

Lessons from the Crisis in Foreign Aid Statistics

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Abstract

The OECD's Development Assistance Committee (DAC) has compiled foreign aid statistics since the 1960s, and it invented the concept of Official Development Assistance (ODA) in 1969. For decades, ODA data were on actual flows, the DAC having rejected suggestions commencing in 1963 to instead focus on flows' "grant equivalents". But in 2014 the DAC decided, from 2018, to switch ODA loan reporting to "grant equivalents" using unrealistic parameters that exaggerated donors' fiscal effort. In 2016 it decided to abandon the requirement that all ODA transactions be concessional. By 2018, having failed to agree grant equivalent methodology for equity investments, loans to the private sector, and debt relief, it decided to maintain reporting of these on a flow basis. ODA therefore now mixes flows and grant equivalents, which are incommensurable statistical quantities, and embodies other contradictions and anomalies. This paper examines the degradation of the ODA measure and identifies general lessons for statistical development exercises and quality control efforts.

Keywords

Foreign aid, official development assistance, statistical quality, grant elements, grant equivalents, discount rates

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INTRODUCTION – FOREIGN AID STATISTICS

Institutional framework

Since 1961, the Organisation for Economic Co-operation and Development (OECD) has compiled statistics on foreign aid and other resource flows to developing countries, based on information supplied on a questionnaire completed by the members of its Development Assistance Committee (DAC), and some other aid providers (OECD, 2011). Of the 37 OECD member countries, 30 are also DAC Members. The EU is a full member of the DAC, although it is not a member of the OECD. In 1968, the DAC created an Ad Hoc Group on Statistical Problems, which after several changes of name and status is now known as the DAC Working Party on Development Finance Statistics (WP-STAT).

The WP-STAT consists mainly of the senior statisticians in each DAC member country who compile and submit statistics to the DAC. It is the main forum for discussing changes to statistical rules and procedures, although on all important matters it can only make recommendations for decision by the DAC itself. The DAC consists mainly of diplomats posted to the OECD for two to four years, who may also have to represent their countries' positions on several other OECD committees dealing

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with other domains of economic, social or environmental policy. These diplomats are occasionally joined by interested staff from DAC members' administrations at home.

Roughly once a year, the DAC meets at "High" or "Senior" level. High Level Meetings (HLMs) are nominally for the ministers of DAC countries responsible for foreign aid, and Senior Level Meetings for top level officials. In practice many members are represented at below Ministerial level at HLMs and by senior staff at various levels from capitals or even by the country's regular DAC representative at SLMs. In recent years, numerous contentious issues concerned with the rules for compiling aid statistics have not been the subject of agreed recommendations by the WP-STAT, have not been resolved by regular DAC meetings, and have ended up being decided by High or Senior Level meetings on the basis of "political compromises".

Conceptual framework

Financial inflows to developing countries can be separated into four categories, since they can be from either official or private sources, and, in each case, can be either on market terms or concessional, i.e. given away, or at least subsidised so as to give something of value away.

These useful distinctions have their origin in balance of payments (BoP) statistics, and until 1961, statistics on foreign aid closely followed BoP categories. As the DAC developed its own statistical collections, however, divergences of treatment started to emerge between them and the BoP. These were, at least in the early years, carefully documented in DAC statistical reporting directives to facilitate reconciliation with BoP data.

Numerous divergences from the BoP emerged after the DAC introduced the concept of official development assistance (ODA) in 1969.

The invention of ODA was somewhat accidental. The DAC had been created by the USA in 1960–61 mainly to encourage other Western countries to share the financial burden of aid. The USA supplied the Chair of the group, and during the 1960s successive chairs worked to encourage larger flows at softer terms.² US efforts led to a DAC Recommendation on Financial Terms and Conditions in 1965, but monitoring DAC members' performance against this Recommendation proved difficult. This was because the Recommendation applied to all official flows, including export credits at "hard" financial terms, which primarily aimed to promote donors' exports rather than recipient countries' development. So in February 1969 the DAC agreed a Supplement to the Recommendation which from then on applied only to "official development assistance, which is intended to be concessional in character" (Scott, 2015, p. 11).

ODA thus came to represent the official, concessional category of international financial flows, and it became the "official name" for foreign aid. It was defined as "those flows" to developing countries that were "concessional in character" and had "the economic development and welfare of developing countries" as their "main objective". Over the succeeding decades, the WP-STAT and the DAC held many discussions about ODA eligibility, but these questions were always judged against this definition, which remained unchanged after 1972.

What did not remain unchanged was the list of activities that qualified as ODA, which steadily lengthened as donors searched for expenditures that would help them meet the ODA target of 0.7% of donors' national income which the UN had set in 1970. During the 1970s, the DAC added aid to NGOs and administrative costs to the ODA measure; in the 80s it added donors' imputed domestic spending on students and refugees from developing countries; and in the 90s and early 2000s came various peace and security expenditures (OECD, 2011, p. 6).

