAC countries combined. In 2020, the grant equivalent had a significant impact on total ODA loans of a number of individual members: Austria (-56.2%), Japan (+34.4%), EU institutions (-8.2%), France (-31.5%) and Germany (-30.7%). 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, see 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] Data on actual flows (i.e. disbursements and loan repayments) continue to be collected and published to ensure transparency.

[9] https://www.oecd.org/dac/covid-19-assistance-to-developing-countries-lifts-foreign-aid-in-2021-oecd.htm

[10] Including a backlog of outstanding amounts due on past loans (approximately USD 270 billion as of end 2020).

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

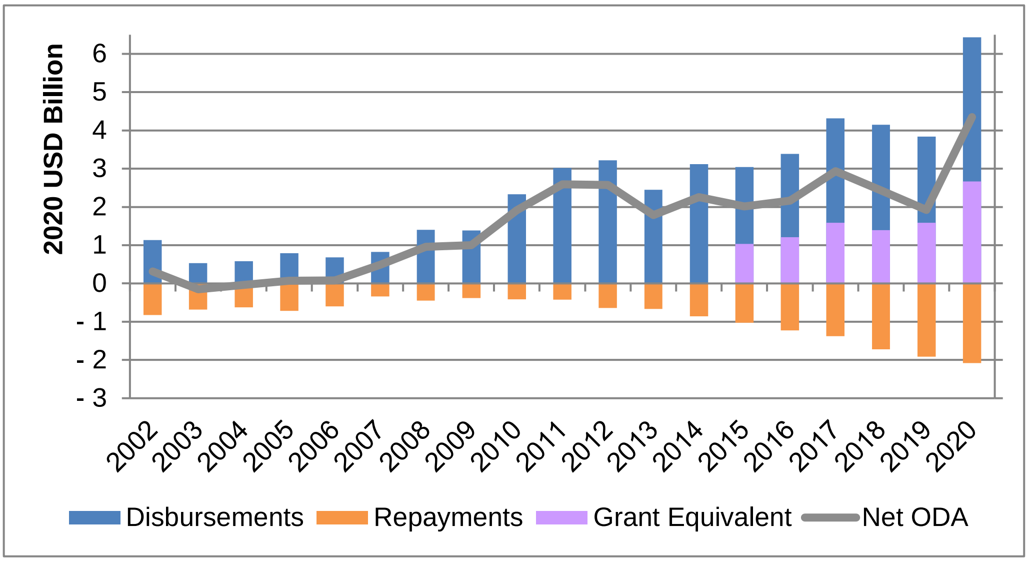
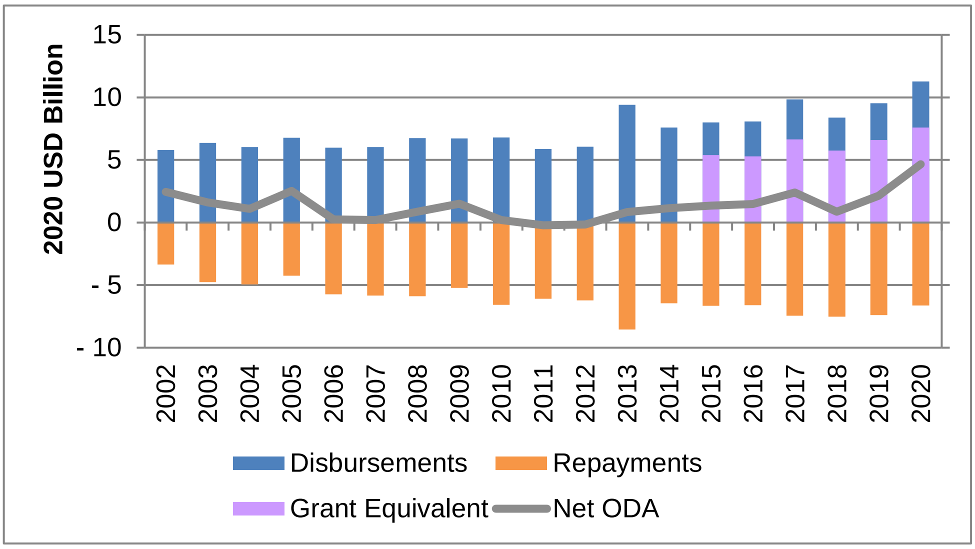


Figure 2. Comparison of ODA figures for loans based on grant equivalents and cash-flows in the case of Japan.



