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OECD is ignoring its definition of overseas aid

From Mr Richard Manning.

Sir, The Organisation for Economic Co-operation and Development reported last week that official development assistance fell in 2012 by 4 per cent (“Austerity push is hitting aid, says OECD”, April 4). This understates the real fall. The OECD is now quietly allowing large volumes of loans to be counted as ODA even though they do not meet any reasonable definition of being “concessional in character”, which is the basis of the OECD’s definition of aid.

The problem arises from the metric which OECD uses to measure concessionality – a grant element of at least 25 per cent at a discount rate of 10 per cent. In an era of low interest rates this can be reached by loans made with no government subsidy whatsoever. Countries nonetheless used to respect the overall intention by refraining from making loans that only narrowly met the metric.

Now, however, as a coy footnote in the OECD announcement puts it, the OECD “is currently discussing members’ differing practices in reporting [concessional] loans as ODA”. OECD documents show that in 2011 France, Germany and the European Investment Bank reported more than \$2.5bn of loans made at interest rates well above their borrowing costs. President François Hollande has indeed taken credit publicly for the fact that French loans to India cost the taxpayer nothing. Such loans, of course, go mostly to middle-income countries in Asia and Latin America. Their inclusion probably explains why in 2012 aid to middle-income countries rose while aid to sub-Saharan Africa fell by 8 per cent and to the least-developed countries by over 12 per cent.

The OECD must put in place a definition of concessionality that reflects the real cost of capital and requires real fiscal effort. It is shocking that the OECD should publish official statistics that allow “different practices” on such a key issue and which make a mockery of its own requirement that loans are concessional in character. It is encouraging OECD finance ministries to get away with murder as they seek to massage reported aid upwards at minimum cost. If the OECD cannot do a professional job on this, the UN should take over the reporting for international aid flows.

Richard Manning, Chair of the OECD’s Development Assistance Committee, 2003-08, Esher, Surrey, UK

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