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FINANCIAL RESOURCES FOR DEVELOPING COUNTRIES: 1992 AND RECENT TRENDS

SUMMARY

Major increase in private flows

Net total resource flows (ODA, other official flows and private sector resources) reaching developing countries from the developed world in 1992, mainly from DAC countries and multilateral institutions, climbed, according to preliminary estimates, to a record level of \$176 billion, representing an increase in constant prices and exchange rates of 23 per cent. This is the result of a surge in private flows, more specifically international bank lending, both short and long term. Direct investment also increased significantly.

ODA continues on its slow upward trend

Total official development assistance (ODA) from DAC countries to developing countries and multilateral institutions increased in 1992 to \$60.8 billion from \$56.7 billion in 1991. With allowance for changes in prices and in exchange rates vis-à-vis the US dollar, this represents a small growth of 1.1 per cent in real terms. ODA as a share of GNP for DAC Members remained at its 1991 level of 0.33 per cent. A preliminary analysis indicates that the volume of bilateral aid fell by some 6 per cent in real terms, whilst flows to multilateral agencies rose sharply by 16 per cent.

The Chairman of the DAC, Mr. Alexander R. Love,
will report on Members' aid policies and performance
at a press conference on Tuesday 6th July at 3.30 p.m.,
at the OECD, 2 rue André Pascal, Paris 16^{ème}.

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Table 1.

THE 1992 ODA RECORD OF DAC MEMBERS
(Tables 1 and 2 and chart 1)

Aggregate DAC ODA increased in 1992 by 7.3 per cent in nominal terms to \$60.8 billion. In real terms, i.e. making allowance for changes in prices and exchange rates vis-à-vis the US dollar, this represents an increase of 1.1 per cent. About half of the DAC Members recorded increases in the volume of their aid. Substantial increases or recoveries in percentage terms were reported by Switzerland, Spain, Sweden, Denmark, Italy and Norway. Decreases in real terms were reported by Finland, Ireland, Austria, Luxembourg and Belgium and in less substantial proportions by Germany, the United Kingdom and Japan.

Norway, Denmark, Sweden and the Netherlands continue to stand out as the countries with the highest ODA/GNP ratios, with Norway in front at 1.16 per cent. Finland, at 0.62 per cent, recorded a fall in aid volume and in its ODA/GNP ratio for the first time in 15 years after having exceeded the 0.7 per cent target in 1991. Other significant falls in ODA/GNP ratios were reported by Ireland, Austria, Luxembourg, Belgium and Japan.

The United States at \$11.7 billion (including the concessional assistance represented by forgiveness of military debt) and Japan (\$11.1 billion), remain the largest DAC donors in absolute terms, followed by France (\$8.3 billion) and Germany (\$7.6 billion).

This press release includes for the first time data on the performance of Luxembourg which joined the DAC in 1992.

Table 2

Chart 1

ODA DISBURSEMENTS IN 1992 BY INDIVIDUAL DAC MEMBERS AND OTHER DONORS

Australia

Australian aid disbursements of \$1 017 million in 1992 represented a growth of 1 per cent in real terms (1991 prices and exchange rates). The ODA/GNP ratio moved down to 0.37 per cent from 0.38 per cent a year earlier, but still remained above the DAC average. Reductions occurred in contributions to United Nations Agencies and the World Bank Group while bilateral grants increased by 7 per cent in real terms. •After declining significantly since the mid-1980s, the volume of Australia's official development assistance appears now to have stabilized at around US\$1 billion. At the United Nations Conference on Environment and Development (UNCED) in July 1992, Australia reconfirmed its commitment to the UN aid target of 0.7 per cent of GNP.

The Australian authorities have recently issued a policy paper, entitled "Changing Aid for a Changing World", with a view to securing a wider consensus in Australia on the rationale for aid and public support for increased aid funding. In Australia's relations with Papua New Guinea, its largest aid recipient, a shift from budget support to programme and project aid is presently taking place and both countries face major political and administrative challenges in establishing a new aid relationship.