Trends in volume and share of ODA loans

14. This section reviews the flows (commitments) in order 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.

15. **From a long-term perspective, from 2009 until 2020, with the exception of Korea and Spain, loan-providing DAC members overall have increased their ODA loan portfolios in volume terms. However, the share of loans in total ODA remained quite stable for these members. The introduction of the grant equivalent system in 2018 does not seem to have changed these trends.**

16. Members that regularly reported ODA loans from 2009 to 2020 are EU Institutions, France, Germany, Italy, Japan, Korea, Poland, Portugal and Spain. Members with significant shares of loans in total ODA commitments in 2020 include the EU Institutions (34%), France (44%), Germany (20%), Japan (67%) and Korea (29%). Figure 3 illustrates the trend of ODA loans in volume terms for individual members. Figure 4 focuses on the four DAC members that provided the largest volumes of ODA loans over the period.

17. In real terms, using 2020 as the base year, the overall ODA loan commitment volume has almost tripled over the period 2009-20, increasing from USD 15.67 billion to USD 45.50 billion. The share of loans in total ODA commitments has also increased although at a slower pace from 14% in 2009 to 19% in 2018. In 2019, the share fell to 15% but then rose to 21% in 2020.[11]

18. These overall fluctuations in the volume and share during the 2009-18 period, the fall in 2019 and subsequent rise in 2020 are largely due to Japan, which accounted for almost half (USD 17.89 billion) of the total ODA loans in 2018 (USD 36.58 billion), a third in 2019 (USD 9.57 billion), and slightly above a third in 2020 (USD 16.60 billion). Japan's overall increase in 2020 can be largely attributed to its increase of loans for least developed countries (LDCs) and lower middle-income countries (LMICs)[12]. The increase in LDCs is due mainly to an increase in loans to Myanmar who received no loans in 2019 and USD 2.26 billion in 2020, while LMICs increase is due to an increase in loans to India from USD 0.52 billion in 2019 to USD 4.14 billion in 2020.

19. Since the introduction of the grant equivalent system, from 2015 until 2020, increases in ODA loan volume were also observed for Austria, the EU Institutions, France, Germany, Italy, Spain and the United Kingdom. Austria increased their share from 0% in previous years to 11.3% in 2020. The EU institutions constantly decreased their share from 23.1% in 2015 to 15.5% in 2019 but then more than doubled to 33.7% in 2020. For France and Germany, the share overall remained stable.[13] Japan also had a relatively stable share (64.1% for 2015 and 67.1% share for 2020). Meanwhile, Italy increased its share of loans from 2.9% in 2015 to 8.4% in 2020. Spain also increased from 0% in 2015 to 0.9% in 2020, and the United Kingdom from 0% in 2015 to 2.9% in 2020. All other members decreased the share of loans in their ODA, with the most prominent decrease observed for Portugal (from 19.0% to 2.7%). **For all DAC members combined, during the 2015-18 period, the share of loan commitments in total ODA flows remained stable around 19%, but it decreased to 15% in 2019 before increasing to 21% in 2020. The bulk of ODA is still provided in the form of grants.**

20. **When measured based on grant equivalents, the share of loans in ODA is smaller: loans represent only 8.5% of overall ODA in 2020, an increase from 7.6% in 2015** (USD 7.72 billion in 2015 to USD 13.8 billion in 2020). For most members, with the exception of Germany, Korea, Poland and Portugal, the share of loans in ODA increased. The largest increases are observed for France (11.7% in 2015 to 21.1% in 2020) and Japan (36.5% in 2015 to 47.5% in 2020). Over the same time period, the share for Portugal decreased from 12.46% in 2015 to 7.5% in 2020.

21. In 2020, and according to the preliminary figures in 2021, some loan-giving members continued to increase their loans in support of an inclusive global recovery in light of the pandemic.

[11] Using a 2-year moving average, this share increases from 12.6% from 2009-2010 to 18.8% in 2017-2018 where it decreases slightly to 17.0% in 2018-2019 before increasing to 18.2% for 2019-2020.

[12] From 2019 to 2020, Japan more than doubled its loan volume for LDCs (from USD 2.78 billion to USD 6.36 billion) and almost doubled it for LMICs (USD 5.62 billion to USD 9.59 billion). Loans to upper middle-income countries (UMICs) decreased from USD 1.07 billion to USD 0.61 billion.

[13] The share for France was 44.5% in 2015 and 44.2% in 2020 while for Germany declined slightly from 23.8% to 20.0%.

Figure 3. Volume of ODA loan commitments for all loan providing members, USD billion (constant 2020 prices)

