Organisation for Economic Co-operation and Development

DCD/DAC(2023)33/FINAL

Unclassified **English - Or. English**

2 November 2023

DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

Private Sector Instruments – Batch 2 topics

This document was approved by the Development Assistance Committee on 31 October 2023. It is now issued as FINAL and UNCLASSIFIED

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JT03530627

Private Sector Instruments – Batch 2 topics

1. Background

1. At their High-Level Meeting in 2016, development ministers identified the private sector as a key partner to advance the international development agenda. In pursuit of an enhanced enabling environment for new and innovative partnerships with private institutions, they agreed on a set of principles for reflecting donor effort in extending private sector instruments (PSI) in ODA. Since subsequent discussions on the implementation details did not deliver consensus, members adopted provisional methods for reporting on 2018 ODA and onwards. While this temporary arrangement has allowed members to continue reporting certain private sector instruments in ODA, it introduced hybrid accounting in DAC statistics and maintained obstacles to scaling up private finance mobilisation.

2. In early 2022, members agreed on the terms of references for the review of the provisional reporting methods for PSI, starting with key stakeholder consultations to inform members' subsequent discussions.[1] Starting in September 2022, these technical deliberations have been organised in the context of the WP-STAT and a dedicated project team, updating the Committee on a regular basis.[2]

3. At its meeting in April 2023, the Committee approved the revised methods for the first batch of topics, i.e. the treatment of loans to the private sector, treatment of credit guarantees and the ODA-eligibility assessment of PSI vehicles.[3] The second batch of PSI topics, i.e. methods for the treatment of equities, mezzanine finance instruments and reimbursable grants, was presented for approval by the Committee at its meeting on 4-5 July 2023, but not all members could agree with the proposal.[4]

4. Renewed discussions in the WP-STAT resulted in adjustments in the monitoring and review provisions of the treatment of equities and allowed for a second WP-STAT written procedure on a non-objection basis by close of business 22 September 2023.[5] No objection was received. Three members indicated however that they agree "in principle" on the proposed treatment of equities, mezzanine finance instruments and reimbursable grants, depending on the outcome of discussions on Batch 3 topics.

5. In parallel, at the special WP-STAT meeting on PSI held on 28 August 2023, members approved the clarifications on the treatment of guarantees other than credit

[1] See DCD/DAC(2021)40.

[2] See https://one-communities.oecd.org/community/wpstat-collab/SitePages/PSI---Treatment-of-equities-[for-APPROVAL-by-22-September2023].aspx and https://one-communities.oecd.org/community/wpstat-collab/SitePages/PSI---Treatment-of-mezzanine-finance-instruments-and-reimbursable-grants-[for-APPROVAL-by-22-September-2023].aspx.

[3] See DCD/DAC(2023)22/FINAL and DCD/DAC/M(2023)4/FINAL.

[4] See DCD/DAC(2023)33 and DCD/DAC/M(2023)7/FINAL.

[5] See DCD/DAC/STAT(2023)3/REV3 and DCD/DAC/STAT(2023)4/REV4.

guarantees, portfolio guarantees, loans to collective investment vehicles and non-grant instruments to public-private partnerships.[6]

2. Objective

6. On this basis, this document presents, for the Committee's approval at its meeting on 3 October 2023, the revised proposals on the treatment of equities, mezzanine finance and reimbursable grants, and the proposed clarifications on the treatment of guarantees other than credit guarantees, portfolio guarantees, loans to collective investment vehicles and non-grant instruments to public-private partnerships. All these methods and clarifications are included in the Appendix of this note.[7]

7. The WP-STAT continues its deliberations on the third batch of topics (e.g. additionality, monitoring, safeguards and reporting requirements) with a view to presenting these final elements for approval by the DAC at its extraordinary meeting on 23 October 2023.

[6] See DCD/DAC/STAT(2023)13/REV2. The approval was with the understanding that the text in paragraph 17.b will be complemented with a provision on the disclosure of the CRS item concerned. This has been reflected in the Appendix of this document.