Austria

After several years of increases in the volume of aid which permitted Austria to reach the DAC ODA/GNP average in 1991, Austrian aid declined in 1992 to \$529 million which corresponded to 0.29 per cent of GNP. This development was not unexpected since the 1991 performance had been partly occasioned by exceptional circumstances. The decline concerned exclusively bilateral loans and was largely related to the application of stricter criteria, while bilateral grants and multilateral contributions rose further in 1992. The rise of the former was due to larger expenses for students and refugees in Austria; the rise in multilateral contributions benefited the UNDP and the regional development banks. The declining share of loans and the corresponding rise in the share of grants resulted in an improvement of the terms of Austrian aid which traditionally have been among the hardest among DAC Members. The share of aid in the Federal budget also continued to rise, reflecting a conscious effort of the Austrian authorities to increase the quantity and quality of its aid with a view to reaching the DAC average in quantitative and qualitative terms.

While Austria, in relation to its GNP, made the largest aid effort among OECD countries to Central and Eastern European countries and the former Soviet Union, it remains determined to continue its efforts in favour of the developing countries. • It is unlikely, however, that Austria will be able to reach in 1993 the DAC average for ODA/GNP which had been the intention of the Austrian authorities.

Chart II

Belgium

Net ODA disbursements dropped by 8 per cent in real terms to \$842 million. After having reached 0.46 per cent in 1990 and 0.41 per cent in 1991, the ODA/GNP ratio fell to 0.38 per cent, still above the DAC average. Contributions to multilateral organisations declined by 25 per cent in real terms, with United Nations Agencies and the EEC being the most affected. Bilateral disbursements rose by 4 per cent in real terms with grants reaching \$550 million, a rise of 16 per cent in real terms.

Belgium has suspended all but humanitarian aid to one of its major recipient countries, Zaire, which formerly received about one third of Belgium's bilateral assistance. In line with Belgium's overhaul of its aid programme, started three years ago, a great deal of project and programme implementation is being transferred to agencies, non-governmental organisations and universities outside of the Administration générale de la coopération au développement (AGCD), which has been restructured along geographic lines.

Canada

In 1992, the volume of ODA disbursed rose by 2 per cent in real terms to \$2.5 billion. The ODA/GNP ratio reached 0.46 per cent.

Canada is progressively adopting a regional approach to its aid planning.

Denmark

Net ODA disbursements grew further in 1992 to \$1.4 billion, corresponding to 1.03 per cent of GNP (1991: 0.96 per cent), a rise in real terms of 9 per cent. Contributions to multilateral organisations continued to grow substantially (17 per cent in real terms) with most of the increase going to United Nations Agencies. An increase of 2 per cent in real terms was registered for bilateral disbursements. Denmark ranks second after Norway with respect to the ODA/GNP ratio.

The Danish aid administration has recently been restructured with a view to improving policy coherence in relations with developing countries. Measures to promote the respect of human rights, democratisation and good governance, including restraint in military expenditures, have been given increasing emphasis in Danish development assistance.

Finland

Following the decision taken by the Finnish government in 1991 to temporarily abandon the target of an ODA/GNP ratio of 0.7 per cent, ODA net disbursements in 1992 fell by 24 per cent in real terms to \$644 million, which represents 0.62 per cent of GNP. The ODA/GNP ratio in 1991 was 0.78 per cent. Reductions occurred principally in the bilateral grants programme which fell by 23 per cent and in contributions to United Nations Agencies, down by 31 per

cent. Small increases were recorded in bilateral loans and in disbursements to regional development banks.

France

France's net ODA disbursements increased by 2.5 per cent in real terms to \$8.3 billion. As in 1991, virtually all of the growth was accounted for by increased contributions to multilateral organisations, which rose by 11 per cent in real terms in 1992. While regional development banks received \$255 million compared with \$36 million in 1991, contributions to the EEC aid facilities fell by nearly 8 per cent in real terms. The ODA/GNP ratio rose from 0.62 in 1991 to 0.63 per cent in 1992.