Many of these expenditures were internal to donor countries, infringing the balance-of-payments principle of measuring cross-border flows. Their inclusion gradually made ODA more a measure of budgetary efforts for development than of international transactions.³

² Softer terms means lengthening the maturities or reducing the interest rates on loans, or replacing them with grants.

³ The developmental relevance of several of the items remained a matter of debate (Raffer, 1998; OECD, 2005).

Even so, the DAC clung to balance-of-payments conventions in one area where they yielded higher figures than budgetary expenditures. When donors forgave commercial debt, mainly export credits, they counted the full nominal value of this debt, including late charges and penalty interest, although they typically acquired the debt for far lower sums, and may even have insured it in return for premia, which were never deducted from ODA as a receipt. CSOs and academics frequently charged that rules on debt relief inflated DAC members' ODA totals, and in 2006 the retiring chair of the WP-STAT told DAC Chair Richard Manning that “fundamental questions are increasingly being raised, including by you, on the amount of ODA that can be claimed”. He advised that “[f]rom a statistical standpoint, it would be possible to come up with rules [that reflected] the true effort of the official sector [but that] the obstacles are political, not least tensions between ministries of finance and aid agencies on how much the former can charge to the budgets of the latter” (Meijndert, 2006, p. 3).

1 MEASUREMENT CONCEPTS: FLOWS AND GRANT EQUIVALENTS

Especially before the invention of ODA, total flow figures were often presented in terms of commitments, i.e. the full amount of new financing agreements, with no deduction for loan repayments. This correctly showed the value of fresh capital being allocated for development, but it overstated donors' financial effort. To remedy this, in 1963 John Pincus of the RAND Corporation proposed that: *In order to arrive at a method that will allow us to measure the resources cost of aid to the donor, we must reformulate the definition of aid...expressing the value of aid as the combined nominal (or market) value of aid less the discounted present value of loan repayments...By this definition, all forms of aid are reduced to their value as grant or subsidy* (Pincus, 1963, pp. 4–5).

He then worked out this grant-equivalent value for DAC countries in 1961 and 1962. But he could not identify a single, most appropriate rate at which to discount loan repayment obligations because the “[d]onor's sacrifices and recipient's benefits may be different”. So he produced three alternative estimates based on discount rates of 5%, to approximate the cost of capital in donor countries; 5.75%, the World Bank lending rate at the time; and 10%, a “rough approximation of the free market rate – the long-term private lending market to underdeveloped countries”. Pincus only used 10% because, in the early 1960s, “the long-term private lending market is too thin to allow a precise estimate”, but he already saw that “If there were a large free market in long-term loans to underdeveloped countries, its long-term rate would represent both the lender's and borrower's alternatives” (Pincus, 1963, pp. 6–7).

Having too thin a capital market to identify the appropriate discount rate for a given loan was a major drawback, for without it, grant equivalent figures became arbitrary. One could literally arrive at any “grant equivalent” number, from the full value of the loan down to zero or even a negative amount, by varying the discount rate applied to the repayments.⁴

Moreover, the premise of Pincus' article was somewhat questionable. His focus on commitments allowed him to claim that: *Clearly whatever its merits, a method that weights equally grants, loans of any term and condition, contributions in kind, etc., fails to establish an economic measure of resource sacrifice, which should presumably be one element of a formal foreign aid burden-sharing system* (Pincus, 1963, pp. 3–4).

This was true as far as it went, but it ignored the fact that DAC reports used commitments data mainly as an indicator of the latest trends in aid allocation, and not as a measure of economic sacrifice.

⁴ More formally, the bounds of a loan's possible “grant equivalent” (for positive interest and discount rates) are its gross disbursement and its net transfer. This follows necessarily from the fact that the grant equivalent is the gross disbursement minus the discounted repayment obligations. If the discount rate is set to infinity, it reduces the repayments to nothing and the loan's grant equivalent is its gross disbursement. If the discount rate is set to zero, then the planned principal and interest payments are deducted in full and the loan's grant equivalent is its expected net transfer over its lifetime – a negative amount equal to its total interest payments. For further information on the operation, history and applications of grant equivalents – see Scott (2017).

Only one of the four statistical tables in the 1963 DAC report used by Pincus presents commitments; the other three all present net disbursements (OECD, 1963, pp. 79–82), and most of the discussion of resource flows also focuses on net disbursement figures (*ibid.*, p. 13f.).

The DAC’s “net disbursements” basis also started from total outflows, but instead of discounting the total repayment stream upfront, it subtracted actual repayments of loan principal as they occurred, ignoring interest. This method derived from the balance-of-payments concept of capital flows. It had the feature that, over the life of a loan, the net flow would sum to zero, as repayments of principal exactly cancelled the original amount lent. If one also deducted interest, one arrived at the loan’s “net transfer” – a negative amount equal to the interest bill, and thus not a measure that appealed to DAC members eager to showcase their efforts (Scott, 2015, pp. 5–6, 9, 10, 18).