[7] At the Committee meeting on 11-12 September 2023, the Chair informed members that this document would likely be issued less than 2 weeks before the extraordinary DAC meeting held on 3 October 2023. No member objected to this shorter timeline.

Appendix: Methodological proposals on the treatment of equities, mezzanine finance instruments and reimbursable grants and clarifications on the treatment of guarantees other than credit guarantees, portfolio guarantees, loans to collective investment vehicles and non-grant instruments to public-private partnerships

Treatment of equities [DCD/DAC/STAT(2023)3/REV3]

1. Background

1. The provisional reporting methods for private sector instruments (PSI) put forward the measurement of donor effort in extending equities on a cash-flow basis, applying a cap on sales upon exit to avoid negative net ODA. This temporary arrangement introduced hybrid accounting in ODA (mixing grant equivalents and cash flows), and within cash-flow accounting, the rationale for using a cap remains ambiguous. Neither do the provisional methods provide clarity on the ODA eligibility of the various types of equities and some other ambiguities. This paper addresses these limitations and proposes recording the donor effort in extending equities on a grant equivalent basis.[8]

2. This proposal has been developed in line with the 2016 HLM general principles for PSI[9], taking into account the outcomes of Part 1 of the review of the provisional reporting methods in Q1-2 of 2022 [DCD/DAC/STAT(2022)15 and DCD/DAC(2022)39/REV1]. It is inspired by members' methodological discussions in the past[10] and during the PSI review to date, including in the context of the WP-STAT PSI Project Team in April and May 2023. It also integrates members' feedback on the proposal at the plenary meeting of the WP-STAT on 30 May – 1 June 2023 and the meeting of the DAC on 5 July 2023. The note presents ODA-eligibility rules, parameters and method for calculating grant equivalents, reporting requirements, rules for data disclosure, safeguards and other considerations.

3. Members are invited to approve this proposal.

2. 2016 HLM Principles

4. The general principle xii of the 2016 HLM Communiqué states that

Equity investments by DFIs or other vehicles in private sector entities in developing countries are counted on a grant equivalent basis ex post, i.e. they are initially counted at face value and their reflows discounted ex post, upon exit. The reflows will be discounted using differentiated discount rates by income group, applying a cap on reflows corresponding to the original investment. In specific cases and where enough information is available to estimate the reflows and risk undertaken, measurement will be on a grant equivalent basis calculated ex ante, adjusted ex post. HLM follow-up: work with DFIs to determine the appropriate discount rates for this calculation.

[8] Details on the approach for members' discussions in the context of the review Part 2 can be found in DCD/DAC/STAT(2022)29.

[9] See www.oecd.org/dac/DAC-HLM-Communique-2016.pdf

[10] See DCD/DAC/STAT(2016)2 and DCD/DAC(2017)18/REV1.

5. Moreover, the general principle iv and the fourth paragraph of the principle xii consider equity investment in DFIs or other PSI vehicles.[11] These have been addressed in the context of the ODA-eligibility assessment of members' PSI vehicles [see DCD/DAC(2023)22] and are therefore not covered by the treatment of equities presented in this document.

3. Scope

6. This methodological paper covers common equity, including investments in junior shares of enterprises, and shares/units in collective investment vehicles (CIVs).[12]

7. See paragraph 8 of the Reporting Directives [DCD/DAC/STAT(2023)9/FINAL] for scope of resource flows covered in DAC statistics.

4. Eligibility

8. In the spirit of the HLM Communiqué and members' discussions to date as well as the general principles underpinning the DAC statistics, for equities to be ODA-eligible, they need to be:

a. Allocated to countries or territories on the DAC List of ODA Recipients;[13]

b. Administered with the promotion of economic development and welfare of developing countries as their main objective;

c. Additional financially, in value or both, combined with their development additionality.