The Caisse centrale de coopération économique (CCCE), which has administered about 10 per cent of France's ODA in recent years, has changed its name to Caisse française de développement (CFD). It now operates in a larger number of countries in North Africa and Indochina in addition to its traditional activities in Sub-Saharan Africa and the Indian Ocean.

Germany

In 1992, the volume of official development assistance corresponded to \$7.6 billion, making Germany the fourth largest DAC donor. Compared with 1991, disbursements declined by 2 per cent in real terms, with multilateral contributions affected slightly more than the bilateral programme. However, bilateral loans rose to \$1440 million, almost doubling in real terms. The ODA/GNP ratio declined slightly to 0.39 per cent, after 0.40 per cent a year earlier.

Criteria governing Germany's policy dialogue with developing countries include the respect for human rights, the rule of law, the participation of the population in decision-making, moves towards market-oriented economies and, more generally, development-oriented government, requiring in particular a proper balance between expenditures for social and military purposes.

Ireland

After a marked increase in 1991, the volume of Irish aid in 1992 dropped by 13 per cent in real terms to the equivalent of \$69 million. This decline affected bilateral and multilateral programmes to a similar extent. The ODA/GNP ratio slipped to 0.16 per cent from 0.19 per cent in 1991.

The new Irish government which took office in early 1993 has given renewed emphasis to Ireland's aid programme, inter alia by planning a series of increases in the aid volume over the next few years. The ODA/GNP ratio is expected to climb back to 0.2 per cent in 1993 and programmes in the four priority countries (Lesotho, Zambia, Tanzania and Sudan) will be expanded. The establishment of new programmes in neighbouring countries in Eastern and Southern Africa is also being considered.

Italy

Italian development assistance amounted to \$3.8 billion, corresponding to 0.31 per cent of GNP, after 0.30 per cent in 1991. ODA volume in 1992 rose by 7 per cent in real terms, after the declines witnessed in earlier years. The Italian aid volume is still substantial: at almost \$4 billion annually Italy remains the fifth largest DAC donor. Confirming the relatively high proportion of multilateral aid, on average about 40 per cent, the 1992 multilateral contributions increased by 38 per cent in real terms, restoring the sharp fall in 1991, while bilateral assistance continued to decline.

Reforms now under consideration include a clearer distinction between aid and trade objectives, the introduction of effective management procedures, notably country-programming, and the strengthening of staff resources. Reflecting efforts to reduce Italy's public sector deficit, the aid budget for 1993 has suffered a severe cut of 40 per cent.

Japan

Japan, with net ODA disbursements of \$11.1 billion in 1992, remains with the United States at the head of DAC in terms of aid volume despite a decline over the previous year of 6 per cent in terms of constant prices and exchange rates. Bilateral loans fell by 22 per cent in real terms to \$4.6 billion, following high growth (nearly 20 per cent in each of the past two years) well above the established trend. Grants rose by 3 per cent in real terms to \$3.76 billion. Contributions to multilateral agencies increased by 22 per cent reaching \$2.8 billion. Japan's ODA/GNP ratio slipped from 0.32 per cent to 0.30 per cent and remained below the DAC average.

In June 1992 Japan adopted an ODA Charter which emphasizes a number of basic principles: pursuing environmental conservation and development in tandem; attention to recipient countries' military expenditures, production of mass destruction weapons and arms export and import; and attaching importance to progress in democratisation, human rights and a market-oriented economy. Japan continues to attach central importance to self-help efforts of recipients.