The DAC explored Pincus’ suggestion in the mid-60s, at one stage publishing the grant equivalents of its members’ flows using two alternative discount rates: 10%, and the long-term official borrowing rates in each lending country prevailing in the year of the loans (all of which were less than 10%). But it was not convinced. Apparently picking up on Pincus’ admission that the market was then too thin to establish long-term lending rates to developing countries, the DAC’s 1966 annual report noted that “the choice of the appropriate rate for discounting presents some difficulty” (OECD, 1966, p. 54). Its 1967 report went further, stressing that the grant equivalent of a loan was “an entirely notional figure. It does not correspond to an actual flow of funds or of goods and services [...and] cannot be applied to private capital flows. For equity investment, future rates of return are not known” (OECD, 1967, p. 78).

When the ODA concept arrived in 1969, there was thus no thought of casting it in terms of grant equivalents. ODA simply became a subset of official flows, usually presented on a net disbursements basis – i.e., deducting actual principal repayments each year, not the present value of the total repayment burden. Nevertheless, the grant element of loans (i.e. their grant equivalent as a percentage of their face value) was from then on used to calculate the overall concessionality of donors’ aid programmes, a target for which was set in the DAC Recommendation. Later, in 1972, a minimum grant element of 25%, calculated using a 10% discount rate, became a test for a loan’s flows to count as ODA (Scott, 2017, pp. 14–15).

The core net-flow basis for ODA appeared to be settled once and for all after the UN agreed in 1970 that donors should allocate “a minimum net amount” of 0.7% of their national income within an existing total flow target “in terms of actual disbursements”. When in later decades Pincus’ idea of a grant equivalent measure of aid resurfaced, proponents generally accepted that it could not be called ODA, but must have some new name that reflected its different nature, such as Effective Development Assistance (Chang et al., 1998) or Official Development Effort (Hynes and Scott, 2013).

2 THE CRISIS

2.1 Origins and development

As mentioned earlier, the DAC from the 1970s to the 1990s gradually expanded the scope of expenditures that could be scored as ODA, while maintaining the original definition of the concept. By the early 2000s the limits of this approach appeared to have been reached. In fact, under the chairmanship of Richard Manning of the UK (2003–7), several attempts to further dilate ODA coverage were checked. During this period the DAC agreed that transfers under the Clean Development Mechanism could be scored as ODA only if the donor did not benefit from the associated carbon credits or if any such benefit was deducted from the ODA flow (Manning, 2008). Attempts by Greece to score expenditures on the 2004 Olympics and, later, tuition costs of Greek Albanian schoolchildren were rejected. Proposals to count multilateral contributions

to UN peacekeeping were examined, but it was agreed in 2006 that only 6% of these would qualify as ODA.⁵ In 2007, the DAC agreed that, where a developing country was allowed to buy back its debt at a discount, the discount would not count as ODA (OECD, 2011, p. 6).

The DAC's cautious approach during this period may have been influenced by increased scrutiny of aid figures by the CSO community. In 2005 David Roodman, then at the Center for Global Development in Washington, started an alternative statistical series, Net Aid Transfers, which removed debt relief from ODA, and also subtracted interest receipts on ODA loans. In the same year and with follow-up in 2008 and later, Romilly Greenhill and Patrick Watt of ActionAid published a study of what they termed Real Aid. This concept, which became widely used by CSOs, identified over half of ODA as "phantom aid" that "never materialises for poor countries, but is instead diverted for other purposes within the aid system" (ActionAid, 2005, p. 17).

Yet just as it was becoming politically almost impossible to stretch the ODA definition further, donors had promised huge increases in aid. The Gleneagles G8 Summit in 2005 recorded that the EU had promised to nearly double its ODA between 2004 and 2010 from €34.5 billion to €67 billion, or 0.56% of its collective national incomes, and that it would meet the UN target of 0.7% by 2015. The UK pledged to reach the UN target by 2013, Germany pledged to reach 0.51% by 2010 "supported by innovative instruments", and several other countries also pledged substantial ODA increases (G8, 2005).

These promises looked ambitious even at the time, but after the 2008 global financial crisis they became unrealistic. Pressure therefore increased to boost ODA totals with as little financial sacrifice as possible. The "soft underbelly" of the ODA definition was its lax definition of ODA loan concessionality. As Richard Manning lamented in 2008: *I do, however, leave [the DAC chairmanship] with one item of business that I feel that the Committee has been far too slow in addressing. This is the continued use of a discount rate of 10 % in calculating the 25% minimum grant element required for a loan to count as ODA. This convention, adopted in 1972 as a proxy for the opportunity cost of public investments foregone to make funds available for lending, is out of line with the measures used either by OECD for its export credit work or by the IMF and the World Bank for considering lending to be of a concessional character. In my view the grant element formula is simply indefensible, since in present market conditions it is incompatible with the requirement, explicitly stated in the ODA definition, that loans must be "concessional in character"* (Manning, 2008).