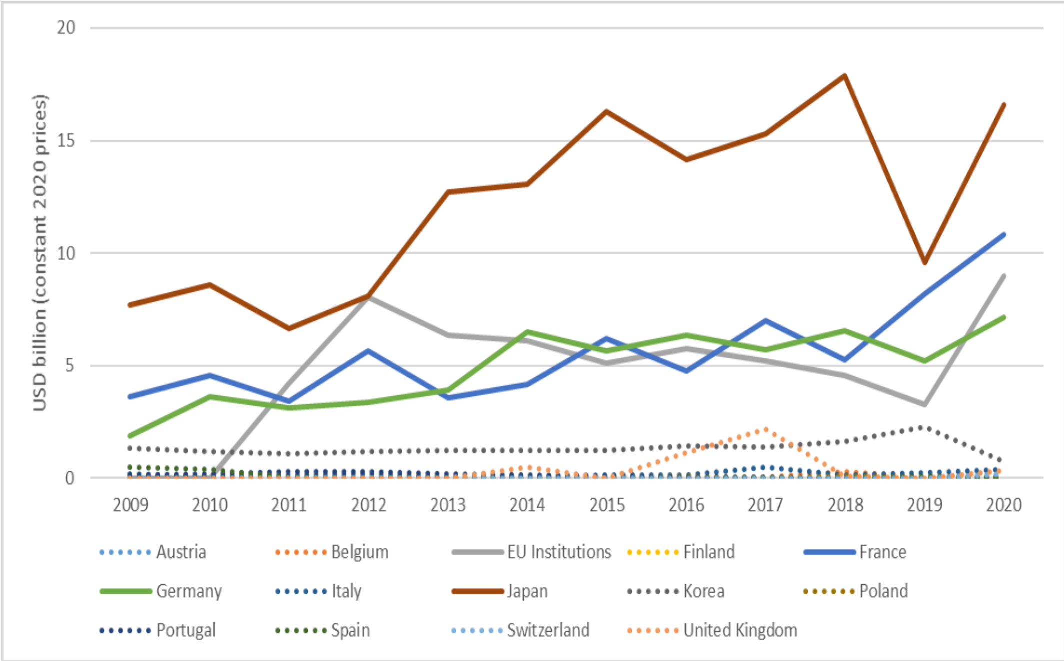
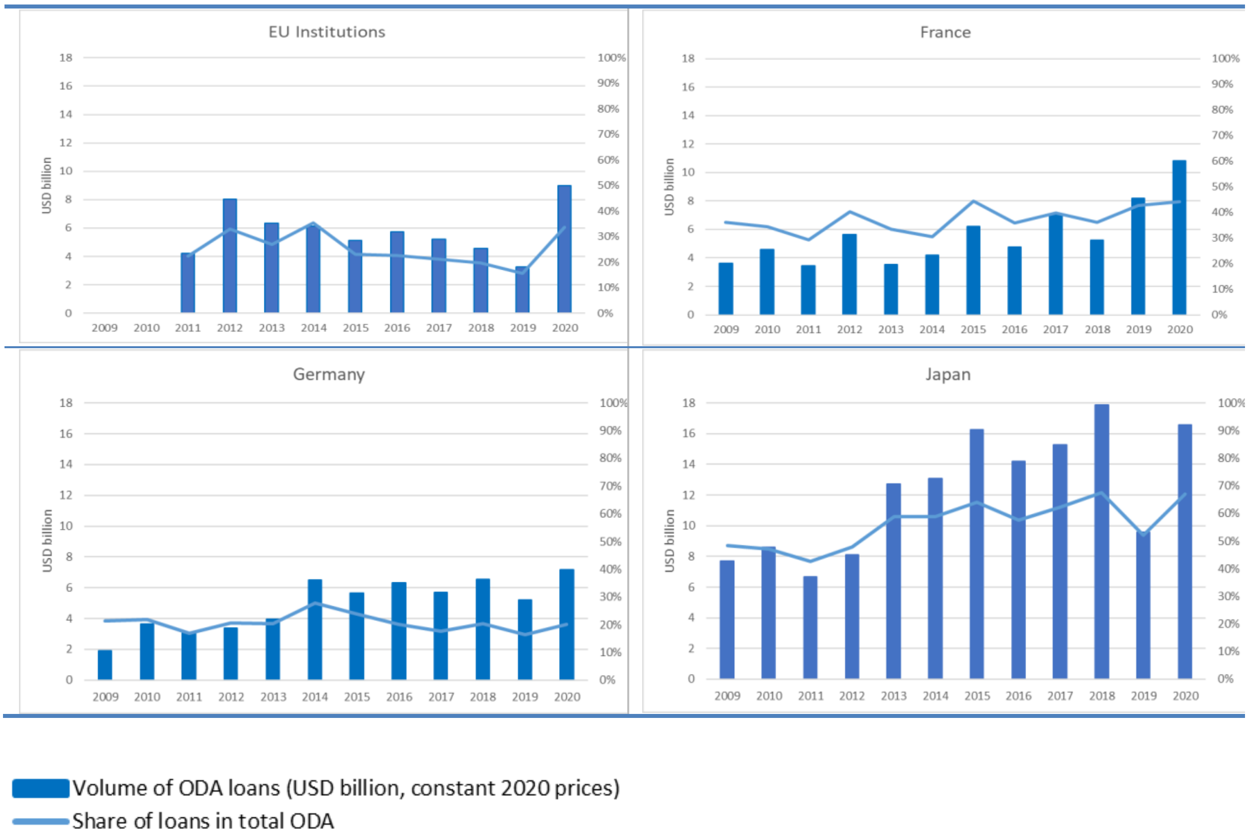


Figure 4. Trends in ODA loan commitments: volume and share in total ODA, 2009 – 2020



Evolution of terms and conditions of ODA loans

22. This section analyses trends in the overall terms and conditions of members' loans programmes, as well as by income group. In addition, in response to members' comments on the report last year, the analysis also looks at the specificities of the various channels, i.e. loans to the public sector, multilateral organisations and NGOs as well as loans to the private sector.

