

**Kunibert Raffer**

## **Looking a Gift Horse in the Mouth: Analysing Donors' Aid Statistics<sup>\*</sup>**

"Words mean what I say they mean."

The Red Queen, *Alice in Wonderland*

### **1) Introduction**

The power of determining the meaning of words and concepts is an extremely valuable asset. At present the club of Western donors, organized in the Development Assistance Committee (DAC) of the OECD, defines the generally accepted concept of Official Development Assistance (ODA) as

those flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests:

- a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and
- b) it is concessional in character and contains a grant element ... of at least 25 per cent.

(OECD, 1996b, p.247)

---

<sup>\*</sup> The original version was presented at the Annual Conference of the Development Studies Association at Reading (UK), 18 - 20 September 1996, a revised version at the Seminar *A New Paradigm of Financing Development and Development Co-operation* organised by the UNDP, Stockholm, 23-24 March 1997. For useful comments on the first draft I want to thank Sir Hans (H.W.) Singer and Howard White. They should not be held responsible for my arguments and conclusions. This paper was published in: *Zagreb International Review of Economics & Business*, vol.1, n.2 (November 1998), pp.1-21. Reproduced with kind permission of *ZIREB*.

This definition agreed on by the DAC in 1969 (OECD 1985, p.171) to define ODA more clearly "has not changed for over 25 years." (OECD, 1996a, p.126). Virtually all data used by researchers and politicians, including those on non-DAC donors, have been published by the DAC. No other donors, including OPEC or the former communist countries as long as they existed, have ever tried to present their own figures in a comparable way. They accepted both the DAC's definition of ODA and the DAC's data on their own aid. This is inexplicable in the case of the Soviet Union in the 1970s, when the West tinkered with Soviet statistics for political purposes. The OECD for instance suddenly excluded huge amounts given in the form of price subsidies (mainly to Cuba) in 1974 - which, in line with the definition above, had been explicitly accepted as ODA by the OECD until 1973 - without even mentioning this substantial change explicitly until 1980. Soviet aid was reduced dramatically, by happenstance at a time when the Soviet Union would otherwise have outperformed the US in aid measured as percentages of GNP according to the OECD's own figures, finally reducing Soviet aid close to nothing (Kaiser, 1986; Raffer and Singer, 1996, pp.66ff). While it cannot be understood why the Soviets did not point at this "change" triumphantly, this case illustrates quite clearly that ODA means what the DAC says it means and is what the DAC says it is.

ODA-figures produced by each member state itself are reviewed by other DAC-members. Participation by recipients or independent experts has never been deemed necessary. DAC-donors have exercised the privilege of self-control, called "peer-review" in their publications. This double monopoly on data production and performance evaluation calls for close scrutiny of what passes as ODA.

The definition is so soft that critical minds might call it well chosen. Demanding the promotion of economic development and welfare as the main objective allows nearly anything to pass as ODA. People do disagree on what "welfare" or "economic development" means, and there is even more disagreement on what measures promote them. But an actual increase in welfare or an actual promotion of development is not necessary - the intention suffices. Unless the donor's intentions to the contrary (such as

doing harm, having another main objective) can be conclusively proved - which is next to impossible - it applies automatically, even if substantial damage is inflicted upon recipient countries and the people affected by a project. In passing it might be remarked that not even a mechanism of assuring damage compensation comparable to the standards considered normal and demanded by the rule of law within any OECD country exists.

The official definition provides no logical reason against including military activities as long as soldiers shoot or kill mainly to promote welfare and economic development. Nevertheless the DAC claims that "Grants, loans and credits for military purposes are excluded." (OECD, 1996a, p.123), an assertion honoured in practice both in the breach and in observance. The IBRD (1990, p.253) cautions that "the borderline is sometimes blurred; the definition of the country of origin usually prevails." It (*ibid.*, pp.127f) concludes: "Many 'aid' programs in donor countries cover an assortment of activities (including commercial and strategic initiatives) which often have, at best, a tenuous connection with development."

By contrast the grant element of at least 25 per cent is a more objective measure. However, as it simply measures the difference between the present value of a loan at what the DAC calls the "market interest rate" (taken as 10 per cent, which is perceptibly above the actual market rate at present) and its present value at the interest rate actually charged, a sufficiently high grant element does not necessarily mean any economic gains. Actual export prices can be much higher than competitive world market prices, particularly in cases where price comparisons are difficult. The more excessive the overcharge, the higher the loan reported as ODA, and in final consequence - the more "generous" the donor, as Raffer and Singer (1996, pp.10) observe. It is possible that overcharging may (over)compensate financial "concessions" of an ODA-loan. Furthermore, a "donor" able to get money at sufficiently less than 10 per cent can lend it on to the "recipient" with a mark-up, thus combining profit with charity. The UK for example had generally provided ODA-loans on that basis for quite some time, combining this practice with objections of principle against lower interest rates (OECD, 1985, p.109). Such objections subsided long ago and the DAC Terms of Recommendation

specify a minimum grant element of 86 per cent on average to discourage such practice. Nevertheless a profitable loan with a low grant element still qualifies as ODA.

Morrissey and White (1996) rightly point out that existing overpricing cannot (over)compensate the grant equivalent of any donor's total ODA with present average concessionality rates. The average grant element of DAC members was slightly above 90 per cent for the biennium 1993-4. Morrissey and White (1996) also show that (over)compensation is easier in the case of "associated financing". Interestingly, they could not use recent data on associated financing because the OECD stopped making them available in 1985 (*ibid.*, p.214).

As Raffer and Singer (1996) discuss all aspects of the ODA definition in great detail, these brief remarks may suffice to show that ODA may but need not be real help. They are a necessary background to the issue this paper focuses on: the "broadening" of ODA, which has been done in two ways. First, by agreeing to include costs or flows previously not subsumed under ODA. While claiming that the definition has not changed for over 25 years the OECD (1996a, p.126) points out that "changes in interpretation have tended to broaden the scope of the concept". Second, expenditures not intended to be counted as ODA have been reported to and accepted by the DAC with a wink, though sometimes with expressions of uneasiness. Initially small, these outlays have boomed recently. Finally, as documented below, even expenditures officially qualified as not meeting the criteria demanded by the definition have been subsumed under ODA by the DAC all the same.

