



IS IT ODA?

FACTSHEET - May 2007

This note helps donors to decide whether a particular expenditure qualifies as official development assistance (ODA). It supplements the Development Assistance Committee's Statistical Reporting Directives.

IS IT ODA?

Members occasionally request the Secretariat's view as to whether a particular expenditure should be reported as official development assistance (ODA). This paper outlines the reasoning the Secretariat uses to answer such enquiries, and discusses some specific cases. It should not be taken as a definitive guide to ODA eligibility, since only the DAC may determine such eligibility. Further details are provided in the Statistical Reporting Directives (available at www.oecd/dac/stats/dac/directives).

Official development assistance is defined as those flows to countries on the DAC List (available at www.oecd.org/dac/stats/dac/list) and to multilateral institutions for flows to ODA recipients which are:

- i. provided by official agencies, including state and local governments, or by their executive agencies; and
- ii. each transaction of which:
 - a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
 - b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)¹.

¹This calculation is to determine if a loan is concessional or not. If the loan satisfies the ODA criteria, the whole amount is reported as ODA. The grant element is not used to discount the face value of a loan in DAC reporting. Reporting is on a cash (nominal) basis, with the one exception noted where NPV is used.

This note will briefly discuss key elements of this definition. Other official non-military flows to ODA recipients are recorded as "Other official flows" (OOF).

ECONOMIC DEVELOPMENT AND WELFARE AS THE MAIN OBJECTIVE

This is often the decisive criterion for determining ODA eligibility. In the final analysis it is a matter of intention. But in order to reduce the scope for subjective interpretations and promote comparable reporting, Members have agreed to limits on ODA reporting, e.g.:

- **Exclusion of military aid** - The supply of military equipment and services, and the forgiveness of debts incurred for military purposes, are not reportable as ODA. On the other hand, additional costs incurred for the use of the donor's military forces to deliver humanitarian aid or perform development services is ODA-eligible.
- **Peacekeeping** - The enforcement aspects of peacekeeping are not reportable as ODA. However, ODA does include the net bilateral costs to donors of carrying out the following activities within UN-administered or UN-approved peace operations: human rights, election monitoring, rehabilitation of demobilised soldiers and of national infrastructure, monitoring and training of administrators, including customs and police officers, advice on economic stabilisation, repatriation and demobilisation of soldiers, weapons disposal and mine removal. ("Net bilateral costs" means the extra costs of assigning personnel to these activities, net of the costs of stationing them at home, and of any compensation received from the UN). Similar activities conducted for developmental reasons outside UN peace operations are also reportable as ODA, but not recorded against the peacekeeping code. But activities carried out for non-developmental reasons, e.g. mine clearance to allow military training, are not reportable as ODA.
- **Civil police work** - Expenditure on police training is ODA, unless the training relates to paramilitary functions such as counter-insurgency work. The supply of the donor's police services to control civil disobedience is not reportable.
- **Social and cultural programmes** - As with police work, a distinction is drawn between building developing countries' capacity (ODA-eligible) and one-off interventions (not ODA-eligible). Thus, the promotion of museums, libraries, art and music schools, and sports training facilities and venues counts as ODA, whereas sponsoring concert tours or athletes' travel costs does not.
- **Assistance to refugees** - Assistance to refugees in developing countries is reportable as ODA. Temporary assistance to refugees from developing countries arriving in donor countries is reportable as ODA during the first 12 months of stay, and all costs associated with eventual repatriation to a developing country, are also reportable.
- **Nuclear energy** - The peaceful use of nuclear energy, including construction of nuclear power plants and the medical use of radioisotopes, is ODA-eligible. Military applications of nuclear energy are not.
- **Research** - Only research directly and primarily relevant to the problems of developing countries counts as ODA. This includes research into tropical diseases and developing crops designed for developing country conditions. The costs may still be counted as ODA if the research is carried out in a developed country.

ODA ELIGIBILITY OF AID TO MULTILATERALS AND NGOS

Annex 2 of the Statistical Reporting Directives lists those international agencies contributions to which are reportable as ODA. ODA coefficients are provided for United Nations agencies which conduct part of their activities in favour of development. These coefficients are revised every few years in consultation with the agencies concerned.