5. Parameters and method

9. The 2016 HLM Communiqué puts forward two methods for measuring donor effort in equities: ex ante and ex post.

10. To promote consistency with the measurement of donor effort in other types of PSI and maximum comparability across PSI vehicles, members strive to measure their donor effort in extending equities on an ex-ante basis. In specific cases, ex-post method may be used (see also paragraph 55).

5.1. Members' key considerations

11. The key challenge in estimating donor effort in extending equities is the uncertainty in relation to their maturity and returns. In this context, and learning from data reporting to

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[11] "(…) equity investment in a DFI or other vehicle is treated as a sunk cost, initially counted in ODA at face value (applying an ODA coefficient if need be – see principle x), with reflows, if any, counted as negative ODA."

[12] The treatment of preferred equity is addressed in DCD/DAC/STAT(2023)4/REV4.

[13] This may also include equities invested in intermediaries, including CIVs, in donor and third countries, provided the main objective of the financing is the promotion of economic development and welfare of ODA Recipients, and relevant due diligence has been carried out by the PSI vehicle.

date, members' discussions have provided some additional methodological orientations for measuring donor effort in equities. Notably, the method for treating equities should:

a. Be practical and realistic in terms of data reporting requirements.

b. Provide incentives for deploying equity for development. While the method should recognise the risky nature of equity relative to mezzanine finance and loans, it should be agnostic about performance of individual investments ex post.

c. Be consistent with methods for the treatment of other private sector instruments. The calculation should be aligned with that for loans and it should recognise that donor effort in extending equities is higher than that in loans to the private sector due to higher risk.

d. Take into account restrictions related to commercially sensitive information at the level of individual investments (e.g. dividends and sales).

e. Promote predictability and facilitate members' planning of future ODA budgets, while overcoming the challenges posed by the highly fluctuating nature of equity returns.

f. Foster ODA integrity and effectiveness. The methods should incentivise resource flows to the countries that need them the most and local private sector development. Discount rates should be realistic without inflating ODA figures.

5.2. Ex-ante method

12. Based on the 2016 HLM Principles and in response to members' key considerations presented in section 5.1, this method is designed, among other things, to:

a. Reward the risk taken by donors in extending equities in developing countries, and

b. Overcome commercial sensitivities by working with portfolio-level averages (as opposed to investment-specific details, e.g. on returns, sales, dividends and maturities).

13. Donor effort in extending equity investments is measured on a grant equivalent basis (see also paragraph 5). Related grant elements are based on a comparison of an equity nominal value (face value) and the sum of discounted returns (sale and dividends) as expected at the commitment stage.

14. The grant element is calculated using the formula for loans with a lump-sum repayment (both principal and interest), based on

a. Expected maturity i.e. interval between equity commitment and expected exit;

b. Expected return per annum expressed as a percentage of initial investment, including both equity sales and dividends.[14]

15. Both variables are estimated at the level of equity portfolios of individual PSI vehicles and, as illustrated in Annex A, are:

[14] For example, annual return is 10% for equities with reflows (sale and cumulative dividends) amounting to 200% of the initial investment (= 100% return over 10 years).

a. Based on the maturities of and realised return from exited equity investments during ten years prior to the year of reporting on new equities;[15]

b. Calculated as averages weighted on disbursements of individual equities.

16. In the interest of accuracy, members strive to develop these estimates at the level of sub-portfolios, differentiating between various types of equity investments or geographies. In specific cases, this can also translate into measurement of donor effort using investment-specific variables.

17. See Annex A for an illustrative example of the use of the ex-ante method.

5.2.1. Potential adjustment of grant equivalents calculated using the ex-ante method

18. As part of their monitoring of PSI ODA, members and the Secretariat will compare grant equivalents of equities

a. Calculated using the ex-ante method (reporting based on variables estimated at the portfolio-level, see section 5.2) and

b. Calculated upon exit ex post (using maturities and realised return of all exited equities during last ten years).