Although not all attempts to "broaden the concept" were successful, present DAC performance would be noticeably worse if donors had not increased the coverage of activities eligible as ODA. The falling trend of ODA expressed in percentages of DAC-GSP must be seen with this in mind.

## 2) Broadening the Concept of ODA

The OECD (1996a, p.126) illustrates the broadening of the concept with three examples:

- administrative costs (since 1979),
- imputed costs of students from the South (since 1984) and
- assistance provided to refugees from recipient countries during the first year after arrival in the donor country ("eligible to be reported for some time but widely used only since 1991").

Although the wording makes it clear that these are not the only cases no further examples are given.

The OECD refuses to provide estimates of the quantitative impact of broadening:

Quantification of the effects of these changes is difficult because changes in data collection methodology and coverage are often not directly apparent from statistical returns. The amounts involved can, however, be substantial. For example, reporting by Canada in 1993 included for the first time a figure for in-Canada refugee support. The amount involved (\$184m) represented almost 8 per cent of total Canadian ODA. Aid flows reported by Australia in the late 1980s, it has been estimated, were some 12 per cent higher than had they been calculated according to the rules and procedures applying fifteen years earlier.

*(ibid.)*

Figures on other countries exist, and can be found by looking at official national sources. They may be perceptibly higher than in the two examples quoted. In Austria for instance assistance to refugees accounted for no less than 20.8 per cent of Austria's ODA both in 1992 and 1993, imputed costs for students for another 10.4 and 11.2 per cent respectively (ÖFSE, 1994, pp.9ff). The three "broadening" factors mentioned above accounted for roughly one third of the country's ODA, making it about 50 per cent higher than without "broadening" - a boost certainly worth mentioning. Occasionally the OECD (1985, p.173) is able to report astonishingly exact figures, disclosing for instance that indirect costs of students from recipient countries subsumed under ODA were 12.7 per cent of Austria's total ODA in 1983, 1.8 per cent of Belgium's, 1.2 per cent of France's, notwithstanding the statement by the OECD (1996a, p.126) that these costs have been imputed since

1984, when Australia started to report this item amounting to 12.9 per cent of its total ODA (OECD, 1985, p.173). It is not easy to understand, why quantification has become that more difficult a decade later. Administrative costs are disclosed by the OECD - they increased from 3.38 per cent of total DAC-ODA in 1983-4 to 4.38 per cent in 1994 (OECD, 1996a, p.A37).

The OECD's position allows two conclusions. Either no corrections could be made to produce consistent time series, because the DAC could not quantify these factors - which would be surprising, considering that it was once able to do so - or it is unwilling to disclose these sums because they are too "substantial". In both cases ODA time series are flawed - the OECD (1985, p.173) speaks of "major breaks in the continuity of the long-term series" - and the falling trend resulting from the original method must be more pronounced.

If whole items involving "substantial" amounts of money cannot be traced and quantified by the DAC because of the statistics provided by its own members, severe doubts about the quality of both its published figures and of the system of peer-reviewing are justified. It is difficult to see how flows can be audited in detail to see whether they meet the criteria demanded for ODA if statistical returns are so bad that whole important items are difficult to quantify. It also prompts the question why members are not encouraged to provide better data. Finally, one has to ask what precisely is meant when the OECD states that revising historical records for "substantial" changes "is not always feasible" (OECD, 1985, p.173). From a purely statistical point of view consistent time series are usually not considered unfeasible.

Further examples for "broadening" not mentioned by the OECD *Report* (1996a, p.126) are the "inclusion from 1970 ... of official contributions to these [private voluntary] agencies' activities (which are recorded as ODA)" (OECD, 1985, p.173) the second "major break" in continuity according to the OECD. The sums involved are readily available in the so-called *Chairman's Reports* and shown in Table 1 for the recent past. The share of these "Contributions to NGOs" in total ODA has increased significantly.

The DAC average of the years 1983-4 was \$32 mio. or 0.117 per cent of ODA. In 1994 it amounted to \$1,041 mio. or 1.76 per cent (OECD, 1996a, p.A37) - it increased more than 32-fold in nominal terms, over 15 times as quickly as ODA, which slightly more than doubled.

In the jubilee edition of the *Chairman's Report* (women have never been allowed to chair so far) the OECD (1985, p.173) defines "in particular export credits extended by an official sector trade promotion body ... , debt relief funded by the National Treasury or other government departments" as Other Official Flows (OOF), explicitly denying them qualification as ODA. In the case of communist donors the OECD (1985, p.118) stated consistently that debt cancellations and debt reschedulings softening outstanding loans to more concessional terms were "not taken into account". Some ten years later the situation has changed. The Cold War and its exigencies are matters of the past, debt forgiveness including non-ODA export credits is now readily recorded as ODA since the beginning of the 1990s without any change in definition. To the extent that export credits would have been recorded as ODA in practice if the grant element had been sufficiently high, this can be defended as within the logic of the system. On the other hand even grants to aid recipients included in associated financing packages, which do not satisfy ODA criteria, have to be recorded as Other Official Flows, at least in theory. This makes the decision on export credit cancellation logically debatable. But since the reporting country decides whether its own grants satisfy ODA criteria or not, this rule might not be highly relevant in practice. In any case, this change did boost ODA sums.