Luxembourg

Luxembourg became a Member of the DAC in November 1992. The volume of its net ODA disbursements, which had risen continuously over the last few years, fell in 1992 to \$40 million representing a decline in real terms of 9 per cent. The ODA/GNP ratio fell to 0.29 per cent, which was still the second highest ratio since Luxembourg's recent development of its aid programme. The decline was the result of lower bilateral grant aid, which fell by 20 per cent in real terms to \$22 million. It should, however, be noted that bilateral grants were unusually large in 1991 due to exceptional expenditures. Multilateral contributions increased to \$18 million on account of higher contributions to United Nations agencies and to IDA. Luxembourg's aid programme continued to be extended entirely in the form of grants.

Netherlands

The Netherlands recorded an aid volume of \$2.7 billion, a small increase of 0.6 per cent in real terms, corresponding to 0.86 per cent of GNP, after 0.88 and 0.92 per cent in 1991 and 1990 respectively. Multilateral ODA remained stable overall with declines in contributions to United Nations Agencies and the EEC being counterbalanced by increases to the World Bank Group. The decline in the Dutch ODA volume from the very high levels reached during the 1980s was essentially due to budgetary constraints and to the use of the aid budget to finance supportive measures for refugees and asylum seekers not covered by the DAC ODA definition.

In a recent policy paper, entitled "A World of Difference", the Dutch aid administration set out orientations for their development co-operation in the 1990s, which include a stronger regional approach, emphasis on policy dialogue and participation of target groups in the development process.

New Zealand

Following a limited recovery in 1990 and no real growth in 1991, ODA net disbursements in 1992 were \$97 million, an increase of 2.5 per cent in real terms, raising the ODA/GNP ratio from 0.25 to 0.26 per cent. Lower bilateral disbursements (-4 per cent) were compensated by higher contributions to multilateral organisations (+30 per cent), which thus rose to almost one quarter of total ODA disbursements from the relatively low levels in earlier years. New Zealand restated its commitment to the UN aid target of 0.7 per cent of GNP at the 1992 UNCED Conference.

New Zealand's aid management has been significantly improved in recent years by setting up an analytical and evaluation unit, by streamlining administrative structures and by introducing country programming. The policy base for development co-operation has been strengthened through a series of policy papers and the development of a policy dialogue with recipient countries, notably in the Pacific region.

Norway

After virtually no growth in 1991, the volume of ODA net disbursements increased by almost 5 per cent in real terms in 1992, corresponding to \$1.3 billion and an ODA/GNP ratio of 1.16 per cent, after 1.13 per cent in 1991. Norway maintains the highest ratio among DAC Member countries. Despite cuts in the 1993 aid budget, Norway intends to keep its ODA/GNP ratio at present high levels.

In recent years, Norway's system of aid delivery has been reformed with priority being accorded to the sustainability of recipient countries' development efforts. The new strategy for development co-operation is being given effect through a strengthened policy dialogue with recipients and the progressive transfer of responsibility to local counterparts for planning and implementing aid projects and programmes. In a recent White Paper on "Trends in North-South Relations and Norway's Co-operation with Developing Countries"

the Norwegian authorities set out the objectives of a coherent approach to relations with developing countries, integrating foreign and trade policies with both bilateral and multilateral co-operation policies.

Portugal

In 1992, Portugal's net ODA volume rose to \$267 million representing a 4 per cent increase in real terms. As a percentage of GNP, net ODA disbursements remained at their previous year's level of 0.31. This increase resulted almost exclusively from significantly higher loan disbursements which rose by 44 per cent in real terms to \$146 million and accounted for over half of total net ODA in 1992. Bilateral grant disbursements, which consist mainly of technical co-operation, declined by 14 per cent in real terms. Multilateral contributions fell to \$36 million representing a decline of 37 per cent in real terms.

Spain

In 1992, Spanish net ODA disbursements continued to expand significantly for the fourth consecutive year to reach \$1.6 billion, an increase in real terms of 19 per cent. The ODA/GNP ratio rose to 0.28 per cent. This increase was entirely due to higher net loan disbursements, which rose by 52 per cent in real terms to reach \$850 million. Bilateral grants, which were mainly extended in the form of technical assistance, declined by 12 per cent. Multilateral contributions decreased marginally in real terms.