United Nations agencies have established many specific-purpose funds. These are too numerous, and arise and disappear too quickly to be listed in the Directives. The same applies to national non-governmental organisations. In both cases, Members must use their judgement as to whether contributions have an ODA character². When in doubt, they may consult the Secretariat, providing details of the fund in question.

The Directives also list the main international non-governmental organisations (INGOs) contributions to which are reportable as ODA. These are increasingly numerous. Where Members have contributed to INGOs not on this list, they should assess their ODA character in the light of the INGOs' aims, programmes and membership. If they believe the contribution should be counted as ODA, they should inform the Secretariat so that members can consider the INGO in the annual review of Annex 2.

²The coefficient established for an agency partly active in development does not normally apply to specific-purpose funds it sets up, the ODA character of which should be assessed individually. For example, 75.4 per cent of contributions to WHO's core budget are reportable as ODA. But contributions to WHO's bilharzia programme are 100 per cent ODA-reportable, while contributions to its International Agency for Research on Cancer are not ODA-reportable.

OFFICIAL AGENCIES

These include federal, state and local departments and agencies. The market-based transactions of central monetary authorities, however, do not enter into the statistics.

Sometimes one official agency subsidises another. Since the subsidy is internal to the official sector of the donor country, it is not reported as a flow. Rather, the transaction recorded is that between the subsidised agency and the developing country. If this transaction meets the other ODA criteria described in this paper, it is recorded as ODA.

Official subsidies to private firms may be recorded as other official flows (OOF). They are not considered to meet the tests of ODA, since by definition they support activities with a primarily commercial objective.

Official subsidies to private not-for-profit organisations (“non-governmental organisations”) that are active in development are reportable as ODA.

FLOWS

Flows are transfers of resources, either in cash or in the form of commodities or services. Since DAC statistics concentrate on transactions likely to have a development impact, loans for one year or less are not counted. Repayments of the principal of ODA loans count as negative flows, and are deducted to arrive at net ODA, so that by the time a loan is repaid, the net flow over the period of the loan is zero. Interest is recorded, but is not counted in the net flow statistics. Where official equity investments in a developing country are reported as ODA because of their development intention, proceeds from their later sale are recorded as negative flows, regardless of whether the purchaser is in a developed or a developing country.

Disbursements are measured on a cash basis, not an accruals basis, except that:

- wherever contributions to multilateral development banks and funds are made in the form of promissory notes, the full amount of the note is recorded at the time of deposit; and
- the net present value of debt relief provided by implementing a Paris Club debt reorganisation through debt service reduction is reportable as an ODA grant in the year of the reorganisation.

Some transactions not recorded as transfers in balance of payments statistics are nevertheless eligible to be recorded as ODA, since they represent an effort by the official sector in favour of development. These include the costs of secondary and tertiary education and vocational training (including stipends and travel) provided to developing country nationals in the donor country, the administrative costs of ODA programmes, subsidies to non-government organisations, and programmes to raise development awareness in donor countries.

Capital investment in the donor country is not regarded as a flow and is therefore not eligible to be reported as ODA. This applies even to the construction and equipment of training and research facilities related to development issues. The running costs of such facilities may, however, be counted as ODA.

CONCESSIONAL IN CHARACTER

From the earliest discussions of the concept of ODA, Members agreed that it should represent some effort in favour of developing countries by the official sector. Loans at market terms were excluded. When in the early 1970s interest rates began rising sharply, it was further specified that loans could only be reported as ODA if they had a grant element of at least 25 per cent, calculated against a notional reference rate of 10 per cent per annum.

These elements remain today. In recent years, long-term interest rates in most OECD Member countries have fallen well below 10 per cent, so the 25 per cent grant element level has become easier to attain. But to qualify as ODA, loans must still be concessional in character, i.e. below market interest rates.

Where concessional and non-concessional financing are combined in so-called “associated financing packages”, the official and concessional elements may be reported as ODA, provided they have a grant element of at least 25 per cent. Such contributions must also meet the special concessionality tests for associated financing, which are based on market interest rates and set out in the Arrangement on Guidelines for Officially Supported Export Credits (OECD, 1998).