In spite of the OECD's statement above some members have continuously reported export credits as ODA, a practice routinely condoned by the DAC. Austria is probably the best example to illustrate this point. Although by no means the only DAC member using aid to promote exports, the share of export credits in total ODA has traditionally been perceptibly above other DAC members. This fact has been criticized by researchers, NGOs, the Austrian aid administration itself and the DAC for quite some time (cf. Raffer, 1995). In 1983 for instance the official *Dreijahresprogramm 1984-86* published by the Austrian Federal Chancellery (1983, pp.24f; translation mine) stated that the OECD

found fault with these credits "evading primarily development oriented planning, structuring (intention), assessment as well as international ODA-comparison and used with an orientation towards competitiveness" of exports. A few lines further down the Chancellery stated that "the benefit of the developing country [is] a secondary effect after all". A few pages above it declared: "Presently no application of developmental criteria. Review urgently needed." (*ibid.*, p.19)

In spite of these official and public statements Austria had increased the sum of export credits reported as ODA by more than 1,700 per cent between 1979 and 1982, reaching an ODA/GNP ratio of 0.53 per cent, distinctly above the DAC average. The following peer review brought this figure down to 0.35 per cent. On this occasion the OECD expressed strong doubts about the development orientation of these credits, but still accepted some export credits as ODA. Considering Austria's official statements on the total absence of development orientation this is a clear violation of the OECD's own rules. The OECD asked Austria to refrain from reporting credits if export interests were predominant and made Austria agree to respect the general DAC practice of reporting credits on disbursement not on commitment (cf. Raffer, 1995, p.25).

Courteously avoiding the word "mainly" the OECD (1993, p.18) spoke once again of "not primarily development oriented" components in a peer review, classifying export credits as "essentially an interest subsidy scheme, whereby export credits extended by the Austrian Kontrollbank and as part of its official export promotion programme are subsidised through the Federal budget" (*ibid.*; OECD, 1996c p.24 repeats it nearly literally). It pointed out that this criticism had been made frequently in the past, suspecting that at least some of these projects could have been financed on market terms. The OECD (1993, p.19) mentioned favourably that the Austrian aid administration "is considering the possibility of reducing the share of these credits". The last review, however, found again that "reporting of expenditures for refugees, imputed students" costs and concessional export credits has been rather generous. More restrictive reporting would be possible and desirable." (OECD, 1996c, p.23) This "stricter interpretation" of

ODA would have reduced Austrian aid by 0.06 GNP-percentages in 1993 and by 0.11 GNP-percentages in 1994 (*ibid.*, p.26), or by two fifths and one third respectively.

Thus both the competent Austrian authority and the DAC declared publicly, officially and repeatedly that these flows were not ODA because they violated the first DAC-criterion of being "administered with the promotion of the economic development and welfare of developing countries as its main objective". Nevertheless, with few exceptions these credits have been accepted and recorded as ODA by the DAC. Obviously the donor club is not extremely keen on enforcing its own rules strictly, allowing cosmetic tinkering with aid statistics to make them look better. However, as one of the main functions of DAC data is assessing the comparative performance of aid donors - or "burden sharing" in the sense of "solidarity with other donors" as the OECD (1996c, p.11) calls it - a line is apparently drawn when this tinkering gets out of proportion, affecting the ranking of donors by the highly visible performance criterion of ODA volume. Austria seems also to have overplayed her hand by repeatedly supporting the South verbally in international fora during Bruno Kreisky's chancellorship, providing aid well below the agreed and usual DAC standards while inflating her ODA figures in clear violation of DAC rules. Export credits are not the only flow where Austria has inflated her ODA by disproportionate reporting of sums not readily fitting the DAC's perceptions of aid. The official *Dreijahresprogramm 1995 bis 1997* (Federal Chancellery of Austria, 1994, p.10) states with utmost honesty: "If Austria's development aid were reported according to the reporting practices applied by the majority of DAC-members the volume would be about 0.25% of GNP" in 1992. Compared with the official DAC figure of 0.30 per cent this amounts to a reporting privilege of roughly one fifth over other donors. The following table showing planned ODA for the year 1993 contains a row specifying the subtotal of ODA considered "in accordance with DAC [criteria]" ("davon 'DAC-gemäß'"; *ibid.*, p.11).

Capital subscriptions to multilateral organizations is another item where changes were made. Before 1980 some DAC members reported their contributions - made in the form of notes encashable on demand - "on encashment, others on issuing (i.e. deposit)."

(OECD, 1985, p.173) Feeling this to be a clear defect in comparability the OECD decided that reporting should be done on a deposit basis, which in practice means boosting aid figures. If these notes are encashed later this method shifts the date of disbursement forward. Since deposits have usually been perceptibly larger than encashments this nevertheless did "improve" performance. To the extent that multilateral institutions do not encash ("call" this capital) at all this is a highly dubious practice. Furthermore, the decision to unify at the deposit basis absolutely contradicts the cherished general principle of recording disbursements not commitments. In any case the OECD (1985, p.173) mentioned "a growing view among Members and in the Secretariat that this decision should be reversed and the recording transferred to an encashment basis" some ten years ago. However, notes and similar instruments unconditionally encashable at sight by the recipient institutions are still subsumed under ODA irrespective of whether they are ever encashed. As Table 1 shows the increase achieved in ODA figures by this practice once considered worth debating and changing by the DAC itself is not negligible. In 1992 it was 11.15 per cent of total DAC-ODA as reported by the DAC and 15.66 per cent DAC-ODA minus broadening factors. With the exception of 1991, a year when relatively large sums were actually encashed so that this difference sank to 6.22 per cent, the decision to report commitments instead of disbursements accounted for over 10 per cent of ODA without broadening in all years shown in Table 1.

The second type of broadening referred to above concerns outlays that are not oriented towards promoting development, but which have been traditionally counted as ODA. They have, strictly speaking, not been considered ODA by the OECD, although they have always been subsumed under ODA. The fact that these items used to account for relatively low shares of the total until the recent past might explain this inconsistent practice. They are emergency and disaster relief as well as what one would call support for structural adjustment nowadays. One could, of course, use the opaque word "welfare" to defend these items as logically covered by the definition. The OECD, however, has never considered these expenditures as proper ODA in the sense of its own concept even though it has accepted them for the sake of higher figures. It calls aid to refugees and disaster relief "extreme examples of the way circumstances can thwart intentions", going

on to explain: "The definition of ODA requires that, to be eligible for inclusion, resources should be 'for the economic development and welfare of developing countries'" (OECD, 1995, p.84).