23. **DAC members have overall not changed the concessionality levels of their ODA loans during the 2015-20 period. However, although the grant equivalent system was expected to incentivise lending on highly concessional terms to LDCs and other low-income countries (LICs)[14], on average the terms of loans to LDCs hardened over the same period.**

Table 1. Average grant element of ODA loans over 2015-2020

(See Table 1a in Annex for a breakdown by channel of delivery)

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
	old	new	old	new	old	new	new	new	new
Australia	74%	64%	-	-	-	-	-	-	-
Austria	-	-	-	-	-	-	-	-	24%
Belgium	87%	85%	88%	84%	93%	90%	67%[15]	83%	85%
Canada	26%	17%	-	-	-	-	-	-	-
EU Institutions	49%	33%	49%	40%	49%	35%	38%	39%	45%
Finland	-	-	-	-	-	-	79%	67%	-
France	54%	40%	54%	40%	53%	40%	44%	45%	44%
Germany	46%	31%	47%	32%	46%	31%	35%	36%	40%
Italy	93%	88%	95%	89%	85%	77%	81%	68%	47%
Japan	81%	71%	77%	67%	76%	66%	68%	70%	68%
Korea	88%	82%	87%	81%	88%	81%	80%	77%	71%
Poland	79%	77%	76%	73%	76%	73%	79%	68%	69%
Portugal	67%	56%	59%	46%	58%	47%	47%	49%	46%
Spain	-	-	-	-	51%	35%	41%	34%	27%
Switzerland	-	-	-	-	-	-	-	-	26%
United Kingdom	-	-	61%	40%	72%	52%	31%	-	31%
Average	**65%**	**53%**	**64%**	**52%**	**64%**	**52%**	**55%**	**54%**	**53%**

24. Table 1 presents the average grant element of ODA loans (loans to all developing countries, multilateral institutions and INGOs) since 2015 and shows that it remained overall stable during this

[14] See 2014 HLM Communiqué.

[15] The average grant element for Belgium decreased in 2018 to 67% from the previous years, but increased again in 2019 (83%) and 2020 (85%). In 2018, Belgium provided a multilateral loan to the World Bank with highly concessional terms (maturity period: 39 years and interest rate: 0%), representing 97% (USD 284.5 million) of the ODA loans provided by Belgium that year. That loan, despite its highly concessional terms, conveyed a grant element of only 67%. The other loan was to Burkina Faso and presented a grant element of 79%. Therefore, although the average grant element for Belgium in 2018 decreased, it should not be interpreted as a sign of hardened lending terms overall.

period[16]. A number of members presented smaller average grant elements in 2020 compared to 2015: Italy (from 88% to 47%), Japan (from 71% to 68%), Korea (from 82% to 71%), Poland (from 77% to 69%) and Portugal (from 56% to 46%).[17]

25. However, the introduction of differentiated discount rates by income groups/type of borrower (Government, multilateral institution, NGO) has an impact on the calculation and meaning of members' average grant element for all loans combined, and it is therefore useful to study the average grant elements also by channel of delivery as shown in Table 1a in the Annex. Although the average grant element is 53% overall in 2020, it is 55% for loans to the public sector, 38% for loans to the private sector and 31% for loans to multilateral institutions and NGOs[18].

26. 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 trends are then less straightforward to interpret (see e.g. footnote 14)[19] and looking at the interest rate and maturity periods (see Table 2 below and Tables 2a-2c in Annex) allows deciphering the evolution of the grant element:

a. Interest rate[20]: the DAC average increased throughout the transition period (from 1.0% in 2015 to 1.2% in 2017) but then decreased in 2018 (1.1%). The overall declining trend continued in 2019 (1.0%) and **2020 (0.7%)**. In fact, with the exception of Germany, all members that regularly reported ODA loans applied higher interest rates in 2018 than in 2015. These members, however, applied lower interest rates in 2020 than in 2018, except for Italy (from 0.1% to 0.4%), Korea (from 0.2% to 0.7%), and Spain (from 0.5% to 3.8%). Still, in 2020, all members except EU Institutions, France and Germany applied higher interest rate than in 2015. **Overall and for each individual member concerned, the interest rate is on average higher for PSI loans than for loans to the public sector (2.1% vs 0.7% on average).**

b. Maturity period: the DAC average slightly decreased during the transition period from 26 years in 2015 to 25 years in 2017. The declining trend was reversed in 2018, and the average reached 28 years. However, the average went down again to 25 years in 2019 and further decreased in **2020 to 22 years (11 for PSI loans)**. From 2015 until 2018, members showed different patterns, however, all members, with the exception of Germany and Spain, applied shorter maturity period in 2020 than in 2018.