Sweden

The Swedish aid volume increased in 1992 by 11 per cent in real terms to \$2.5 billion, bringing the ODA/GNP ratio from 0.90 to 1.03 per cent, the third highest ratio among DAC Member countries, after Norway and Denmark. Bilateral ODA disbursements rose in 1992 by 13 per cent while contributions to international institutions remained at the relatively high level recorded in 1991 (about 30 per cent of total ODA).

The Swedish government is actively encouraging reforms of the United Nations system in the economic and social fields with a view to improving the system's relevance to and effectiveness for development. A relatively large share of Swedish bilateral aid is used for emergency assistance. While appropriate attention is being paid to the situation of women and to environmental concerns in developing countries, the Swedish authorities intend to increase their aid effort in the population sector.

Switzerland

At \$1.1 billion, growth of 27 per cent in real terms was recorded in Swiss aid volume in 1992, with ODA representing 0.46 per cent of GNP (0.36 per cent in 1991). While bilateral disbursements fell by 11 per cent, multilateral

contributions rose by over 200 per cent to reach \$462 million. The Swiss authorities caution that this volume is exceptional and cannot be sustained on this level in coming years. This unusual growth was due to Switzerland's accession to the Bretton Woods Institutions in May 1992, which implied initial Swiss contributions to the World Bank Group of \$272 million in this year. As a consequence, the share of multilateral contributions in total Swiss ODA rose to 41 per cent in 1992, against the 1990-91 average of 21 per cent, but may be expected to return to a lower proportion in 1993, more in line with longer term policy.

Switzerland has recently paid increasing attention to the alleviation of developing country debt and has contributed substantially to international actions in this field. In view of the importance of the policies conducted by developing country governments for their economic and social development, Switzerland also supports, through the bilateral and multilateral dialogue with recipient countries and through positive measures, efforts towards good governance, notably concerning the participation of target groups in development programmes and the respect of human rights. Switzerland has been, in particular country situations and in specific sectors, making its assistance directly conditional on the adoption of specific policy measures by recipient governments.

United Kingdom

British ODA net disbursements fell in real terms by 4 per cent in 1992 to \$3.2 billion. Net bilateral disbursements at \$1.7 billion were 10 per cent lower in real terms, while multilateral contributions increased by 4 per cent in real terms to \$1.5 billion. The ODA/GNP ratio dropped from 0.32 to 0.31 per cent.

The Overseas Development Administration, which is responsible for Britain's external assistance programmes, aims to foster sustainable economic and social development and to safeguard the global environment in accordance with commitments made at the UNCED in July 1992. The United Kingdom places great stress on good governance and has been one of the leaders in pressing for higher standards in the political systems, public administration and legal sectors of developing countries. Poverty alleviation and private sector development are also emphasised in its programme.

United States

United States development assistance amounted to \$11.7 billion in 1992, including \$0.9 billion of forgiveness of military debt, representing an increase of 1 per cent in real terms. The statistical record of United States aid over the past decade, like that of some other donors, has been markedly affected by the timing of contributions to multilateral organisations. In 1992 contributions to multilateral organisations increased by \$2 billion to nearly \$4 billion. Most of the increases concerned the World Bank Group and regional development banks.

Despite its being, along with Japan, at the head of the DAC in terms of absolute aid volume, with ODA as a percentage of GNP of 0.20 per cent, the United States ratio is the second lowest among DAC countries and well below the

DAC average. The new administration is considering, in consultation with the Congress, across the board changes in the foreign assistance programme, including budget levels, but has not at this stage indicated what specific form they will take.

Other OECD Member Countries

Aid is also provided by the three OECD countries which are not Members of the DAC. Greece extended aid through the European Community and directly to Albania. Iceland disbursed \$2 million of technical assistance in 1992 and contributed another \$3 million to multilateral organisations, mainly IDA. Turkey provided \$30 million in bilateral emergency aid grants, primarily to Albania and the former Yugoslavia, and \$8 million to multilateral organisations.