This clear distinction between proper ODA and other expenditures recognized as ODA by donor convention is not new. In a less outspoken form the OECD (1985, p.171; stress in orig.) remarked for instance ten years before: "While the concept focuses on official *development* assistance, current economic support assistance, humanitarian assistance and emergency relief, including food aid, are also reportable as ODA." This more guarded wording was chosen before the dramatic increase of non-ODA components in ODA figures during the last decade. Ten years later the OECD (1995, p.84) used the clear language quoted in the last para. It went on: "the calls for humanitarian assistance ... and spending on administrative costs and other items of expenditure in donor countries" left only \$36.2 billion "of bilateral aid directly available to finance longer-term aid goals in developing countries in 1992 and \$33.2 billion in 1993." (*ibid.*) In these years bilateral aid amounted to \$41.2 billion and \$38.9 billion respectively. Reduced shares of proper ODA as well as the steep drop of inflated ODA totals in nominal terms between 1993 and 1992 of 7.19 per cent seem to have triggered this outspokenness. While total ODA expressed as GSP-percentages has been declining for some time and nominal ODA did not recover to its nominal 1992 level in 1994, increasing shares of aid have been used for purposes, which the OECD itself does not consider the intended use of ODA, starting to crowd out what the OECD considers to be aid to development.

Emergency and distress relief (defined as excluding emergency food aid by the OECD, 1996a, p.A4) increased dramatically, amounting in 1994 to slightly more than 12 times the nominal value of 1983-4. The item increased from about 1 per cent to nearly 5.9 per cent of total ODA. The *Chairman's Report* (OECD, 1996a, p.93) speaks of an "all-time high" of emergency aid, including aid to refugees and food aid. One reason for the crowding out of development aid might be that emergency funds are easier to obtain because of the way disasters are covered by the media. It must not be overlooked, though,

that emergency operations are much simpler than long term development projects with less hazards to fail and much less open to criticism.

Emergency food aid was originally assumed to be a very small part of food aid, "it was no more than 10% or so of total food aid up to about ten years ago. But since then emergency food aid has emerged as one of the main uses of food aid" (Singer, 1994, p.53), amounting to "half or more of total food aid" (*ibid.*). In other words, the increase of food aid by 83.7 per cent in nominal terms between 1983/4 and 1994 (OECD, 1996a, p.A37) resulted more or less from higher emergency food aid. The evolution of food aid is embedded in a general tendency of donors to divert ODA to less or not at all development oriented purposes. According to the *Report* "an increasing number of DAC countries have been reporting expenditures on refugees who have arrived in their own countries." (OECD, 1996a, p.95) Their number increased from five to ten countries between 1992 and 1994.

Finally the demise of the Eastern bloc lengthened the list of recipients. Although attempts to declare aid to the East generally as ODA were unsuccessful, a few countries of the former Soviet Union and Albania are now developing countries. The sums involved have remained comparatively small so far, but they are a real geographical broadening and should not be forgotten.

The list of recipients has been changed several times. China was incorporated in 1980, Spain for instance was no longer classified as a developing country after 1982. Portugal was removed from the list in 1991, Greece - still mentioned as a recipient by the OECD (1995) in 1995 without any indication of changed status - at the end of 1994 (OECD, 1996a, p.126). In the case of countries graduated off the list total receipts were usually very small or negligible. The end of further aid or negative flows caused by debt service were foreseeable. Nevertheless the OECD (1996a, p.127) adjusts figures retroactively to "maximise comparability over time". Apparently this is not considered unfeasible in these cases involving negligible sums.

### 3) Deflating Broadened ODA Figures

If donors had not decided to increase the coverage of activities subsumed under ODA, their present performance would be noticeably worse. The concept of development aid has been watered down by donors inflating ODA statistics above what would have been obtained under the original practice of recording. This prompts the question how high ODA would be without this broadening of the scope of the concept. Or, by what percentage have present ODA figures been inflated? To some extent this is a purely statistical problem, acknowledged by the OECD (1985, p.173) itself speaking of "major breaks in continuity". Disagreeing with the OECD on the "feasibility" of revising statistics this paper tries to deflate ODA figures to what they would have been according to the original concept.

The inclusion of new items of expenditure as such does not necessarily mean that this money must not be recorded as aid. One can justify administrative costs incurred by providing ODA as simply part and parcel of total costs, although the OECD excludes administrative costs of NGOs when calculating their (private) aid flows. This is another example of unjustified self-preference by DAC members, tilting the relation between ODA and private generosity a bit in favour of the former. It is difficult to see why a minister's salary is considered development aid, but the (much lower) salary of an NGO employee is not. Naturally, there is no reason why funds given by governments to NGOs for aid work should not be recorded as ODA.

On the other hand, emergency relief in its present form while a laudable and necessary activity does, strictly speaking, not contribute to development and is - as the OECD rightly observed - not really aid. Raffer and Singer (1996, pp.195ff) have therefore suggested changes to combine necessary quick help with long term development. Finally, depositing notes that are not encashed is neither a flow nor an aid flow, export credits given in the creditor's narrow self interest do not fulfill the conditions demanded by the DAC.

Whether considered morally laudable activities or the opposite, logically justifiable as ODA or not, all broadening factors inflate the total and have to be deducted to present ODA according to the narrower original concept. The calculations done to produce Table 1 are based on OECD publications. They prove that at least the rough dimension of these changes can be easily assessed.

