



Concessionality options and the status of the debate

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Objectives of the reform

2012 HLM mandate: establish a clear, quantitative definition of “concessional in character”, in line with prevailing financial market conditions, **by 2015**

- Restore the credibility of ODA as an indicator of donor effort
- Comply with HLM decisions and principles to the furthest possible extent
- Take into account resource mobilisation, allocation and accountability objectives set in the HLM general mandate on development finance.

List of options - as presented at the DAC meeting on 10 June

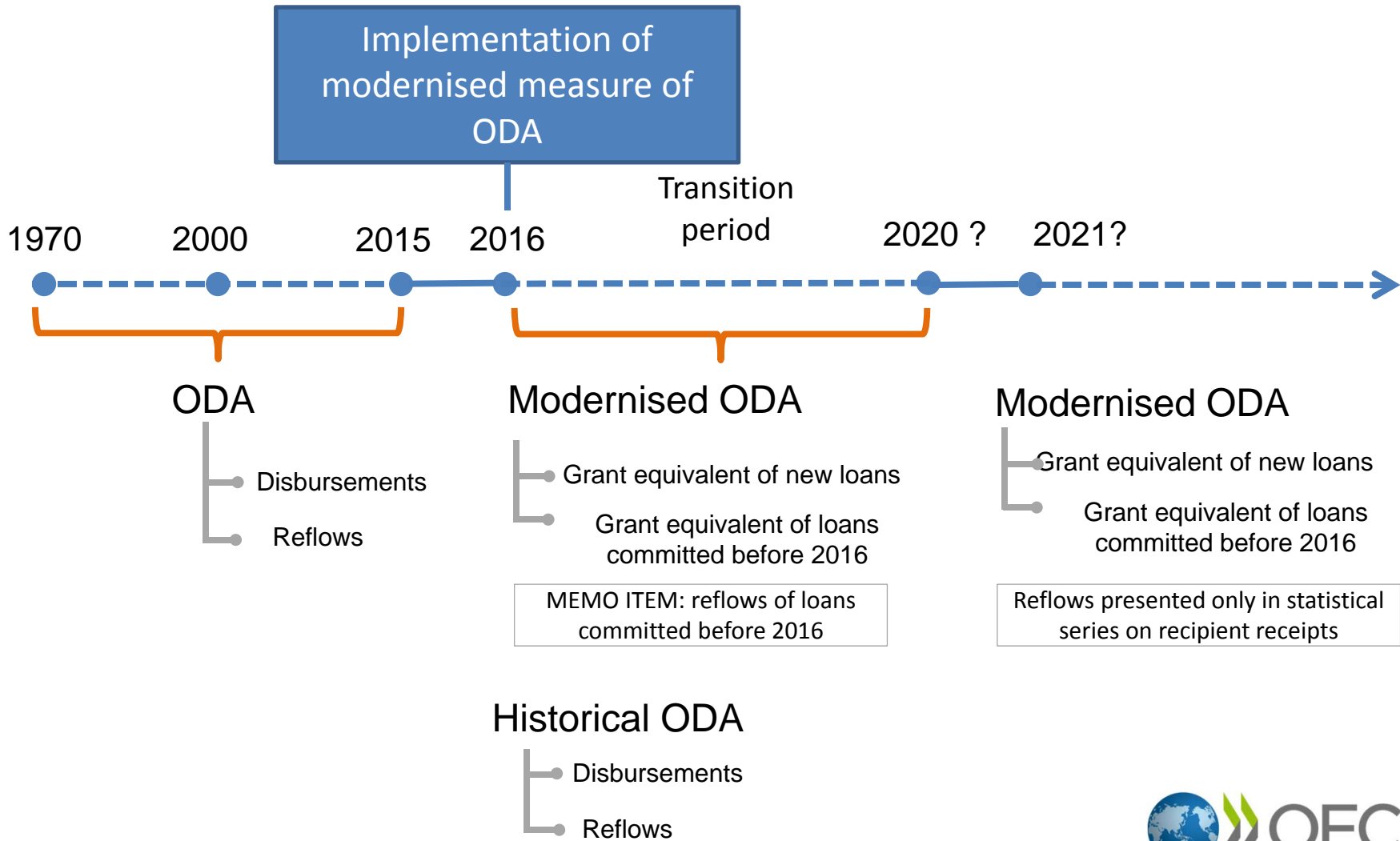
Measurement	Basis for assessing concessionality	Discount rate	Option
Grant equivalent method	Lenders' funding costs	IMF/WB rate	A
		DDR	B
	Lenders' funding costs and risk	IMF/WB rate + risk premium	C
		DDR + risk premium	D
Cash flow method	Lenders' funding costs	IMF/WB rate (35% threshold)	E
	Lenders' opportunity costs	10% (25% threshold), need a numerical test for concessional in character	F