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[16] It slightly declined throughout the transition period (from 53% in 2015 to 52% in 2017). However, in 2018 it rose (55%), fell slightly in 2019 (54%) and stabilized in 2020 (53%).

[17] For 2020, two members, Austria and Switzerland reported ODA loans for the first time with a grant element of 24% and 26% respectively.

[18] Austria, Belgium, Canada, EU institutions, Finland, France, Germany, Italy, Japan and the United Kingdom provided loans to multilateral institutions during the period 2015-20. France and Switzerland provided loans to NGOs in 2020.

[19] This impact has prompted discussions in the WP-STAT and in the DAC on the possible need to revise the 1978 DAC Recommendation on Terms and Conditions of Aid. See paragraph 35.

[20] It is most likely the market rates, rather than the ODA reporting methodology, that influences concessional interest rates.

Table 2. Characteristics of 2020 ODA loans by loan provider

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

	Austria	Belgium	EU Institutions	France	Germany	Italy	Japan	Korea	Poland	Portugal	Spain	Switzerland	United Kingdom	DAC Total
Average grant element	24%	85%	45%	44%	40%	47%	68%	67%	69%	46%	27%	26%	31%	**53%**
Average interest rate	2.5%	0.0%	1.0%	1.0%	0.8%	0.3%	0.4%	0.8%	0.2%	1.9%	3.8%	0.0%	0.1%	**0.7%**
Average maturity	9	39	16	18	16	18	31	35	33	21	8	7	10	**22**

27. **The average grant element of ODA loans to LDCs decreased from 78% in 2015 to 73% in 2020 (see Table 3).** This is explained by higher interest rates (from 0.35% in 2015 to 0.44% in 2020) and shorter maturity periods (from 35.7 years in 2015 to 30.4 years in 2020). The declining trend in the grant element is mainly due to Japan (the average grant element to LDCs decreased from 84% in 2015 to 77% in 2020).[21] The following members also provided less concessional loans to LDCs in 2020 than in 2015: Italy (from 92% to 77%), Poland (from 77% to 74%) and Portugal (from 72% to 46%). Increase in concessionality was observed for France (from 55% to 61%), Germany (from 34% to 56%) and Korea (from 88% to 89%).

Table 3. Characteristics of ODA loans to LDCs

(Weighted averages, see Table 3a in Annex for a breakdown by channel of delivery)

	2015	2016	2017	2018	2019	2020
Average grant element (new)	78%	75%	75%	73%	70%	73%
Average grant element (old)	81%	78%	78%	77%	73%	76%
Average maturity period (years)	35.7	33.4	32.5	32.0	28.3	30.4
Average interest rate	0.35%	0.49%	0.59%	0.67%	0.80%	0.44%

[21] The fall in the grant element of Japanese loans is observed for all recipient groups during the 2015-20 period. For LDCs, the average grant element of their loans has been steadily decreasing. Interest rates and average maturity periods (years) have hardened during this period. The fall however relates mainly to Bangladesh: excluding this country, the grant element of Japanese loans to LDCs remained quite stable over 2015-20. Japan more than tripled its loan volume to Bangladesh while also decreasing the grant element of such loans during this time period.

Allocation by income group

28. **There is no significant change in the allocation patterns by income group following the introduction of the grant equivalent system in 2018.** Table 4 below shows the breakdown by income group for the four largest loan providers.

Table 4. Characteristics of 2020 ODA loans by income group for largest loan-providing members

(Weighted averages)

EU Institutions		LDCs	LMICs	UMICs
Share of income group in total loans		6.80%	61.20%	27.50%
Average maturity (years)		24.2	15.0	16.3
Number of loans with maturity < 15 years		1	21	18
Average interest rate		1.55%	0.80%	1.20%
Average grant element (new)		56%	46%	40%
Of which:	*Loans to the public sector*	*57%*	*46%*	*38%*
	Loans to the private sector	*37%*	*33%*	*45%*
	Loans through multilateral institutions and NGOs	-	-	-

France		LDCs	LMICs	UMICs
Share of income group in total loans		13.20%	38.80%	23.50%
Average maturity (years)		20.4	19.4	16.7
Number of loans with maturity < 15 years		6	18	13
Average interest rate		0.63%	0.68%	1.85%
Average grant element (new)		61%	50%	34%
Of which:	*Loans to the public sector*	*62%*	*52%*	*35%*
	Loans to the private sector	*47%*	*28%*	*28%*
	Loans through multilateral institutions and NGOs	*34%*[22]	-	-

