14th May, 2020

Joint CSO letter on Accounting Rules for Debt Relief as ODA

With this letter, the undersigned 25 organisations wish to share their perspectives on some issues for the upcoming joint DAC – Paris Club meeting on debt relief. According to our information, this meeting will be discussing how debt relief should be reported as Official Development Assistance (ODA) under the new grant-equivalent methodology, with the aim of reaching an agreement by June.[1] These discussions on debt relief with the Paris Club come in response to the new 'grant equivalent' system, which became the standard for reporting ODA in 2019.

Where do our concerns lie and why?

At the 2014 High Level Meeting, DAC members agreed that changing the ODA measurement system from net flows to a risk-adjusted grant equivalent system would affect the basis on which debt relief of ODA loans was reported. This was because the new system rewards donors upfront for taking the risk that their ODA loans may not be repaid. Thus, the risk of future default is factored into donors' reported ODA as soon as a loan is granted.

The former rules for reporting debt relief should have expired with the reporting of 2017 flows, and should have been replaced by the new rules at that time. However, despite efforts made by all parties, the implementation rules to report debt relief have not yet been agreed. The result is potential double counting of debt relief. On the one hand, the default risk is factored in ODA grant equivalents for loans after 2018, while existing rules still allow for any agreed relief of those debts to be included as ODA as well.

No major debt reorganisations have occurred since 2018 and thus risks of double counting and ODA inflation have been minor. However, in the context of the current Covid-19 crisis and proposed responses, we expect to see debt relief becoming more important, which would affect ODA levels, as it did in the past. To avoid inflation of ODA without reflecting much needed additional efforts, getting the rules right is critical.

At its 2014 High Level Meeting, the DAC acknowledged the risk of double counting and debt relief concluding that "*The cost of risk should not be double counted*." The undersigned Civil Society Organisations (CSOs) are concerned with the content of the current discussions and the possible outcome, which may result in inflated ODA volumes and in less ODA resources available to developing countries to tackle the crisis. We believe debt relief on ODA loans should no longer be included in ODA. Including debt relief as ODA risks distorting aid flows and creating bad incentives for donors. Accounting debt relief as ODA (in addition to what is already accounted upfront) incentivises loans. The share of loans in ODA for the most vulnerable countries has been increasing steadily over recent years, while the level of concessionality[2] has been decreasing. Fixing the rules for accounting debt relief as ODA should also incentivise much-needed grants over loans.

We count on the DAC and DAC members, as guardians of ODA, to maintain its credibility and integrity.

Ahead of the upcoming discussions and considering the concerns raised above, the undersigned CSOs wish to draw DAC delegates' attention to the following **demands**:

- The risk of default[3] is already included in the discount rates used to determine what is reported as ODA under the grant equivalent methodology for loans after 2018. Therefore, including debt relief on ODA loans would lead to double counting and the inflation of ODA figures. Debt relief should not be counted as ODA for future ODA loans.
- Future debt relief efforts would primarily apply to ODA loans granted before 2018 that have been reported on cash-flow basis. Debt relief granted for these loans risks a significant inflation

[1] Summary Record of the 1072nd DAC meeting held on 20 February 2020, DCD/DAC/M(2020)2/FINAL: http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC/M(2020)2/FINAL&docLanguage=En.

[2] The part of those loans that have been given at favourable conditions.

[3] As follows: 4% for Least Developed Countries (LDCs) and other Low Income Countries (LICs); 2% for Lower Middle Income Countries (LMICs) and 1% for Upper Middle Income Countries (UMICs).

of ODA figures. As a minimum, donors should only include as ODA the amount that corresponds to additional budgetary space that this relief effort delivers and not the full face-value of the loan in the year it is cancelled.

- Non-ODA flows as loans should stay out of ODA. Research[4] carried out by CSOs shows how often debt relief originally comes from non-ODA flows such as export credits, where the primary aim is to support donor country exports, and not development. When export credit debts are cancelled they are paid with ODA. Bringing such spending into ODA through debt relief dilutes the basic principle that ODA should have the "economic development and welfare of developing countries as its main objective", and undermines its integrity.

In the midst of the Covid-19 crisis and the response to it, this is the time to scale-up ODA resources and mobilise genuine ODA in the form of grants. Yet, there is a risk that the results of this Paris Club discussion lead to a formula that inflates ODA levels, without bringing in new and fresh resources. The more donors artificially inflate their ODA, the better their statistics look relative to the UN's 0.7 per cent of Gross National Income target per country. And the better the statistics look, the less pressure donors would face to scale up their spending on activities that genuinely contribute to eradicating poverty and combatting inequalities, including the impacts of the Covid-19 crisis.

The OECD DAC and its membership are approaching the end of a long and difficult discussion on how debt relief should be accounted within ODA. Members must take this opportunity to finally clean up serious flaws that threaten to undermine the character of this unique and precious financial resource, and the credibility and integrity of the ODA statistics.

Finally, in July 2018 the DAC took an historic step forward by agreeing the framework for dialogue with civil society organisations that includes a commitment that the DAC will "provide space for consultation with CSOs before key decisions are made". In the spirit of this framework the undersigned CSOs ask for a consultation where we can contribute to the ongoing discussions before an agreement is made, as well as access to the proposals currently under evaluation.

We would appreciate your attention to these issues in your forthcoming meeting and look forward to the outcomes of your deliberations.

With best wishes,

1. ActionAid
2. Africa Development Interchange Network (ADIN)
3. Association pour Integration et le Developpement Durable au Burundi (AIDB)
4. Aid Watch Canada
5. Canadian Council for International Co-operation (CCIC)
6. Centre for Human Rights and Development (CHRD)
7. Centre national de coopération au développement (CNCD-11.11.11)
8. Coordinadora de la Mujer – Bolivia
9. Coordinadora de ONGD España
10. Ecumenical Institute for Labor Education and Research (Eiler)
11. European Network on Debt and Development (Eurodad)
12. Global Health Advocates (GHA)
13. Global Focus
14. Global Policy Forum (GPF)
15. Ibon International

[4] Sundsbo, O. (2011). *Exporting goods or exporting debts? Export Credit Agencies and the roots of developing country debt*. Eurodad: Belgium.

16. Indigenous Peoples Global Forum for Sustainable Development (IPGFforSD)
17. ONE
18. Oxfam International
19. Pacific Islands Association of Non-Government Organisation (PIANGO)
20. Reality of Aid Network
21. Save the Children International
22. Society for International Development
23. S.O.S. CEDIA
24. 11.11.11
25. Wemos