Quietly at first, and then with increasing assurance, France, Germany and the EU ramped up their lending programmes to developing countries. Many of the new loans were unsubsidised, but as long-term euro interest rates had declined to 2 or 3 per cent, they easily met the grant element test.

This led to disputes between these members and the DAC's "Secretariat": the permanent OECD officials who collected and curated the statistics (OECD, 2012a). By 2011, the EU became so incensed at the Secretariat's rejection of its ODA loan reporting that it cut off its funding. Highly political negotiations ensued, culminating in an interim settlement reached at Marlborough House, London, in December 2012. This provided for "Transparency regarding the terms of individual ODA loans" and to "Establish, as soon as possible, and at the latest by 2015, a clear, quantitative definition of 'concessional in character', in line with prevailing financial market conditions." This would "Maintain the definition of ODA, and only attempt to clarify the interpretation of loans that qualify as ODA" (OECD, 2012b). In practice the agreement meant that, while the DAC worked out the meaning of "concessional in character", the EU, France and Germany could continue to report unsubsidised loans as ODA provided they identified and justified these.

The next two years saw even more intensive negotiations, including work by an "expert reference group" outside the DAC, and a top-level panel of eight DAC members convened by the then Permanent

⁵ Successive revisions raised this to 15% by 2017.

Secretary of the UK's Department for International Development, Mark Lowcock.⁶ The result, ratified at the December 2014 DAC High Level Meeting (OECD, 2014), was something of a surprise, in that it did not “maintain the definition of ODA”, as promised only two years earlier. Instead, it decided to “modernise” ODA by turning it from a measure of actual flows into a measure of the “grant equivalent” of those flows, as Pincus had proposed 51 years earlier – and as the DAC had previously rejected. This would “incentivise lending on highly concessional terms”, “incentivise innovation” and “encourage the use of ODA to mobilise additional private sector resources for development” (OECD, 2014, pp. 3, 7).

At the same time, the DAC replaced the 10% discount rate used to determine whether a loan's flows would score as ODA with a sliding scale. It selected a “base rate” of 5%, adding politically-negotiated risk margins of 1, 2, or 4%. The base rate was borrowed from an IMF/World Bank formula which itself had been based on average prime lending rates in US dollars over the previous decade. The choice of risk margin depended on the country income group of the recipient, not on actual, observed country risk. As neither was based on currency-specific market rates in the various OECD currencies, the final discount rates of 6, 7 or 9% were essentially arbitrary. The DAC also set new thresholds: grant equivalents would only be recorded if they represented at least 10%, 15% or 45% of the loan value respectively. The whole new “grant equivalent” system would only come into effect with 2019 reporting on 2018 flows, after which the DAC would still also publish figures on a flow basis, but using the new discount rates and thresholds (OECD, 2014; 2018).

The decision to shift to grant equivalents was remarkable. There was no precedent for such a radical change in the nature of a widely-used international statistical measure. Grant equivalents were a completely different quantity from flows, which were the basis for the UN's 0.7% ODA/GNI target – and GNI itself was also a flow (United Nations, 1970, p. 43).

Moreover, from an economic standpoint, fixed, arbitrary, politically negotiated discount rates, invariant by loans' duration and currency, or borrowers' actual credit risk, could not claim to produce realistic grant equivalents. The results would hardly provide an “economic measure of resource sacrifice” or estimate loans' “value as grant or subsidy”, to use Pincus' terms. Nor was there any excuse for using arbitrary rates. What had been missing in 1963 – a “large free market in long-term loans to underdeveloped countries” – now existed, and “long-term rate[s that] would represent both the lender's and borrower's alternatives” were readily available, as several DAC members had already noticed (Canada et al., 2012).

Nevertheless, the 2014 decisions did have two potentially saving graces. First, they stated that “The discount rates and the grant element thresholds to be applied under the changes we are agreeing today will need to be regularly reviewed”. Secondly, they acknowledged that “Changing the measurement system from net flows to risk-adjusted grant equivalents will therefore also [...] require] that the rules on reporting ODA debt relief will need to be updated to rule out double counting...the existing regulations for reporting debt relief should expire with the reporting of 2017 flows, and be replaced by new regulations reflecting our agreement today” (OECD, 2014, p. 7).