**Table 1: ODA by DAC Members**

**Broadened and Deflated Totals**

(% of GSP)

	1989	1990	1991	1992	1993	1994
<b>DAC-value</b>	0.32	0.33	0.33	0.33 <sup>*</sup> )	0.31	0.30
<i>minus</i>						
admin. Costs	0.307	0.318	0.317	0.317	0.296	0.286
refugees <sup>a)</sup>	0.306	0.315	0.311	0.307	0.284	0.274
emerg.& dis.relief	0.302 <sup>§</sup>	0.311	0.303	0.303	0.278	0.269
emergency food aid <sup>b)</sup>	0.302	0.310	0.301	0.298	0.274	0.265
debt forgiveness <sup>c)</sup>	0.297	0.284	0.266	0.282	0.259	0.247
capital subscr. <sup>d)</sup>	0.271	0.255	0.251	0.245	0.233	0.222
contrib. to NGOs	0.264 <sup>%</sup>	0.249	0.245	0.240	0.228	0.217
students (imputed) <sup>e)</sup>	0.260	0.245	0.242	0.236	0.224	0.213
former Commun. C. <sup>**)</sup>	0.260	0.245	0.239	0.235	0.221	0.211
<b>ODA-Inflator</b>	1.231	1.347	1.381	1.404	1.403	1.424

\* The same source (OECD, 1996a) provides two percentages: Table 4 (pp.A7/A8) shows net ODA from DAC countries to Developing Countries and Multilateral Organizations of 0.34 per cent of GSP; Table 21 reports 0.33.

\*\* Also referred to as "deflated ODA"

§ As no figure is provided in OECD (1994) - calculated from measurements in OECD 1994, p.82, Chart IV-4

% not provided by the OECD; average of 1990-1994

*Sources:* Unless indicated otherwise by footnotes data are from from OECD, 1996a, p.A37 (Table 21); OECD, 1995, p.C19 (Table 20 - for 1990); OECD, 1994, p.184 (Table 20 - for 1989)

a) OECD 1996a, p.96 (Tab. IV-2). The position "Emergency and Distress Relief" includes money paid for refugees (*ibid.*, p.95).

b) Shaw (1996): WFP Commitments for Emergency Operations

c) OECD 1996a, pp.A3/A4 (Table 2); OECD 1995, pp. A3/A4 (Table 2); for 1989: OECD 1994, p.77

d) deposits minus encashments calculated from annex tables in OECD 1996a; Tab.24; OECD 1995, Tab.23; 1994, Tab.23

e) OECD (1996c), p.25; value of 1992 interpolated in the case of Germany

Table 1 contrasts present ODA flows expressed in GSP percentages with what they would be if one corrects for broadening factors. The values shown in the last but one line obtained after deducting ODA to former communist countries may be called deflated ODA. The relation between officially broadened figures and deflated ODA is called ODA-inflator. It shows by what percentage official figures are higher than they would be if the original concept would still have been applied without "major breaks in the continuity of the long-term series" (OECD, 1985, p.173).

Most of the figures necessary for the calculation of Table 1 were readily accessible, particularly so in the more recent *Reports* laudably itemizing ODA disbursements in more detail. The case of imputed student costs deserves some comments, as it illustrates a highly interesting feature of DAC publications. The data used were taken from the DAC's last peer review of Austria, which once again criticized the high percentage of Austrian imputed costs for students by comparing them with other DAC members also reporting this item. These are Australia, Belgium, Canada, France, Germany, and (until 1991) New Zealand.

*Reports* usually produced data on imputed student costs, expressing them as percentages of bilateral ODA disbursements, a practice discontinued in 1996 (OECD, 1996a). The two *Reports* on 1993 and 1994 (OECD, 1994; 1995) differ in interesting ways from the peer review used in Table 1. While Belgium, France and Germany imputed 2.2, 1.7, and 5.1 per cent of net ODA disbursements in 1993 respectively according to OECD (1996c), the *Report* on 1994 (OECD, 1995, p.G1) claims that the amounts imputed for this year were "nil or negligible". The *Report* on 1993 (OECD, 1994, p.197) shows "nil or negligible" for France in 1991, in contrast to the 2.1 per cent of net ODA disbursements of OECD (1996c, p.25). This is surprising as starting from Table 13 (OECD, 1995, pp.C5ff; 1994, pp.172ff) not only comparable but even much lower sums are reproduced in the publications. In the case of Germany for instance food aid (33.5 and 30.6 per cent of imputed student costs in 1991 and 1993 respectively), contributions to NGOs (68.4 and 54.7 per cent respectively) and administrative cost (76.3 and 66.3 per cent) were much smaller than imputed student costs. In the case of Belgium contributions to NGOs

were less than 13 per cent of imputed student costs in 1991. As we may thus safely exclude that the sums disclosed by OECD (1996c) are routinely considered too small to be reported these sources clearly contradict each other. Percentage figures shown by OECD (1996c) and the respective *Reports* do not match either. While OECD (1994) was still able to show a DAC average of imputed students costs in spite of several countries where data were officially classified as "not available", the next *Report* (OECD, 1995) could no longer do so.

The detailed illustration of imputed costs of students should not be misunderstood as pedantic criticism of OECD data. It is meant to show the problems involved when using data officially published by the OECD as well as to document that the author was well aware of the quality of data when choosing those considered most likely to be realistic. The figures of Table 1 should clearly not be considered as absolutely accurate to the last digit after the decimal point, not least because of conflicting data provided by the OECD itself. Due to the data situation not all inflating factors can be quantified and eliminated. One must keep in mind that the real inflation of ODA is likely to be somewhat higher still.

"Debt forgiveness" shown in Table 1 for instance is not the only form of debt determined "aid". Quite often new ODA has been given by bilateral donors to bail out international financial institutions, such as the IBRD or the IMF, as well as other creditors. Raffer and Singer (1996, p.28) give concrete examples of such financial merry-go-rounds. The IBRD has used IDA credits to bail out its own Bank loans, when poor countries were unable to service them. All these transactions, as well as flows made necessary to cushion the effects of structural adjustment cannot be distilled from OECD data. They are therefore not included in Table 1. Also, no allowance could be made for the fact that the rephasing of loans earlier classified as ODA is recorded as ODA irrespective of the grant element conveyed by rephasing, because the necessary data are either not available or kept secret. This practice of the DAC means that even the minimum grant element of 25 per cent is not strictly enforced - flows with a lower grant element may still be touted as ODA.