Non-OECD Countries

Information on aid from non-OECD countries in 1992 is still incomplete, but there is no doubt that it fell further to the lowest level ever recorded. What little is known about aid from Russia suggests that Russian aid in 1992 was very small compared to Soviet aid in earlier years.

Aid from Arab countries continued its downward trend to \$1 billion, an all-time low. Saudi Arabia was again the largest source of aid from Arab countries. Almost 60 per cent of Arab aid was extended bilaterally. The main recipients were, in order of magnitude, Egypt and Turkey, followed by Morocco, Syria and Bahrain. Multilateral contributions went primarily to the World Bank Group and the African Development Fund.

Korean aid rose to its highest level so far (\$110 million) on account of larger bilateral assistance. Aid from Taiwan, which had increased substantially in 1991 partly on account of exceptional expenditures, declined in 1992, but remained well above the level of earlier years. The decline concerned exclusively humanitarian assistance, while technical assistance grants doubled and development loans rose slightly.

Table 3

TOTAL NET RECEIPTS OF FLOWS TO DEVELOPING COUNTRIES
(Table 4)

{Note}: •The following analysis covers receipts of developing countries from both bilateral and multilateral sources. The figures cannot be compared with the data on flows from donor countries in the preceding text and tables, in which the flows into multilateral organisations from donors are counted, whereas here it is the flows from multilateral institutions to developing countries which are counted.)

Total net resource flows to developing countries increased in 1992 by a massive \$42 billion to an all-time record of \$176 billion. Most of this was due to the surge in international bank lending which increased from \$11 billion in 1991 to \$40 billion in 1992. But other components of private flows (foreign direct investment, bonds and portfolio investment) also witnessed important growth. Official development finance (ODF) increased to \$72.3 billion from \$70.0 billion in 1991 but in real terms fell by 3 per cent. Export credits, at \$3.5 billion, recovered in 1992, but still remain a relatively minor component of total net flows (just 2 per cent), although their gross amount, before repayment, remains in the vicinity of \$20 billion.

While the expansion in resource flows in 1992 is to be welcomed and reflects positive economic and political developments, it must be borne in mind, first, that the sustainability of the expansion in private flows of this magnitude is not yet clear and, secondly, that only a relatively small number of the better-off developing countries, together with China, India and Indonesia, have significantly benefited from the growth of private flows. The ability of the vast number of the poorer developing countries to attract external resources, particularly private flows, is little changed; for them, ODF remains the backbone of resource provision.

Highlights of developments in 1992:

Official Development Finance
(includes both concessional and non-concessional flows from official bilateral and multilateral sources)

- ODF at \$72.3 billion was up by \$2 billion compared to its 1991 level, but in real terms fell by 3 per cent. Receipts of bilateral official development assistance (ODA) remained at the 1991 level in nominal terms whilst ODA received from multilateral sources rose by \$1 billion. Other ODF recovered by \$1.4 billion due to an increase in bilateral official loans.
- ODF overall continues to be highly concessional, with ODA grants representing two-thirds of the total.
- ODF represents three-quarters of total net resource receipts of the low-income countries and, on a net basis, the entirety of flows to the poorest developing countries.

Table 4

Private flows

- Private flows expanded by 50 per cent from \$62 billion to nearly \$100 billion in 1992, significantly changing their share in total resource flows from 43 per cent in 1991 to 57 per cent in 1992.
- The expansion of private flows in 1992 was broad based, with all of its components at record levels. International bank lending increased over threefold to \$40 billion. Over half this increase was short-term lending. Bond lending maintained its recent expansion, up \$1 billion to \$14 billion and other private flows (including portfolio investment) were up by over 40 per cent to \$9.5 billion. Foreign direct investment increased by over \$4 billion to nearly \$31 billion, particularly notable against the recent falling trend in total outward investment from OECD countries.
- Only a relatively small number of countries have benefited from the growth of private flows -- particularly Mexico, Brazil and Argentina in Latin America, India, China and Indonesia in Asia and Kuwait and Saudi Arabia in the Middle East. As a group, the low-income countries (apart from India or China) got some additional bank lending, but little other private finance, while private flows to the poorest developing countries as well as to Africa have now reached negative levels.

