



TERMS AND CONDITIONS OF AID

DEVELOPMENT CO-OPERATION **FUNDAMENTALS**

The 1978 DAC [Recommendation on Terms and Conditions of Aid](#) is the only OECD legal instrument on the financial terms of official development assistance (ODA).

The Recommendation commits Development Assistance Committee (DAC) members to ensure a minimum concessionality for their ODA commitments, with special provisions for least developed countries.

Concessionality refers to the measure of the "softness" of a credit, or loan. Concessionality is achieved either through interest rates below those available on the market, or by grace or long maturity periods, or a combination of these. In the case of DAC statistics, it is measured by the [grant element](#), which must be at least:

- 45% in least developed countries (LDCs) and other low-income countries (LICs) (calculated at a discount rate of 9%)
- 15% in lower middle-income countries (LMICs) (calculated at a discount rate of 7%)
- 10% in upper middle-income countries (UMICs) (calculated at a discount rate of 6%)
- 10% per cent in the case of loans to multilateral institutions (calculated at a discount rate of 5% for global institutions and multilateral development banks, and 6% for other organisations, including sub-regional organisations).



WHY IS IT (STILL) IMPORTANT?

The original intent of the 1978 Recommendation was to recognise the special value of grants compared to loans. It reflected a **political agreement among members on the overall concessionality of ODA** and recognised that LDCs need higher levels of concessionality.

During its discussions in 2020, the DAC agreed on the need to update the Recommendation to reflect the decisions taken by the DAC HLM in 2014, such as the revised ODA definition and new measure of concessionality. However, DAC members expressed different opinions on the substance of changes to be made beyond a technical update.



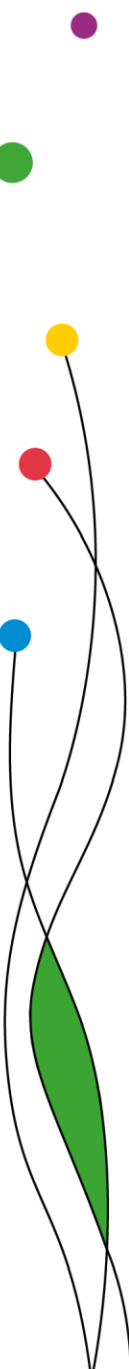
ODA is concessional and administered with the main objective of promoting economic development and welfare in developing countries.



Lending practices are aligned with developing countries' needs, capacities and constraints in terms of volumes, concessionality levels and debt sustainability.



Developing countries can scale up public investments to meet ambitious development objectives, while controlling for debt vulnerabilities.



BASIC STANDARDS

Overall financial terms. Members should maintain or achieve an average grant element (concessionality) in their total ODA commitments of at least 86%. ([Para 2](#))

Special terms for least developed countries. Grants should be prioritised over loans. The average grant element of all commitments from a member should be at least 86% to each LDC over a period of three years, or at least 90% annually for the LDCs as a group. ([Para 8](#))


Volume test. Members whose ODA commitments as a share of gross national income (GNI) are significantly below the DAC average country effort of 0.38% in 2020 will not be considered to have met the terms of the recommendation. ([Para 3](#))

In addition, the definition of ODA set by the DAC covers aspects of debt sustainability (the amount of debt a borrower can undertake and afford to repay in the future). As of 2014, the OECD-DAC [statistical reporting directives](#) require ODA loans to comply with the [IMF](#) and [World Bank](#) policies on limits on public sector concessional or non-concessional borrowing for specific countries.

Section C.1 of the [OECD DAC Peer Review Analytical Framework](#) sets out the DAC's expectations for ODA allocations, including compliance with the Recommendations on Terms and Conditions of ODA.



AN UPDATE IS NEEDED



The introduction of the [grant equivalent system](#) in 2018 changed the way ODA is measured.

The accounting of loans is no longer based on the face value of the loan, but on the [grant element](#) or [concessionalty](#) of the loan.




This **triggered a reflection** on the Recommendation and its numerical targets.

In 2020, the DAC [agreed on the need to update the Recommendation](#) but expressed different opinions on the substance of changes.

Watch this space!

The eligibility thresholds and discount rates used to calculate the grant element of ODA (listed on page 2) are now **different from those mentioned** in the 1978 DAC Recommendation on Terms and Conditions, which required a grant element of at least 25%, using a 10% discount rate.



GOOD PRACTICES



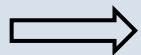
Overall financial terms of ODA in 2020

- 17 DAC countries provide grants exclusively, and therefore have a grant element of 100%.
- 10 others meet the overall terms requirements (i.e. maintain or achieve an average grant element (concessional) in their total ODA commitments of at least 86%) and have at least a portion of loans in their portfolio.



Special terms for least developed countries

- 21 DAC countries (*Australia, Austria, Czech Republic, Denmark, Finland, Greece, Hungary, Iceland, Ireland, Luxembourg, the Netherlands, New Zealand, Norway, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, and the United States*) provide grants almost exclusively and meet the special terms for least developed countries.
- Out of all DAC countries that report ODA loans, 5 (*Belgium, Germany, Italy, Korea, and Portugal*) also meet the special terms for LDCs.



Go to page 9 to see detailed data on DAC Members' Compliance in 2019 and 2020 with the 1978 DAC Terms Recommendations



TOWARDS GREATER CONCESSIONALITY



By definition, grants have a grant element of 100%, and therefore comply with the concessionality requirement of this DAC Recommendation.