It was also not possible to correct for export credits accepted as ODA by the DAC with a wink and some grumbling. Official data are not provided and all one can do is going through national statistics trying to find out which ODA-export credits might be mainly motivated by self interest. In the case of Austria, where even the aid administration declared these loans to be without any developmental objectives, these credits amounted to 27.7 per cent of the country's total ODA in 1994. This was roughly \$0.2 billion - enough to bring the deflated average of DAC-ODA down to 0.2097 per cent of the OECD's GSP. However, Austria is not the only country using ODA for export promotion as the Aid and Trade Provision in the UK and in particular the notorious case of the Pergau Dam in Malaysia prove (Raffer and Singer, 1996, p. 6ff). The so-called "Helsinki Package" was agreed among donors to avoid trade distortions by the use of tied aid and associated financing and to ensure that aid credits do not substitute viable commercial financing. The rather frequent use of the escape clause as well as the fact that the OECD quickly stopped publishing data on how often it was invoked (*ibid.*) do not necessarily support conjectures that the sums involved are negligible. Nor does the inavailability of data on associated financing since 1985 inspire confidence. Even without agreeing with those harsh critics arguing that the justification of tied aid as ODA must generally be challenged one has to assume that correct application of the present definition would yield noticeably lower ODA figures. This point is corroborated by the OECD's unwillingness to enforce that ODA is recorded according to its own rules.

Suffice this to show that the figures of Table 1 are not unduly biased against the DAC and that ODA-inflation may well have been higher than shown. The perception that deflated ODA was in reality even less than 0.2 per cent of DAC-GSP - which would mean a broadening of aid of roughly 50 per cent - cannot be immediately discounted as unfounded.

It should finally be noted that deflation was done according to the DAC's accounting and publishing practice, by necessity disregarding quality checks on a case by case basis. Since war, repression, human rights violations and the destruction of the environment

have been funded by ODA, as well as the the transport of thousands of rolls of toilet paper for a US-AID employee, first to Africa and then back to his US home after his assignment (cf. Raffer and Singer, 1996, pp.19ff) aid in the sense of real help is certainly much lower than what donors present as ODA. But such qualitative aspects can only be discussed by detailed case by case studies beyond the scope of of this paper and the possibilities of its author. It also remains to be seen whether there were any breaks in continuity in this respect, which is what this paper focuses on.

According to Table 1 officially recorded ODA was 42 per cent higher in 1994 than it would have been according to the initial concept. Furthermore the ODA-inflator almost doubled over the six years shown. In other words, what the OECD itself initially considered and what it still considers proper development aid decreased quite visibly, particularly so if one assumes that sums that could not be included because of lacking information, such as debt determined "aid" bailing out other creditors, are likely to be substantial.

Checking the figures used to produce Table 1 with other sources confirms the view that they are by no means exaggeratedly high. Speaking of an all time high of bilateral expenditure on "emergency and disaster relief (excluding food)" of \$3.5 billion in 1994, the OECD (1996a, p.95) concludes that adding "emergency food aid and their contributions to multilateral institutions for emergency purposes" would render a total of "about \$6 billion, or roughly 10 per cent of their [=DAC-members] total ODA expenditures." Emergency and distress relief was \$3.47 billion according to the OECD (1996a, p.A37), emergency food aid \$857.9 million according to the World Food Programme, which sums up to only \$4.33 billion, or some \$1.67 billion short of the sum mentioned by the OECD (1996a) on page 95, which must be hidden under other accounting titles and/or under the heading of multilateral aid. If this figure had been used in Table 1 deflated ODA would have been brought down to 0.202 per cent of DAC-GSP in 1994, increasing the ODA-inflator to nearly 1.5.

A year before the OECD (1995, p.84) had produced a "rough quantitative estimate", according to which "humanitarian assistance (as defined above) and spending on administrative costs and other items of expenditure in donor countries" reduced funds directly available to recipients by \$5 billion in 1992 and \$5.7 billion in 1993. The formulation "as defined above" means obviously aid to refugees and disaster relief, or the item "emergency and distress relief" in the annex tables. As the sum of this item plus administrative costs amounted to \$5.05 billion in 1992 and to over \$5.7 billion in 1993, the claim that "other items" are also included must be mathematically wrong unless these items are nil or negligible. Furthermore emergency food aid cannot be included in this sum. Thus this statement of the OECD paints too rosy a picture by giving too low figures.

#### **4) Military Assistance: Development Aid That Must Go Unrecorded**

While the strategy of broadening official generosity worked out quite well in general, not all attempts to inflate ODA were successful. A prime example of an unsuccessful attempt is one type of military assistance, which was not always excluded officially. In 1990 the US started to include substantial amounts of military debt cancellations (\$1.2 billion; 1991: \$1.86 billion) in its ODA statistics. Washington forgave Egypt military debts because the country fought Iraq on the American side in the Gulf War. Following US advice the DAC agreed to review the appropriate recording of debt forgiveness, particularly of military debt. These debt reductions were first accepted as ODA, although with "appropriate footnote indications and further explanations where required" (OECD, 1992, p.86). The DAC recorded them for members reporting military debt reductions but did not include them in the DAC total. At that time the sum of ODA by all members was bigger than the DAC total - one had one's cake and ate it.

During the review it was argued that military debt forgiveness was not military aid. If undertaken in the context of supporting effective policy programmes its economic effect was said to be similar to programme aid. Finally the US attempt to have military debt reductions recognized as ODA within the DAC was unsuccessful. Nevertheless the DAC confirmed that forgiveness of military debt was

a new and separate transaction dissociated from the purpose of the original transaction, that the inclusion as ODA is based on the development motivation of the act of forgiveness, that this logic is also the basis for including as ODA forgiveness of debt arising from export credits and that therefore both types of debt forgiveness should be treated statistically in the same way

(OECD, 1992, p.86).