List of options following DAC & WP-STAT discussions: options added

Measurement	Discount rate	Threshold
Cash flow - net	DDR	fixed (25% or 35%) or sliding (50% for LDCs, 35% for LMICs, 15% for UMICs)
Cash flow - gross	10% (as a proxy for DDR + risk premium)	25%?
Grant equivalent	DDR, DDR + risk premium	introducing a threshold for that option too
Inflows to DFIs vs. outflows		

Need for safeguards on debt sustainability.

Transition period (loans only) – grant equivalent method



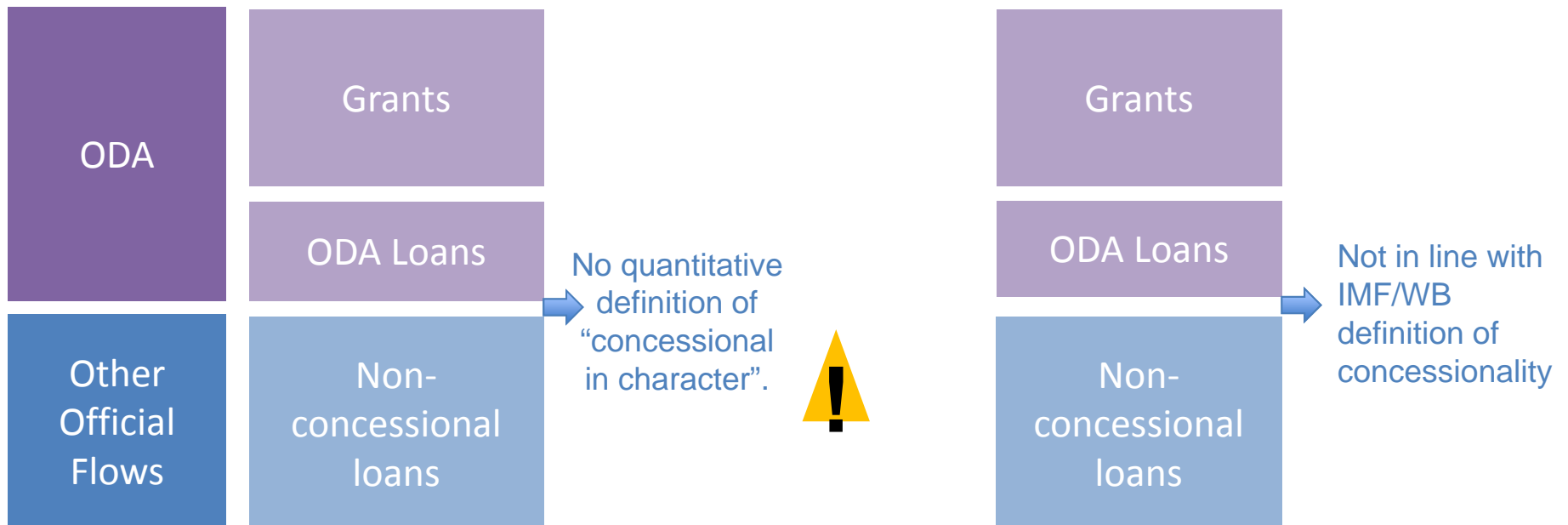
Questions for discussion

- What incentives do the different accounting options create for loan allocations?
- Do the existing debt sustainability frameworks provide sufficient safeguards against over-indebtedness of developing countries?
- How would the transition from the old to the new reporting method need to be managed in order to be fair and credible?