The DAC, however, was soon distracted from these tasks by pressures from some its members to make the rules even more generous. By February 2016 these led to a further DAC HLM agreement (OECD, 2016) that flows to the private sector could be included in ODA “based on the system of risk-adjusted grant equivalents” even if they were “non-concessional in nature”. This was a contradiction in terms, since grant equivalents were nothing but a measure of concessionality, and it also involved a fundamental weakening of ODA's concessional nature. The same meeting further agreed that since “financing the private sector is generally riskier than the official sector”,

⁶ The Chair of the WP-STAT at this time, Ms Hedwig Riegler of Austria, has pointed out to the author that her group also had a “concessionality task team” working on this issue, which came very close to proposing the OECD's Differentiated Discount Rates (DDRs) as the new discount rate, but which failed to agree on it due to the political influences being exerted on this technical body. In her view, the process demonstrated that by this time, the WP-STAT had “practically no role in ensuring the technical/statistical integrity of proposals for statistical development” (Riegler, personal communication, 7.1.2020). The DDRs – official OECD benchmark rates used to monitor compliance with an international Arrangement to avoid subsidies on export credits – were also the discount rates proposed for ODA grant equivalents in Roodman (2014) and Roodman (2015).

there would need to be a “risk premium in the discount rate additional to the already agreed sovereign risk premia.” The resulting higher discount rates would inevitably generate higher grant equivalents. The meeting further agreed to develop grant equivalent methods for equity investments in private sector entities, “reimbursable grants” and guarantees, on the ground that this would “remove the disincentives for using these instruments...ensuring efficient use of scarce public funds and targeting projects with high expected social returns” (OECD, 2016, p. 5).

In the end, however, all these discussions proved fruitless, and by late 2018 the DAC found itself with no agreed methodology for grant equivalent reporting of debt relief, loans to the private sector, equity investments, or guarantees. The project to convert ODA to a consistent grant equivalent measure by 2019 reporting on 2018 flows had failed.

The logical conclusion would have been to retain the old flow-based measure until a credible grant-equivalent system had been worked out. This would also have been the sensible way of interpreting the OECD convention of remaining with the *status quo ante* until members reached consensus on something new. But, after four years of touting the benefits of grant equivalents, and having reached further agreements that would boost reportable ODA, the DAC was reluctant to abandon “ODA modernisation”. It therefore adopted a suite of “provisional” arrangements (OECD, 2018) which, subject to a compulsory review in 2021, provided that its members should report as ODA:

- The notional “grant equivalents” of loans to governments produced by applying the discount rates and thresholds agreed in 2014.
- The net flow, not the grant equivalent, of loans to the private sector, applying the old 10% discount rate and 25% grant element test discarded in 2014.
- The net flow, not the grant equivalent, of equities and reimbursable grants.
- For equities sold at a profit, not the actual proceeds but the amount initially invested.
- All debt relief, whether the loans were to the private or public sectors, or had been reported as flows or grant equivalents, applying the rules the 2014 HLM had promised to abolish.
- For all flows to private sector entities in developing countries, *either* the net flows of their financing institutions to developing countries, as above, *or* the net flow of their subsidies to those investing institutions, *ad libitum*.

This tangled settlement largely ignored a “letter of warning” from two former DAC chairs and a WP-STAT chair (Atwood et al., 2018), and was sharply criticised by CSOs (Oxfam, 2018). It was applied for 2019 reporting of 2018 flows, and again for 2020 reporting of 2019 flows (OECD, 2020a, pp. 4–7; 2020b, pp. 1, 2, 6).

2.2 The present state of ODA

The 2018 decisions meant that 2019 and 2020 ODA reporting would be based on rules that contained substantial contradictions and anomalies. Perhaps the most serious flaw remained the fictitious “grant equivalents”, which, by ignoring easily observable market rates, would produce just what the DAC itself had criticised in 1967: “entirely notional figure[s]” which did “not correspond to an actual flow of funds or of goods and services”.⁷

⁷ By 2017–19, the disconnect between actual market rates and the arbitrary DAC discount rates was even more pronounced than it had been in 2014. China’s 10-year bond was typically yielding around 3.5%, but if a donor made a loan to China at the same terms, it would discount the reflows at 6%, and report a “grant equivalent” of around 20% of the amount lent. The gap was even wider for financing to southeast Asian countries. Malaysia, Indonesia and the Philippines were floating 10-year yen bonds yielding only 0.6% to 1.3%, but if Japan lent directly to these countries at these rates, large ODA grant equivalents would be reportable, since the DAC discount rate was 6% for Malaysia, and 7% for Indonesia and the Philippines. It is, of course, true that such loans would also have met the “old” test of a 25% grant element using a 10% discount rate. But had they then been reported as ODA – which the DAC Secretariat may have opposed on the ground that they were not “concessional in character” – then the repayments would also have been reportable, eventually nullifying the ODA credit received. By contrast, the new system reported grant equivalents on official loans upfront, with no subsequent deduction for repayments. Thus, misreporting a non-concessional loan under the old system left ODA *temporarily* too high; doing it under the new system leaves it *permanently* too high.

But this error was now compounded by its interactions with subsequent, largely inconsistent, decisions. The result was a new system that did not even measure an identifiable quantity, since it was a mixture of flows and grant equivalents. Nor did it have a coherent point of measurement, since flows to the private sector could be measured either domestically as net contributions to development finance institutions (the “institutional” approach), or internationally as net payments to developing countries (the “instrument-specific” approach). These two approaches, furthermore, did not relate to the same funds, since the former were typically subscriptions to the capital base of the institutions, whereas the latter came from working capital that the institutions raised on markets.