Germany		LDCs	LMICs	UMICs
Share of income group in total loans		0.50%	66.90%	27.40%
Average maturity (years)		19.9	16.1	14.4
Number of loans with maturity < 15 years		-	16	13
Average interest rate		0.95%	0.51%	1.22%
Average grant element (new)		56%	44%	32%
Of which:	*Loans to the public sector*	*56%*	*44%*	*32%*
	Loans to the private sector	-	-	-
	Loans through multilateral institutions and NGOs	-	-	-

Japan		LDCs	LMICs	UMICs
Share of income group in total loans		38.30%	57.80%	3.70%
Average maturity (years)		32.7	30.1	20.3
Number of loans with maturity < 15 years		-	7	4
Average interest rate		0.31%	0.45%	1.84%
Average grant element (new)		77%	64%	42%
Of which:	*Loans to the public sector*	*77%*	*65%*	*51%*
	Loans to the private sector	-	*32%*	*30%*
	Loans through multilateral institutions and NGOs	-	-	-

[22] In 2020, France extended a new loan to Angola through IFAD (other loans by France and other members to/through multilateral institutions and NGOs are not allocated by income).

29. In 2020, the share of loans to LDCs, LMICs and UMICs combined accounted for 95.5%, 75.5% and 94.8% of the total ODA loans provided by the EU institutions, France and Germany, respectively, due to their loans unallocated by income (4.5% for EU institutions, 13.9% for France and 5.2% for Germany) and loans to multilateral institutions (10.6% for France). For Japan, 99.8% of loans provided went directly to developing countries.

30. Table 4 confirms that for loans made by the largest loan providers in 2020, average grant elements are highest for LDCs. This, however, does not necessarily mean that lower-income countries benefit from more favourable terms than higher-income countries (due to the application of discount rates differentiated by income group and the fact that the grant element is by construction lower when applying a lower discount rate). In case of the EU Institutions, although the average maturity is longer for LDCs (24.2 years) than LMICs (15.0 years) or UMICs (16.3 years), the average interest rate is higher for LDCs (1.55%) than LMICs (0.80%) or UMICs (1.20%). In the case of Japan, France and Germany, in terms of both the maturity period and interest rate, LDCs received more favourable terms than LMICs, and so did LMICs than UMICs.

31. LMICs have long been the largest beneficiaries of ODA loans, followed by UMICs. In 2020, members continued providing ODA loans primarily to middle-income countries (see Figures 3 and 4), i.e., LMICs (54%) and UMICs (17%). However, the gap between low-income countries and middle-income countries has been narrowed. This gap has narrowed so much that **LDCs (19%) received a higher volume of ODA loans amounting to USD 8.86 billion compared to UMICs (17%) which received USD 7.71 billion.** Main recipients of ODA loans that year were India, Bangladesh, the Philippines, Indonesia, Myanmar, Morocco and Ukraine.

32. Loans marked with the COVID-19 keyword played a part in the increase in loans from 2019 to 2020. For LDCs, COVID-19 loans were 16.2% of all loans but accounted for almost 39.5% of the increase from 2019 to 2020. For LMICs and UMICs, the share of COVID-19 marked loans were 22.6% and 19.9% of all loans and accounted for 67.0% and 76.6% of the increase in loan volume respectively.

Figure 5. Breakdown of ODA loans in 2020

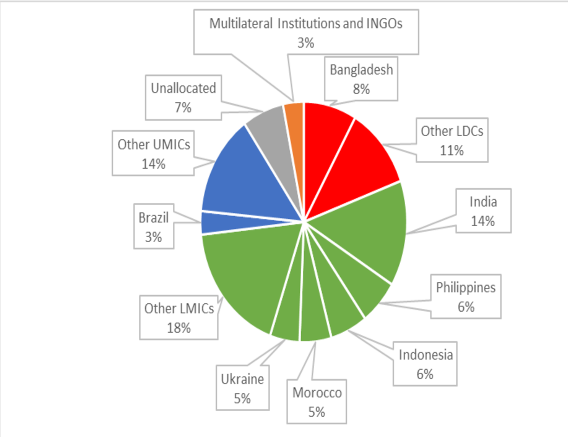
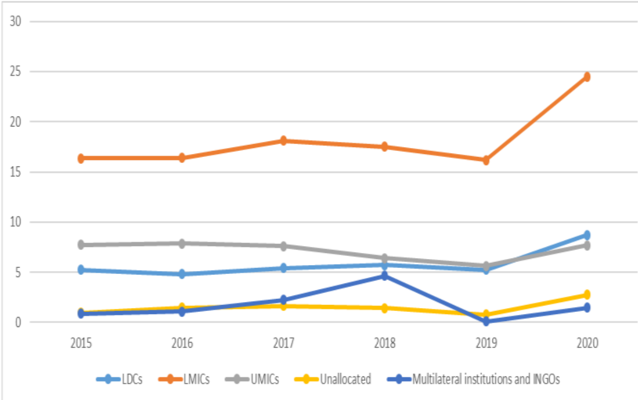