When extending loans, development co-operation partners should align concessionality levels with needs. Greater concessionality can be achieved in three ways:

- A **low interest rate** with a wide spread between the interest rate and the discount rate.
- A **long grace period** (period between the first disbursement of the loan and the first repayment).
- A **long maturity**, or the period at the end of which the principal is repaid with interest.



MEASURING SUCCESS

How do we know if ODA providers are moving in the right direction?

- ▶ They meet the minimum grant element of ODA commitments of 86%
- ▶ The average grant element of bilateral ODA loans to LDCs increases
- ▶ ODA commitments as a share of gross national income (GNI) increase over time.

OECD DAC [Peer Reviews](#) refer to the performance of DAC members against the 1978 DAC Recommendation, and the Secretariat publishes annual statistics:

- ▶ [This table](#) provides an overview of DAC members' compliance with the Recommendation according to its 3 components: overall financial terms; terms for bilateral ODA to LDCs; and the volume test (also re-produced on the next slide).
- ▶ [This table](#) describes the financial terms of ODA commitments and includes members' grant element of total ODA commitments; grant share of ODA; and grant element of ODA to LDCs.



DAC Members' Compliance in 2019 and 2020 with the 1978 DAC Terms Recommendations

	ODA commitments, USD million		Overall financial terms		Special terms for least-developed countries			Volume test	
			Grant element of ODA commitments, %		Commitments to LDCs (two alternative norms), %			ODA commitments as per cent of GNI, %	
			Norm: 86%		Annually for all LDCs		3-year average for each LDC	Norm: 86%	Norm: 0.25%
	2019	2020	2019	2020	2018	2019	2018-2020	2019	2020
Australia	2 888	3 311	100.0	100.0	100.0	100.0	c*	0.21	0.25
Austria	1 339	1 461	100.0	91.5	100.0	100.0	c	0.3	0.34
Belgium	2 103	2 204	99.7	99.7	99.3	100.0	n**	0.4	0.45
Canada	5 063	5 895	97.8	95.0	100.0	100.0	c	0.29	0.36
Czech Republic	327	301	100.0	100.0	100.0	100.0	c	0.14	0.13
Denmark	2 301	2 644	100.0	100.0	100.0	100.0	c	0.65	0.72
Finland	1 198	1 256	98.5	100.0	100.0	100.0	c	0.44	0.46
France	18 347	24 465	76.4	75.3	78.1	80.5	n	0.66	0.92
Germany	30 865	35 810	89.5	88.1	98.9	99.6	n	0.78	0.92
Greece	398	322	100.0	100.0	100.0	100.0	c	0.19	0.17
Hungary	311	418	100.0	100.0	100.0	100.0	c	0.21	0.27
Iceland	61	57	100.0	100.0	100.0	100.0	c	0.25	0.27
Ireland	973	988	100.0	100.0	100.0	100.0	c	0.32	0.31
Italy	4 896	4 505	98.5	94.7	97.6	96.7	c	0.24	0.24
Japan	17 809	24 738	84.4	78.3	82.4	80.6	n	0.33	0.47
Korea	3 858	2 585	86.5	90.5	91.9	95.8	c	0.23	0.16
Luxembourg	476	461	100.0	100.0	100.0	100.0	c	1.04	1.05
Netherlands	6 623	6 579	100.0	100.0	100.0	100.0	c	0.73	0.73
New Zealand	695	720	100.0	100.0	100.0	100.0	c	0.35	0.35
Norway	3 714	5 616	100.0	100.0	100.0	100.0	c	0.89	1.48
Poland	873	887	98.8	99.1	82.7	86.9	n	0.16	0.15
Portugal	417	408	99.5	98.6	97.5	92.6	n	0.17	0.18
Slovak Republic	145	130	100.0	100.0	100.0	100.0	c	0.14	0.13
Slovenia	84	86	100.0	100.0	100.0	100.0	c	0.16	0.16
Spain	2 974	3 017	98.3	99.3	100.0	100.0	c	0.21	0.23
Sweden	3 534	3 773	100.0	100.0	100.0	100.0	c	0.65	0.68
Switzerland	2 862	3 556	100.0	95.5	100.0	100.0	c	0.39	0.49
United Kingdom	17 124	11 173	100.0	98.0	100.0	100.0	c	0.62	0.42
United States	35 519	39 940	100.0	100.0	100.0	100.0	c	0.16	0.19
TOTAL DAC	167 780	187 306	93.4	91.0	95.7	93.9		0.33	0.38

*c = compliance **n = non-compliance



RESOURCES

As an OECD Legal Instrument, the full text of the [1978 Recommendation on Terms and Conditions of Aid](#) is available online.

In 2020, the DAC agreed on the need to update the Recommendation but expressed different opinions on the substance of changes. See [Proposed revisions to the recommendation](#) (*OECD account access required*).

The OECD also monitors the implementation of the Grant Equivalent System. See the most recent report from [June 2021](#).

Relevant topics in this series

[Untying ODA](#) is the other key DAC recommendation looking at the quality of ODA.



DEVELOPMENT CO-OPERATION FUNDAMENTALS

This series unpacks development co-operation standards and illustrates how DAC members are applying them. Applying standards can help all actors to fulfil their ambitions and commitments.

Each *Fundamentals* document introduces a key aspect of effective development co-operation, sets out *basic standards*, offers *good practice* examples, and identifies *relevant resources*.

Other topics in this series, which will be expanded and updated over time, can be found on the [Development Co-operation TIPs • Tools Insights Practices](#) peer learning platform. For comments, contact DCD.TIPs@oecd.org.