Continuing to report loans to the private sector as flows instead of grant equivalents, using the “old” grant element test, represented failure to convert ODA to a grant equivalent basis, and also undermined the claims made since 2014 that grant equivalents provided a fairer measure of effort (OECD, 2014, p. 6). Requiring that these loans still meet the classical ODA test of being “concessional in character” contradicted the DAC’s 2016 finding that they were “non-concessional in nature” (OECD, 2016, p. 6). In practice, donors might well take the 2016 decision as licence to ignore the fundamental ODA requirement of concessionality, as long as loans met the outmoded grant element test.

Continuing to report debt relief while reporting the “risk-adjusted grant equivalents” of loans to the official sector double-counted loan risk, violating DAC’s 2014 undertakings (Meeks, 2018). If risk was built into the ODA amount reported when loans were extended, there was no case for reporting any relief later granted on them. On the other hand, if debt relief was still reportable as ODA, then loans’ grant equivalents would have to be worked out using risk-free discount rates, and the case for the risk premia included in the DAC’s 2014 discount rates collapsed. Yet while this article was in press, the DAC announced changes to debt relief reporting which only exacerbated the double-counting. Its new approach will use risk-adjusted rates to inflate both the grant equivalent of the original loan, and the grant equivalent of any relief eventually provided. In many cases, the ODA amount reportable for debt forgiveness will exceed the debt forgiven – see Ritchie (2020).

The situation with “old” loans – extended before 2018 – was similarly contradictory. Where these had been to governments, their repayments, still coming in, were now ignored, even though their full outflows had originally been reported. But if they had been to the private sector, then under the 2018 decisions their repayments were still reportable.

The new rule to cap reporting of the proceeds of equity sales meant that only sales that resulted in a loss would be reported correctly. If the equity were sold at a profit, donors would not report their actual receipts but only their original investment. Since receipts give rise to negative entries, understating them overstates financial effort. It also contradicts the DAC’s “joint understanding” that its alternative “institutional” and “instrument-specific” methods of recording flows to the private sector “should generate, over time, comparable ODA figures for comparable donor efforts” (OECD, 2016, p. 6). For if an equity *fund* made profits returned to a donor government, the institutional approach would capture them, whereas the underlying profits on *individual* equity investments would not be reportable using the instrument-specific approach.

These and other problems with the “new ODA” were drawn to the attention of the DAC Chair in late 2019 (Scott and Moorehead, 2019). The Chair conceded that the DAC had reached “political compromises” which were “always and inevitably a bit messy” and that “there is of course unfinished business...but this too will need to find a middle path between technical and political considerations”. The Chair stated her belief that the “new system has many benefits, including a fairer measure of the degree of concessionality”. She also pointed out that “we publish data using both the new grant equivalent and the old flow-based methodologies” – without, however, explaining that the new measure still counted several forms of aid on a flow basis, or that the old measure now included the new discount rates and the new rule to ignore profits on equity investments.

The Chair also claimed in relation to 2018 figures that “the new grant equivalent methodology has not led to inflation of the amount of ODA. For some members, their ODA figure is lower under the new system.” Yet this was only a temporary timing effect. As explained above, in the long run, ODA reporting on every loan sums to zero on a net flow basis; whereas only positive grant equivalents are reportable. By 2020 reporting on 2019 flows, the “new ODA” figure was already more than \$5 billion, or 3.7%, higher than the net flow figure. ODA had officially risen 1.4% from the previous year, whereas the rise was only 0.1% on the traditional, net flow basis (OECD, 2020a, pp. 1, 4, 6).

2.3 Causes and possibilities for recovery

Taking the long view, one can observe several aspects of the DAC’s nature that contributed to the present “train wreck” of the ODA rules. First, the Committee acts in isolation from the international statistical community: its decisions are not open to review by any statistical authority, or subject to any coordination with related statistics, such as on the balance of payments or national accounts. Second, the DAC is a political body, whose prime interest in statistics is to develop rules that will help it present the efforts of its members in the best possible light.⁸ Third, while it does have a specialised statistical subgroup, the WP-STAT, this body has no power to change the rules on its own, and in practice has had all significant decisions in recent years taken above its head. Fourth, in recent years the DAC’s broad aid policy remit has led it to try to achieve policy objectives through *incentives built into statistical rules*,⁹ rather than through its earlier approach of agreeing Recommendations to be monitored through *neutral statistical rules*.

As of early 2020, there were some tentative signs of progress towards greater DAC openness. Since 2017 its Secretariat had been publishing all records of the meetings of a broad-based task force it convened to develop a new measure of Total Official Support for Sustainable Development (TOSSD).¹⁰ It had also agreed a framework for co-operation with civil society organisations, and in late 2019 the statistics working party approved a proposal to issue records of its meetings (though not the background documents) as “unclassified” (OECD, 2019; OECD, 2020c, pp. 5–6). These moves offer some hope that the DAC may in future be more open to informed criticism. Yet its essential institutional set-up remains unchanged, and the scale of the task of re-establishing a credible measure of foreign aid is daunting.