While the last years have witnessed a steady progression in the share of non-debt creating flows, these dropped in 1992 to around 53 per cent. This, in itself, should not be seen as necessarily alarming; the change has been due to the expansion of bank lending rather than any decline in concessional finance, or foreign direct investment, while much of the increased bank lending has been going to those countries which continue to be able or are now in a position to finance it.

The aggregate debt of developing countries continues to grow slowly, up 3 per cent in 1992 to \$1 534 billion, mostly due to a jump in short-term debt. There were declines in financial market and export credit debt service payments. Multilateral service payments continue to expand, standing now at 25 per cent of total debt service.

Significant progress has been made with official and commercial debt reorganisation for the poorest countries. The shift towards more concessional debt has also continued and there have been important bilateral debt cancellations. Nevertheless, the external debt service of the poorest countries (the LLDCs), which had been falling since 1989, rose in 1992 as a result of expanding multilateral service payments.

Annex 1

TERMS AND DEFINITIONS USED

DEVELOPMENT ASSISTANCE COMMITTEE (DAC): Members: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities. Observers: The IMF and the World Bank. In addition Greece, Iceland and Turkey are associated with DAC meetings in areas of mutual interest.

AID: The word "aid" or "assistance" refers only to flows which qualify as {"Official Development Assistance"} (ODA) or its equivalent, i.e. grants or loans:

- undertaken by the official sector;
- with promotion of economic development or welfare as main objectives;
- at concessional financial terms (if a loan, at least 25 per cent grant element).

In addition to financial flows, technical co-operation is included in aid. It consists almost entirely of grants to nationals of developing countries receiving education or training at home or abroad, and payments to defray the costs of teachers, administrators, advisers and similar personnel serving in developing countries.

OFFICIAL DEVELOPMENT FINANCE (ODF): Used in measuring the inflow of resources to developing countries, includes grants and development lending by multilateral financial institutions both concessional and non-concessional, bilateral ODA, and other official flows for development purposes, but with too low a grant element to qualify as ODA (e.g. the net acquisition by the official sector of securities issued by multilateral development banks at market terms). Certain refinancing loans which do not qualify as ODA are also included.

TOTAL RECEIPTS OF DEVELOPING COUNTRIES: The inflow of resources to developing countries (see Table 4), {includes}, in addition to ODF, official and private export credits, long and short-term private transactions (including bank lending) and grants from private voluntary agencies. The outflow of resources from donor countries {excludes} grants, loans and credits for military purposes and loans and credits with a maturity of less than one year.

{Bilateral} flows are provided directly by a donor country to a developing country. {Multilateral} flows are channelled via an international organisation active in development (e.g. World Bank, UNDP).

RECORDING OF MULTILATERAL CONTRIBUTIONS: Contributions in the form of notes and similar instruments made out in favour of multilateral institutions and payable on demand are recorded in DAC statistics on their date of deposit or issue. Usually, only a few transactions are involved, each for a large sum, with issue following completion of parliamentary approval processes and the subsequent departmental authorisation procedures. Thus, even if notes are issued in each fiscal year (which is not always the case: delays are not infrequent), a country's data for a calendar year may include the issues for two (or more) fiscal years -- or none. As a result, the data for a given country, or for Members combined, may appear to move erratically in some years, even if the underlying trend is much smoother.