Figure 6. Distribution of ODA loans by income group 2015-2020, USD billion



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

33. **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 on Terms and Conditions of Aid [OECD/LEGAL/5006] (hereafter referred to as the DAC Recommendation).** In 2020, France, Japan and EU institutions did not meet the 86% target (see Figure 7). **Moreover, all members except France, Japan and Poland met the specific norms for LDCs (90% annually for all LDCs combined or 86% over a 3-year average for each LDC) in 2020.** (See Figure 8 and Table 5.)

34. 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.

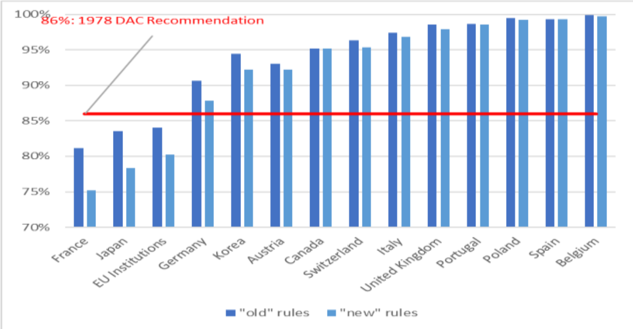
a. Applying a 10% discount rate, France has never implemented the DAC Recommendation during the past ten years (2011-20). Other members that did not implement the DAC recommendation during that period were EU Institutions (2012-14), Germany (2014), Japan (2017) and Portugal (2012).

b. Applying the differentiated discount rates of 9%/7%/6%, in addition to France, Japan would also fall below the threshold: the two members would never have implemented the DAC Recommendation during the 2011-20 period. Other members that did not implement the DAC Recommendation during that period were EU Institutions (2011-15), Germany (2012-15) and Portugal (2011-14).

35. The Recommendation is unchanged since 1978 and still refers to the definition of ODA as it stood before 2014, including to a discount rate of 10% for calculating the grant element. During its discussions in 2020, the DAC agreed on the need to update the Recommendation to reflect the decisions taken by the DAC High Level Meeting in 2014, such as the revised ODA definition and new measure of concessionality. However, DAC members expressed different opinions on the substance of changes to be made beyond a technical update and little interest in revising the Recommendation for the moment. See DCD/DAC/M(2020)11/FINAL.[23] The Secretariat has informed the Committee that it will need to agree, in time for the DAC mandate renewal in 2022, on the text to include in the report to the OECD Council regarding the status and continued relevance of this Recommendation. The Recommendation is a legal instrument under the Committee's responsibility, and it is important that it remains fit for purpose, coherent and relevant for DAC members and beyond, and aligns with other existing OECD standards.

[23] Pending these discussions, in order to ensure transparency and mitigate the reputational risk to the Organisation, the Secretariat, as a temporary measure, provided factual clarifications in the background section of the Compendium of OECD Legal Instruments and 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 table 21 on the DAC statistics website.)

Figure 7. Grant element of ODA commitments in 2020, norm: 86%



Grant element of bilateral ODA commitments to LDCs in 2020, two alternatives

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

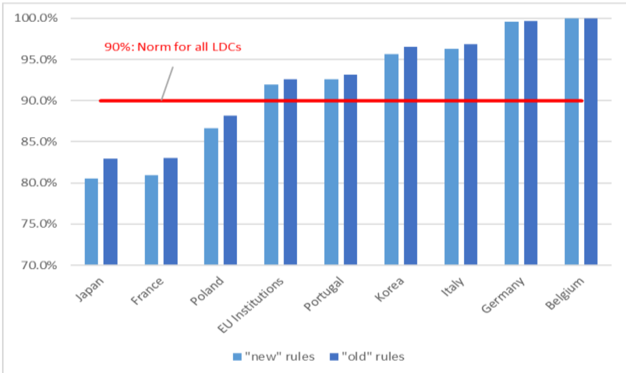


Table 5. Three-year average for each LDC, norm: 86%

Belgium		EU Institutions		France		Germany		Japan		Korea		Poland		Portugal	
Sudan	80.8	Cambodia	85.6	Mali	84.4	Cambodia	83.7	Cambodia	81.8	Nepal	71.2	Tanzania	77.8	Mozambique	84.6
		Senegal	80.9	Burkina Faso	84.3			Bangladesh	73.72						
		Benin	78.1	Niger	84.1										
		Madagascar	77.1	Guinea	83.6										
		Guinea	74.2	Ethiopia	83.1										
		Angola	70.0	Togo	82.7										
				Rwanda	77.5										
				Benin	75.9										
				Senegal	75.7										
				Mozambique	74.7										
				Myanmar	73.3										
				Cambodia	66.5										
				Bangladesh	62.2										
				Uganda	59.5										
				Tanzania	58.9										
				Angola	54.7										
				Nepal	38.4										

a) Excluding debt reorganisation. Equities are treated as having 100% grant element.
b) Only DAC members and LDCs where the 86% norm is not met are listed in the table.