3 LESSONS FOR CODES OF PRACTICE AND STATISTICAL QUALITY FRAMEWORKS

Given the deterioration of the ODA rules in recent years, it may be thought that existing structures for ensuring statistical quality have here proven inadequate. On closer examination, however, it appears that the fault lies not so much with the structures as with a failure to apply them.

Two broad families of documents aim to ensure the quality of international statistics. First are general guidelines and principles such as the UN Principles Governing International Statistical Activities (United Nations, 2005), to which the OECD has subscribed, and the Recommendation of the OECD Council on Good Statistical Practice (OECD, 2015). These deal mainly with procedural and institutional matters, and are designed to ensure sound statistical processes. The second type of discipline is provided by so-called “quality frameworks”, which spell out the characteristics of good statistics, and provide mechanisms for managing the quality of statistical outputs and processes. These two types of disciplines are complementary:

⁸ As the DAC Chair puts it, “Committee work needs to strike a functional balance between the space for members to deliberate, negotiate and reach a compromise – and then to publicise its work as appropriate” (Scott and Moorehead, 2019).

⁹ “It is expected that the modernised system would create incentives for increasing the use of these instruments – and by extension boost efforts to scale up engagement by the private sector in development finance” (OECD, 2016, p. 5). Cf. also the references in Section 2.1 to DAC statements of the need for statistical rules to encourage, incentivise, or remove disincentives to particular actions.

¹⁰ For the latest information on the development of TOSSD, see the Task Force’s website (OECD, 2020d). For a penetrating analysis of developments up to 2019 – see Riegler (2020).

principles usually include conformity with quality frameworks, and quality frameworks may borrow criteria from lists of principles (Scott, 2019).

Upon inspection, it is apparent that recent discussions of ODA rule changes violated both sets of guidelines.

For example, the Principles Governing International Statistical Activities urge adherents to “make documents for, and decisions of, statistical meetings publicly available” (United Nations, 2005, p. 1). Until recently this has not been standard practice, although as noted above, records but not documents will now be issued unclassified.

Nor did the DAC’s *modus operandi* conform to the OECD Recommendation’s requirement that statistical authorities with “professional independence” from policy departments should have “exclusive authority...to decide on statistical methods” and be “protected...from political and other interference in developing...official statistics”. The DAC also failed to observe the Recommendation’s demand for “impartiality, objectivity and transparency of official statistics” based on “sound methodology” that respects “scientific independence...in an objective, professional and transparent manner” (OECD, 2015, pp. 10, 11).

The Recommendation includes reference to the OECD’s own quality framework for statistical activities. Among the quality dimensions of this framework which DAC decisions clearly flouted are “accuracy (statistics accurately and reliably portray reality)” and “coherence and comparability (statistics are consistent internally, over time and in space and it is possible to combine and make joint use of related data from different sources)”.

However, both the OECD’s quality framework (OECD, 2012c) and more detailed guidelines available for national statistics, such as the United Nations’ National Quality Assurance Frameworks Manual for Official Statistics (United Nations, 2019) have a strong procedural orientation. As a rule, they explain how to develop good statistics, rather than providing specific tests of whether an existing statistical product, or changes introduced to a product, are sound. The incoherencies introduced into the ODA measure since 2019 reporting on 2018 flows suggest that these guidelines may need to provide greater specificity if they are to ward off similar problems in future.

For example, the UN Manual requires (United Nations, 2019, p. 105) that “when statistical modelling is used in the statistical production process (e.g., for seasonal adjustment), the validity of model assumptions is carefully considered and the impact on final estimates is evaluated”. The grant equivalent calculation for an ODA loan is itself a model. Its assumptions, including the discount rates and thresholds, were politically negotiated, which may or may not meet the UN Manual’s injunction that they be “carefully considered”. But in any case, as demonstrated above, the DAC model produces clearly unrealistic estimates of loans’ true “grant equivalents”. There is also the issue of whether and under what circumstances a model result should be *preferred* to an observed value, in the way that the “new ODA” prefers grant equivalents to actual, measured flows. Quality frameworks might benefit by providing more guidance on the appropriate uses of model-generated “data”.

Another example is data coherence. Here the OECD framework (OECD, 2012c, p. 48) states, correctly, that “verification mainly involves the coherence of the information received over time, across datasets and across countries”. The provision in the “new ODA” for countries to report as ODA either inflows to, or outflows from, development finance institutions, clearly violates this principle. But the framework could perhaps make the point more forcefully by stressing the need to respect a single point of measurement wherever possible. “Point of measurement” is not mentioned anywhere in either the UN or the OECD document. Those documents might also usefully warn against statistical rules that would sum different statistical quantities, such as flows and grant equivalents, within the same aggregate.