GRANT ELEMENT: Reflects the {financial terms} of a commitment: interest rate, maturity (interval to final repayment) and grace period (interval to first repayment of capital). It measures the concessionality (i.e., softness) of a loan, in the form of the present value of an interest rate below the market rate over the life of a loan. Conventionally the market rate is taken as 10 per cent. Thus, the grant element is nil for a loan carrying an interest rate of 10 per cent; it is 100 per cent for a grant; and it lies between these two limits for a soft loan. Generally speaking, a loan will not convey a grant element of over 25 per cent if its maturity is less than 10 years, unless its interest rate is well below 5 per cent. If the face value of a loan is multiplied by its grant element, the result is referred to as the {grant } {equivalent} of that loan.

DEVELOPING COUNTRIES AND TERRITORIES: The list used by the DAC includes: all countries and territories in Africa except South Africa; in America except the United States and Canada; in Asia {except}, on the one hand, Japan and, on the other hand, the Asian republics that were previously part of the former Soviet Union other than Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan which were added to the list with effect from 1 January 1993; in Oceania except Australia and New Zealand; and the following in Europe: Albania, Cyprus, Gibraltar, Greece, Malta, Turkey and ex-Yugoslavia.

Annex 2

A NOTE ON THE RECORDING OF DEBT FORGIVENESS IN DAC AID STATISTICS

In order to give recognition to Member governments' financial efforts in alleviating the debt burden of developing countries, the DAC Statistical Reporting Directives provide for reporting as ODA, under specified conditions, of forgiveness of non-ODA debt, corresponding to the amounts due in the respective reporting years.

Questions have arisen over the recording of debt forgiveness on military debt and other non-ODA debt. In September 1991 the Committee agreed to review the appropriate recording of debt forgiveness generally, in particular of military debt and export credits. Pending the outcome of the DAC review, the aid data for 1990 presented in 1991 DAC publications were noted to be preliminary and subject to revision. The data presented include forgiveness of non-ODA debt reported by some Members, with appropriate footnote indications and further explanations where required in the country notes. However, pending the completion of the review, these amounts were not included in the figures for total DAC aid.

During the preliminary discussion of this question in 1991 all DAC countries confirmed the basic DAC rule that grants, official loans, or credits (guaranteed or not) for the supply or financing of military equipment or services, including the direct participation in military expenditures and other contributions linked to a specific defence effort should not be included in DAC statistics. It was pointed out by some Members that forgiveness of military debt is not military aid. If undertaken in the context of an international aid effort in support of effective policy programmes, its economic effect is similar to that of programme assistance. In this view, there is no difference between the economic effects of forgiveness of military debt and of other debt. Other Members took the view that the inclusion of forgiveness of military debt in ODA was inappropriate, particularly in a situation where developing countries are encouraged by donors to reduce military expenditures and arms imports, and also because of the possible adverse effect on public opinion.

Subsequently, DAC Members in conformity with their decision of September 1991, further reviewed the appropriate recording of debt forgiveness on military debt and export credits.

While the Committee noted the view that the economic effects of forgiveness of military debt and of export credits are the same, that the act of forgiveness is a new and separate transaction dissociated from the purpose of the original transaction, that the inclusion as ODA is based on the development motivation of the act of forgiveness, that this logic is also the basis for including as ODA forgiveness of debt arising from export credits and that therefore both types of debt forgiveness should in principle be treated statistically in the same way, in deference to concerns expressed over possible public opinion impacts, the Committee accepted a differentiated approach as follows:

- Forgiveness of military debt would be recorded, but not as ODA.
- Members would make arrangements to ensure that debt forgiveness on export credits relating to military supplies is also omitted from ODA reporting.
- Forgiveness granted on export credits would be recorded as ODA in accordance with the existing DAC statistical directives.

In view of the time needed for administrative arrangements to implement this agreement reporting on 1991 and 1992 would nevertheless be based on the preliminary agreement set out above.

Members also agreed to review more generally the definition of official development assistance and current reporting practices. They plan to complete this review by mid-1994.

END-OF-TEXT