Although military debt reductions are therefore ODA according to the DAC it was agreed not to record them as ODA in the future "in deference to concerns expressed over public opinion impacts" (*ibid.*). The fact that donors encourage recipient countries to reduce military expenditures and arms imports was also seen as a reason why military debt reductions should not be recorded as ODA. Another logically convincing point was not raised by the DAC. Once debt forgiveness for military aid is accepted as ODA any military transaction can easily be transformed into ODA. All that is required would be to "sell" arms first "on credit" and to "forgive" these debts afterwards. Logically it is also difficult to argue why an outright grant for military purposes cannot be counted as ODA, while a transaction which is economically a grant with a time-lag can be recorded without problems. Logically this would also have been at odds with the OECD's repeated claims and assertions that no kind of military activity can be subsumed under ODA, a fact that did apparently not disturb the DAC. In practice this highly laudable and ethical rule was not always obeyed anyway, as the financing of activities during the Vietnam war by ODA or the use of aid funds to pay Somoza for his permission to use Nicaragua as the base for the Bay of Pigs invasion document (Raffer and Singer, 1996, p.20). But in theory the DAC had remained adamant for more than two decades until the beginning of the 1990s, stating for instance that "any kind of military assistance is excluded" (OECD, 1985, p.171) from ODA. By accepting forgiven military debts at least some kind of military transaction has become eligible in theory, but not in practice, if debt relief is based on development motivation. In the case of Egypt, the West's comrade in arms against Iraq, development was clearly seen as the main reason for substantial cancellations. The DAC must be applauded for withstanding successfully US pressure to include military debt cancellations. It was thus able to reaffirm: "Grants, loans and credits for military purposes are excluded." (OECD, 1996a, p.123) Naturally, financial support

given to friendly countries in the region because of the war - in some countries even explicitly referred to as "Gulf aid" - were recorded as ODA. But military debt cancellations, although theoretically eligible, will be forced to remain unrecorded development aid.

### **5) Concluding Remarks: Putting Statistical Critique in Perspective**

Looking the gift horse of official development aid in the mouth one cannot help finding false teeth and a lot of devices newly implanted for the purpose of rejuvenation and beautification. Broadening has demonstrably blown up ODA, by more than 40 per cent during the last three years. This result obtains with very conservative calculations as this paper restricts itself to correcting for items on whose eligibility as ODA the OECD itself has officially expressed doubts, and which are readily accessible from OECD publications. Furthermore the share of broadening factors has strongly increased over the period reviewed - from 23 per cent of deflated ODA in 1989 to 42 per cent in 1994, which reveals a disturbing trend. As pointed out at the beginning of subtitle 3 this statistical critique does not discuss whether a broadening factor may or may not be legitimately considered as ODA. It exclusively discusses the problem of grave inconsistencies created by broadening, which hide the steep decline that would result from consistent recording.

Interestingly no criticism on the problems of discontinuity has been voiced so far, although practically everybody uses the DAC's time series for econometric and statistical work. The dual monopoly on statistics and evaluation made these changes easy. The power of saying what ODA means has apparently saved the DAC from criticism, even in cases where flows whose ODA quality had been expressly denied a few years earlier were suddenly recorded as ODA, or when changes in aid statistics were done for political purposes.

While focussing on the problem of consistency this paper also documents another regrettable fact, namely that the DAC has always been prepared to allow doctoring aid statistics within limits, presumably as long as these remained within proportions

considered acceptable by the donor community. Suffice it to point out that not all recorded ODA satisfies the DAC's own criteria.

To improve aid statistics, their consistency and comparability some form of independent auditing would have to replace present peer reviews. Ideally this should be done by a group of independent experts from both donor and recipient countries. This new form of reviewing would not mean large additional costs since it would replace present peer reviews. These also cost money that could be used to cover the expenses of independent auditing instead.

Independent auditing would secure a minimum of statistical correctness, but it cannot be expected to correct all the numerous faults of present ODA. To do so more fundamental changes are needed. Therefore this debate must not divert from fundamental problems in need of redress, which are created by the nature of present development co-operation. To put the rather formal critique by this paper into proper perspective I feel obliged to mention some suggestions for improvement of present practice, particularly so at a Seminar exploring new ideas for development co-operation. Referring to proposals discussed in greater detail elsewhere (Raffer and Singer, 1996), this can be done briefly.

One important improvement would be copying the successful innovations of the Marshall Plan, joint assessments of needs, joint requests, and self-monitoring by recipients. The US encouraged Europeans to monitor one another's performance. Control by peers is a principle advocated in business management. Country groups could get together mostly according to geographical but, if this should be more advisable, also according to other criteria. Since other features of Marshall aid were emulated by ODA, it is difficult to explain why this has never been considered, unless one accepts the view that the relatively democratic and open structures the US encouraged Western Europe to develop are at odds with present intentions of Northern donor governments. Here the Marshall Plan has still something to teach.

This successful approach could be further enhanced by integrating NGOs into the process. Public discussions including affected people, open information policies and thus strong transparency should be encouraged. It would fulfil all demands of good governance, democracy and transparency presently voiced by donors in a democratic and transparent way. Emulating these principles of Marshall aid could overcome the problems of aid fatigue, lack of "ownership" by recipients but also of mutual distrust.

Another indefensible shortcoming is the present practice to let recipients pay for failures made by the staff of donors or International Financial Institutions (IFIs), even in cases of gross negligence, where firms in any OECD-country could successfully sue consultants for damages. This exemption from economic and legal consequences leads to failed projects or programmes calling for new ones to repair damages, frequently financed by new loans from the same source, often exacerbating debt burdens. The present practice of "IFI-flops securing IFI-jobs" (Raffer, 1993, p.158), to some extent also valid for donors, must stop. This perverted incentive system creates systemic inefficiencies and failures.