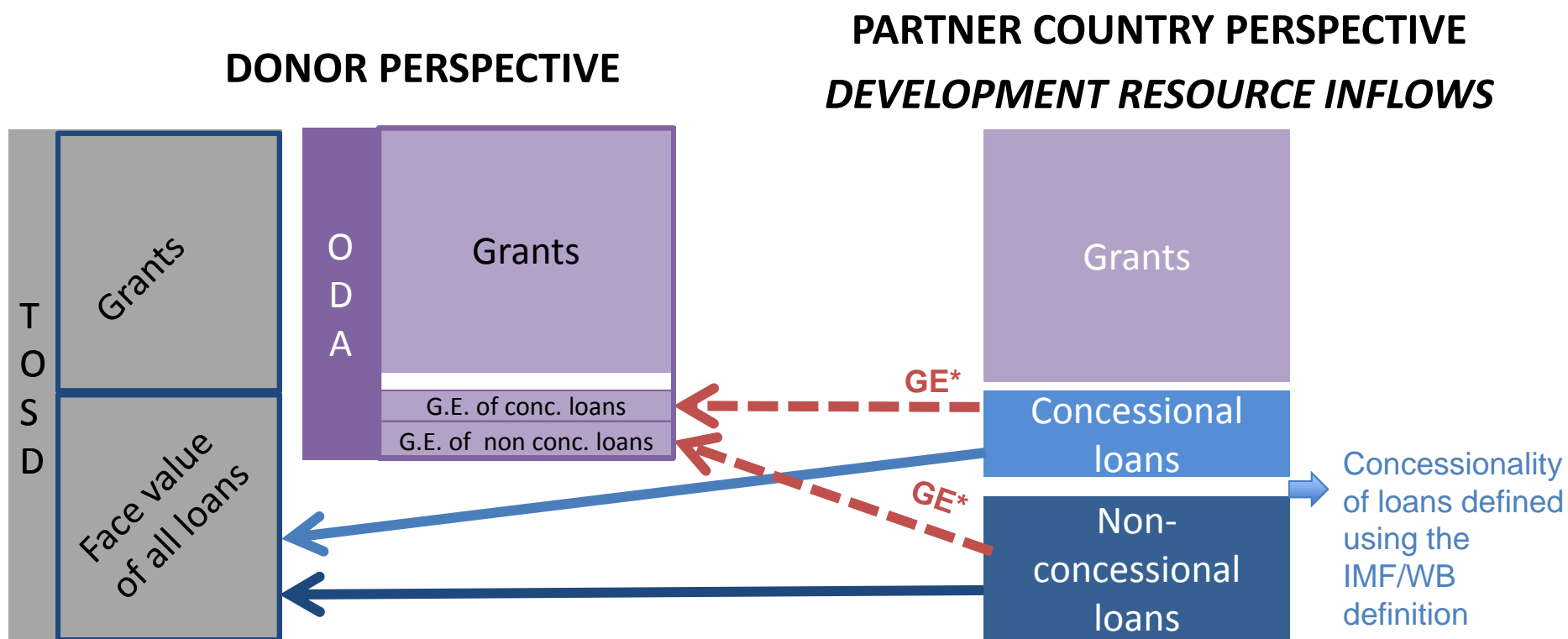
From cash flows to grant equivalents – Illustration of the change in concept *Current System*

- Donor perspective

- Recipient perspective



From cash flows to grant equivalents – Illustration of the change in concept system *Post 2015 system?*



* Grant equivalents are recorded in ODA (for both conc. and non-conc. development loans). The amounts recorded in ODA will depend on the choice of the discount rate

Cash flow method