19. Should this analysis reveal significant differences in the sum of grant equivalents calculated ex ante and the sum of grant equivalents calculated ex post (whether upwards or downwards), the Secretariat will notify the concerned member of the need to make an ex-post adjustment. If the difference is more than 10% or USD 10 million, the adjustment will be required.

20. Members can request such an adjustment based on their own monitoring, irrespective of the size of the difference. Such a request needs to be supported by necessary evidence and shared with the Secretariat.

21. The adjustment will be recorded as a positive or negative entry in the grant equivalent field of the CRS questionnaire, as an aggregate concerning all equities exited in the reporting year.

5.3. Ex-post method

22. For members that cannot use the ex-ante method outlined in section 5.2, ex-post method is used.

23. Commitments and subsequent disbursements of equities are reported in ODA at face value at the time they occur. Upon exit, a negative entry is introduced in the grant equivalent field, corresponding to the cumulative reflows (sum of sales and dividends over the equity lifetime), counted with a discount factor for the year of exit.

[15] For PSI vehicles that are unable to establish these variables based on past equity investments, other estimates are used. Such estimates should be based on most up-to-date internal information on returns and expected maturities concerning active investments. Should such internal information not be available, the Secretariat will provide, upon request, variables for members' reporting ex ante estimated based on data reported by other DAC members.

5.3.1. Potential adjustment of grant equivalents calculated using the ex-post method

24. To ensure that donor effort in equity investments remains positive or neutral over time (≥ 0), a calculation is made each year at a portfolio level[16] to compare

   a. Sum of discounted reflows (sales and dividends) for all exited equities in a given reporting year and

   b. Sum of initial investments (gross disbursements) on these very equities.

25. If a. exceeds b., an adjustment can be recorded in members' reporting to bring the sum of grant equivalents on these equities over time to zero. If applicable, this adjustment is reported through the grant equivalent field of the CRS questionnaire.

26. See Annex C for an illustrative example of the use of the ex-post method.

5.4. Mechanism for changing the method

27. To keep members' measurement of donor effort in PSI coherent and transparent, only one measurement method may be used at a time per PSI vehicle.

28. Concerning members who will report using the ex-post method and move to the ex-ante method at a later stage, the following guidance is provided, with the understanding that this shall be a one-off swap:[17]

   a. Members first notify the Secretariat prior to the submission of their annual Advance Questionnaire for the year of the switch.

   b. From the year of the switch onwards, reflows on equities committed prior to that year will no longer be counted as negative ODA, given the profound change in the accounting method, including point of measurement of donor effort. In this context, members will communicate to the Secretariat, as part of their Advance Questionnaire, an aggregate figure concerning equities that will no longer be counted in ODA due to the methodological change. In the interest of transparency, this information will be included in the ODA press release on the year of the switch.[18]

5.5. Discount rate architecture

29. Discount rates for equities are composed of

   a. A base rate of 5% (IMF discount rate), representing the equity funding cost;

   b. A risk-adjustment factor differentiated by DAC income group (4% for LDCs and other LICs, 2% for LMICs and 1% for UMICs), representing the country risk; and

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[16] Compared to a cap on reflows of individual equity investments provided for in the provisional reporting methods for PSI, the impact of the portfolio-level cap is expected to be smaller as it absorbs profits from and losses of multiple investments. For this very reason, it is also expected to be applied less often. See also an illustrative example in Annex C.

[17] A change from ex-ante to ex-post method is not foreseen. Should there be a need for such a change, a specific mechanism would need to be developed and discussed at the WP-STAT.

[18] This is in line with the implementation of the measurement of donor effort on a grant equivalent basis for sovereign loans.

c. A surcharge for equities, differentiated by DAC income group (4% for LDCs and other LICs, 3.5% for LMICs and 3.1% for UMICs). These values compare to the values of private sector surcharge for loans to the private sector [see DCD/DAC(2023)22] plus an extra premium of 3% (see Table 1).