Annex. Statistics on terms and conditions of loans, by channel of delivery

Table 1a. Average grant element of ODA loans for 2020, by channel of delivery

(Weighted averages)

		Of which:		
	Overall	***Loans to the public sector***	***Loans to the private sector***	***Loans to multilateral organisations and NGOs***
Australia	**-**	-	-	-
Austria	**24%**	-	*34%*	*17%*
Belgium	**85%**	*85%*	-	-
Canada	**-**	-	-	-
EU Institutions	**45%**	*45%*	*44%*	*36%*
Finland	**-**	-	-	-
France	**44%**	*48%*	*29%*	*35%*
Germany	**40%**	*41%*	-	*30%*
Italy	**47%**	*75%*	-	*21%*
Japan	**68%**	*69%*	*32%*	-
Korea	**72%**	*72%*	-	-
Poland	**69%**	*69%*	-	-
Portugal	**46%**	*46%*	-	-
Spain	**27%**	-	*27%*	-
Switzerland	**26%**	-	-	*26%*
United Kingdom	**31%**	-	-	*31%*
Average	**53%**	***55%***	***35%***	*31%*

Table 2a. Characteristics of 2020 ODA loans by loan provider, breakdown by channel of delivery

(Weighted averages)

		Austria	Belgium	EU Institutions	France	Germany	Italy	Japan	Korea	Poland	Portugal	Spain	Switzerland	United Kingdom	DAC Total
Average grant element (new)		**24%**	**85%**	**45%**	**44%**	**40%**	**47%**	**68%**	**72%**	**69%**	**46%**	**27%**	**26%**	**31%**	**53%**
Of which	Loans to the public sector	-	85%	45%	48%	41%	75%	69%	72%	69%	46%	-	-	-	**55%**
	Loans to the private sector	34%	-	44%	29%	-	-	32%	-	-	-	27%	-	-	**35%**
	Loans to multilateral institutions and NGOs	17%	-	36%	35%	30%	21%	-	-	-	-	-	26%	31%	**33%**
Average interest rate		**2.5%**	**0.0%**	**1.0%**	**1.0%**	**0.8%**	**0.3%**	**0.4%**	**0.8%**	**0.2%**	**1.9%**	**3.8%**	**0.0%**	**0.1%**	**0.7%**
Of which:	Loans to the public sector	-	0.0%	0.9%	0.9%	0.7%	0.2%	0.4%	0.8%	0.2%	1.9%	-	-	-	**0.7%**
	Loans to the private sector	2.8%	-	1.6%	2.7%	-	-	2.0%	-	-	-	3.8%	-	-	**2.1%**
	Loans to multilateral institutions and NGOs	2.3%	-	1.4%	0.6%	1.7%	0.4%	-	-	-	-	-	0.0%	0.1%	**0.7%**
Average maturity (years)		**9**	**39**	**16**	**18**	**16**	**18**	**31**	**35**	**33**	**21**	**8**	**7**	**10**	**22**
Of which	Loans to the public sector	-	39	16	19	16	30	31	35	33	21	-	-	-	**23**
	Loans to the private sector	9	-	14	9	-	-	8	-	-	-	8	-	-	**11**
	Loans to multilateral institutions and NGOs	9	-	18	15	15	7	-	-	-	-	-	7	10	**14**

Table 3a. Characteristics of ODA loans to LDCs, by channel of delivery

(Weighted averages)

	2018	2019	2020
Average grant element (new)	73%	70%	73%
Of which:			
Loans to the public sector	76%	71%	73%
Loans to the private sector	59%	42%	41%
Loans to Multilateral institutions and NGOs	-	-	34%
Average grant element (old)	77%	73%	76%
Of which:			
Loans to the public sector	79%	74%	76%
Loans to the private sector	59%	42%	41%
Loans to Multilateral institutions and NGOs	-	-	61%
Average maturity (years)	32.0	28.3	30.4
Of which:			
Loans to the public sector	33.3	28.6	30.4
Loans to the private sector	20.5	17.1	16.8
Loans to Multilateral institutions and NGOs	-	-	19.6
Average interest rate	0.67%	0.80%	0.44%
Of which:			
Loans to the public sector	0.57%	0.74%	0.43%
Loans to the private sector	1.63%	2.92%	2.21%
Loans to Multilateral institutions and NGOs	-	-	1.32%