LETTER TO THE DEPUTY SECRETARY-GENERAL FOR THE OECD "DEVELOPMENT CLUSTER", MS KERRI-ANN JONES

Giving Credit Where Credit's Due – Addressing Flaws in the Calculation of Official Development Assistance

Dear Deputy Secretary-General,

I am writing to you, as the DSG for the OECD Development Cluster, to follow-up on my previous correspondence with the Chair of the OECD's Development Assistance Committee (DAC), Ms. Susanna Moorehead, dating back to 18 February this year. These letters and the analytic papers I submitted outlined serious flaws in the calculation of Official Development Assistance (ODA).

At my meeting with the DAC Secretariat and members of its statistical Working Party in May, I was assured that I would receive a substantive written response to my concerns. In July I followed up and was again promised a response. Finally, on 7 October, Mr. Schütte in the Secretariat sent me an email with a link to a document entitled "The Modernisation of ODA: Frequently Asked Questions", stating that it constituted that response.

The FAQ claims that it "*addresses the technical aspects underpinning this debate*". The analysis at Annex 1 of this letter shows that, in fact, it fails to answer its own questions, neglects several important issues and ignores the detailed analysis and conclusions in my February paper. It also contains numerous errors, misleading statements and flawed arguments, many of which were already addressed in previous correspondence. Sadly, it constitutes a public relations piece rather than a robust response.

The OECD's ODA statistics have now lost credibility. Figures are being "invented" and donors' real aid spending exaggerated for several types of aid through the application of flawed models, assumptions and formulae. Instead of reflecting "donor effort", as is claimed, the grant equivalent figures being published by the DAC/OECD:

- Overcount the donor effort in ODA loans, (thereby disincentivising grants, including for climate finance where they are so desperately needed);

- Report additional ODA for debt relief on concessional loans, even though the ODA claimed on every concessional loan already accounts for the donor effort such relief might entail;

- Count ODA for relief of export credits and other non-concessional loans, even though exporters and developing country borrowers pay risk-related premiums or margins to indemnify lenders against the costs of any relief needed; and

- Count ODA for equity investments but ignore the resulting profits, thereby overstating donor effort for such instruments.

In these and other cases documented in Annex 1, the DAC has flouted sound statistical principles in its drive to count, or overcount, anything that might be construed as providing a benefit to developing countries, regardless of whether any real "donor effort" is involved. If donors wish to improve their ODA statistics, their taxpayers would rightly expect them to do so by increasing their actual spending on aid and not by "cooking the books" to overstate their effort.

At the root of these issues is a governance problem. The DAC is not a professional statistical body but a diplomatic negotiating forum, and it treats ODA rules as a political/policy matter accordingly. The numerous "political compromises" the DAC has made in recent years have left ODA ceasing to be a measure of anything, let alone of donor effort. The resultant bloated ODA figures are deceiving OECD taxpayers, allowing stealth cuts to real aid expenditure, adding to developing countries' debt stress by incentivising official loans where grants would be more appropriate, and cramping these countries' headroom to absorb private sector debt.

As previously observed, this presents clear risks to the OECD as a whole.

Here is just one example of how the over-reporting of loans makes the OECD look policy-incoherent. Over many decades OECD Members have worked hard with the Secretariat to eliminate trade-distorting subsidies for officially supported export credits, and ensure that these are extended on terms that entail no public subsidy. But, today, the DAC's grant equivalent methodology would assess such export credits as highly concessional, i.e. entailing a significant "donor effort". At a recent meeting in New York I attended, the President and Chair of the Export-Import Bank of the United States, was proud to observe that ExIm's support to US exporters is "at no cost to the taxpayer". Yet the DAC methodology, if it applied to export credits, would invent and report figures falsely indicating that EXIM Bank's loans and guarantees required a significant fiscal effort.

More generally, the OECD's hard-won reputation for high quality statistics is being undermined by laundering the DAC's deeply flawed numbers. This has already damaged the Organisation's standing in the aid community, and that damage is spreading.

When I researched and wrote my original paper and annexes at the start of this year, based on my own analysis dating back 20 years, I believed I was alone in making these observations. However, I quickly learned that others were pointing out many of the same flaws and, indeed, drawing attention to additional problems with ODA counting. Attached at Annex 2 is a list of just some of the articles now in the public domain.

Recently, I have had numerous discussions with senior management and technical staff in international organisations (including former OECD staff from the DAC Secretariat and the Export Credits Division), as well as with CSOs and NGOs. These reveal that the credibility of ODA statistics has fallen dramatically, and that the methodology is now widely derided.

This letter has been co-signed by two technical experts in this field who share my misgivings. We again request an independent statistical review of ODA rules (as was supported by a previous OECD Chief Statistician), and a commitment to review the governance of ODA to bring it into line with the OECD's own Council Recommendation on Good Statistical Practice.

We hope that, instead of further "PR statements" seeking to defend the indefensible, the Organisation will implement such a review without delay.

Without such action, this issue will not only continue to fester, but will get worse, as awareness of the problem spreads, and protests mount. The recent article by Nancy Birdsall and Ian Mitchell in "Foreign Affairs" as well as Oxfam's latest report on "Climate Finance Short Changed" show that this process is already underway.

We would be grateful for your early response. Also, since the FAQ has committed to "promoting a transparent, informed and constructive dialogue" we kindly request that this letter and its attachments be circulated to members of the DAC and posted alongside the FAQs on the OECD's website.

Yours Faithfully,

Stephen Cutts, 24 October 2022

Co-signatories

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OECD/DAC's Working Party on Development Finance Statistics, Chair (2009-13), Vice-Chair (2005-09)
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