As donors and particularly IFIs control the use of loans they should be liable for damage done by them in the same way private consulting firms are liable to their clients. This market element would act as an incentive for donors and IFIs to perform better and protect the poor from damages done by ill-conceived projects. Victims of development projects must be enabled to receive damage compensation. While IFIs and donors keenly preach human rights or respect of private (especially foreigners') property they have too often not seen great problems in financing projects violating these values (e.g. by forced resettlements without proper compensation), particularly so when the victims were vulnerable groups or indigenous people. The right of victims to make donors accountable for what they facilitate is needed to improve the lot of the poor, whose human rights and sometimes whose lives are too often considered unworthy of respect by their governments as well as their governments' public financiers. There is still a long way to go before the victims of development finance will be treated in an equally decent way transnational firms or individuals within OECD countries have always been treated.

As already mentioned above, aid has frequently been abused to bail-out either private banks, IFIs or donors themselves. In such cases it has been given with the main objective of keeping creditors afloat rather than mainly promoting economic development. Nevertheless "donors" recognise it as ODA. Unless the debt problem - which partly results from the lack of accountability described above - is solved, this abuse is bound to go on. Debt relief is both necessary to free resources for development and to remove disincentives to private economic activity posed by unserviceable debt burdens.

Debtor countries' debt service has to be brought in line with their abilities to pay under present, protectionist conditions, while safeguarding a minimum of human dignity of the poorest and most vulnerable. The fairest and economically most sensible way to do so would be the internationalization of Chapter 9 of US insolvency laws (cf. also Raffer, 1990). They deal with debtors having governmental powers, and protects those affected by the composition plan, giving them a right to be heard. Both the indebted municipality's employees and tax payers expected to pay more have the opportunity to object. Creditors are to receive what can be reasonably expected under the circumstances, and humane living standards of people living in the indebted municipality are protected. It could be applied internationally at once with very minor changes. Thus a neutral court of arbitration - usual in international law - would have to replace national courts to avoid decisions influenced by national interests of creditor or debtor countries. Each side nominates an equal number of arbitrators, who in turn elect one more member to reach an uneven number. Ideally, this number should not exceed 5. The interests of the population affected by the plan could be defended by trade unions, grassroots organizations, religious or non-religious NGOs, or international organizations such as UNICEF. This procedure would finally implement the rule of law in international relations, introduce sound economic principles and protect a minimum of human dignity of the population in indebted countries. As the example of Germany shows, whose debts were halved in present value terms by the London Accord in the 1950s, (de facto) insolvency need not destroy a country's economic future. Rather, it is a precondition for successful development efforts.

Suffice this to put the critique on recording in perspective by showing that reforming aid must not exclusively focus on necessary improvements in recording ODA. Improvements concerning the nature of development co-operation and the way in which it is administered are even more needed.

## Bibliography

- Federal Chancellery (of Austria) (1983), *Dreijahresprogramm der österreichischen Entwicklungshilfe 1984-1986 (Fortschreibung)*, Vienna
- Federal Chancellery (of Austria) (1994), *Dreijahresprogramm der österreichischen Entwicklungshilfe 1995 bis 1997 (Fortschreibung)*, Vienna
- IBRD (1990), *World Development Report 1990*, Oxford etc.: Oxford UP
- Kaiser, W (1986), "Die Entwicklungshilfeleistungen der Sowjetunion in den OECD-Publikationen", *Journal für Entwicklungspolitik*, Vol 2, No. 2, 32-50.
- Morrissey, O. & H. White (1996), "Evaluating the Concessionality of Tied Aid", *The Manchester School of Economic and Social Studies*, vol. LXIV, No. 2, 208-226.
- OECD (1985), *Twenty-Five Years of Development Co-operation - A Review, Efforts and Policies of the Members of the Development Assistance Committee, 1985 Report*, Paris: OECD
- OECD (1992), *Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee, 1992 Report*, Paris: OECD
- OECD (1993), *Aid Review 1992/93, Report by the Secretariat and Questions for the Review of Austria*, OECD/GD (93)176, Paris: OECD
- OECD (1994), *Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee, 1993 Report*, Paris: OECD
- OECD (1995), *Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee, 1994 Report*, Paris: OECD
- OECD (1996a), *Development Co-operation, Efforts and Policies of the Members of the Development Assistance Committee, 1995 Report*, Paris: OECD
- OECD (1996b), *Geographical Distribution of Flows to Aid Recipients 1990-1994*, Paris: OECD
- OECD (1996c), *Development Co-operation Review Series: Austria*, No.15, Paris: OECD
- ÖFSE (1994), *Österreichs Entwicklungspolitik 1994 - Berichte, Analysen, Informationen*, Vienna: ÖFSE
- Raffer, K. (1990), "Applying Chapter 9 Insolvency to International Debts: An Economically Efficient Solution with a Human Face", *World Development*, Vol 18, No. 2, 301-311.
- Raffer, K. (1993), "International financial institutions and accountability: the need for drastic change", in S.M. Murshed and K. Raffer (eds.), *Trade, Transfers and Development, Problems and Prospects for the Twenty-First Century*, E.Elgar, Aldershot
- Raffer, K. (1995), "Österreichs Entwicklungshilfe: Ein trauriges Kapitel", in Österreichische Gesellschaft für Außenpolitik und Internationale Beziehungen (ed.), *Österreichisches Jahrbuch für Internationale Politik 1995*, Böhlau, Vienna
- Raffer, K. and H.W. Singer (1996), *The Foreign Aid Business: Economic Assistance and Development Co-operation*, Cheltenham: E. Elgar
- Shaw, D. J. (1996), *The World Food Programme and Emergency Relief*, ADMP Series No. 20, Sophia University, Institute of Comparative Culture, Tokyo
- Singer, H. (W.) (1994), "Problems and Future of Food Aid in the Post-GATT-Era", *Newsletter, Bruno Kreisky Dialogue Series*, No. 10, 42-75 (bilingual: German and English)