In line with the OECD’s Recommendation on political independence mentioned above, its quality framework (OECD, 2012c, p. 8) states that it is important that data “are not manipulated, nor their release timed in response to political pressure”, and that they “cannot be withdrawn

in response to political pressure”. However, neither it nor the UN document specifically warns against developing statistical rules with the policy aim of encouraging or rewarding particular behaviours by the agents whose actions the statistics will measure – which has been a recurring theme in the “ODA modernisation” process.

There are also some basic rules of logic which quality frameworks may have omitted because they seemed self-evident, but which the ODA experience suggests may be worth spelling out explicitly. For example, the frameworks could recommend that if changes to statistical instructions alter the quantity being measured, then consideration should be given to starting a new series with a new name, rather than splicing the new measurements onto the old ones under the same name. This might have avoided the present situation where the OECD has reported ODA/GNI ratios for 2018 and 2019 in which the numerator no longer corresponds to the “net flow” concept used in the United Nations’ target for this ratio.

Finally, while quality frameworks address issues concerned with the use of provisional *data*, they do not address the issue of when it is appropriate to use provisional rules. As of mid-2020 the OECD has used, for two successive years, a definition of ODA containing no fewer than six footnotes flagging items or issues that have “not been agreed yet”, “will be reviewed”, “remain to be clarified”, or are “pending finalisation of the overall reform of the DAC statistical framework” (OECD, 2020b, p. 6). Quality frameworks might usefully include guidance about the use of data based on unfinished rules, especially in cases where a previous set of rules has been used successfully over a long period.

Overall, it is clear that the DAC’s “ODA modernisation” process infringed key statistical principles, practices, and quality dimensions to which the OECD has subscribed. This suggests that the Organisation may need to tighten its institutional mechanisms to ensure that its quality assurance framework is more rigorously applied in future. But the experience may also suggest several useful amplifications and clarifications of its and other organisations’ frameworks.

CONCLUDING REMARKS – WAS CORRUPTION INEVITABLE?

Granted that the “ODA modernisation” project violated numerous existing guidelines for statistical work, can one therefore conclude that better enforcement of these guidelines, or more rigorous guidelines, would have avoided all problems? Unfortunately, this may not be the whole story.

For it is a proverbial truth that policy-relevant indicators are subject to corruption. “Goodhart’s Law”¹¹ states that: *When a measure becomes a target, it ceases to be a good measure.* And “Campbell’s Law” gives a hint of the processes involved: *The more any quantitative social indicator is used for social decision-making, the more subject it will be to corruption pressures and the more apt it will be to distort and corrupt the social processes it is intended to monitor.*

ODA has now been both a target and a tool for decision-making about aid allocations for 50 years. So the wonder may be not that it has become corrupt, but rather that the process took so long. In particular, why did the decline accelerate so markedly from 2014?

One answer may be the DAC’s increasing disregard of outside advice. In the 60s it had given detailed and sustained consideration to Pincus’ suggestion of a grant equivalent measure, and as recently as the early 2000s it had seemed sensitive to CSO critiques of the breadth of ODA coverage. By contrast, after Roodman (2014) diagnosed a “crisis in ODA statistics” and proposed a suite of recommended remedies, both his and numerous other sensible external suggestions fell on deaf ears (cf. CSOS, 2018).

Yet the real key to the timing and the inevitability of the recent corruption of ODA may be a more fundamental shift in the attitude of the DAC. Up to 2012, the Committee was always careful to present rule changes as objectively justifiable within ODA’s core concept. From then on, “modernisation” gradually mutated into

¹¹ For information and references on Goodhart’s Law and Campbell’s Law (see Rodamar, 2018).

an effort to encourage particular aid allocation behaviours. ODA rules no longer aimed to reflect reality, but rather to shape reality. And one can no longer expect to find the truth once one is focusing on another task.

It may therefore be of interest to students of Goodhart's and Campbell's Laws to examine whether in other cases the crucial turn towards corruption also came when those tending the statistical apparatus started to show more interest in pursuing policy objectives than in faithfully portraying reality.

The ODA measure under exclusive DAC tutelage may by now be beyond redemption. The present "provisional" rules give ODA credit for loans with zero fiscal cost, double-count default risk, and hide profits on equities. And as donors increasingly resort to these dodges to boost their figures, they will progressively lose interest in restoring rigour to the ODA rules.

Rehabilitating ODA, or developing a new and more credible measure of foreign aid, will almost certainly require a new institutional set-up, which insulates statistical development work from political interference. This is bound to require more input from national statistical offices, and from international agencies such as the UN, World Bank and IMF that have an interest in accurate measurement of international flows. Even so, the DAC's recent moves towards greater transparency, as well its involvement of outside actors in the development of TOSSD, gives some hope that it might yet play a positive role in these developments.

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