Table 1. Discount rates for equities

	LDCs and other LICs	LMICs	UMICs
Base factor	5%	5%	5%
Risk-adjustment factor	4%	2%	1%
Equity surcharge	4%	3.5%	3.1%
Discount rate	**13%**	**10.5%**	**9.1%**

6. Reporting requirements and data disclosure

6.1. Reporting requirements

30. In the interest of transparency and comparability, reporting requirements and data disclosure rules on equities are identical under both the instrument and institutional approach. In particular, the grant equivalents of individual equities are also reportable, for memorandum, by members applying the institutional approach (see principle xiii). In their case, the grant equivalent calculation is required to maintain the possibility of comparing ODA figures across members following different reporting approaches.

31. To allow for the verification of the grant equivalent calculation under the ex-ante method by the Secretariat, members provide information on portfolio-level expected maturities and returns, as described in paragraphs 14 and 15. These data items will be integrated in the CRS reporting template, making use of existing data fields to the extent possible (see Annex B). These data items are optional under the ex-post method (see Annex D).

32. To allow for the monitoring of donor effort in extending equity investments under the ex-ante method (see section 5.2), and to be able to measure donor effort in equities using the ex-post method (see section 5.3), members provide the following data items through their regular data reporting at the activity level:

a. Dividends received per annum,

b. Full amount of equity sale, and

c. Equity disbursed and still held.[19]

33. Moreover, each equity investment must be reported with a single CRS Id number and donor project number over its entire lifetime. Due attention must be paid to reporting correct commitment dates too.

34. Reporting on additionality is required to demonstrate the ODA eligibility and development motive of individual equity investments.

[19] These data are needed to understand whether an equity sale concerns a full exit or a partial sale. If possible, equity disbursed and still held should reflect the actual value of held equity during a given reporting year, i.e. adjusted on appreciation or depreciation over time.

6.2. Data disclosure

35. In response to growing transparency needs yet keeping in mind commercial sensitivities and potential legal restrictions related to engaging with the private sector, there would be no restriction to data disclosure with the exception of the data on expected maturity and expected return per annum, whether using the instrument or institutional approach. Neither data item will be disclosed.[20] Moreover, data on sales and received dividends will only be disclosed aggregated by donor, agency, type of finance, recipient and year for which these data are reported.

36. Channels of delivery (investees), disbursements, grant elements and grant equivalents will be disclosed at the level of individual activities.

7. Safeguards

7.1. Transparency enhancement

37. The name of investee (e.g. enterprise or collective investment vehicle) is reported through the CRS field for channel of delivery.

38. For equities invested in intermediaries, including CIVs, in donor or third countries, the country of residence of such intermediaries will be reported in the description field of members' activity-level CRS reporting. A comprehensive explanation of the choice of such channels will be provided through the CRS fields on development objective and additionality.

39. For regionally allocated equities, a list of countries and/or territories targeted by such investments should be indicated in the CRS description field for the sake of transparency and to allow quality controls on the calculation of the grant equivalent.

40. See also DCD/DAC/STAT(2023)20/REV2 for ODA-integrity safeguard related to data requirements and transparency in section 4.1, and reporting requirements on intra-governmental transfers in section 1.3, discussed as part of the third batch of issues of the review of the provisional reporting methods for PSI.

7.2. Clarification on the choice of discount rates

41. For equities with a multi-country or regional focus (e.g. shares/units in CIVs), grant equivalents are calculated using a discount rate corresponding to the income group to which all, or a majority of targeted ODA recipients belong.

42. For regionally allocated investments without further specification on individual recipient countries and/or territories, the prevalent income group within the region is used to determine the discount rate.[21]

43. It is further clarified that the country of residence of channels has no bearing on the choice of discount rates used for calculating donor effort.

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[20] Rules on data disclosure on the amounts mobilised are presented in paragraph 229 of the DAC Reporting Directives and are not affected by this proposal.

[21] This is consistent with guidance provided on loans for multi-country agreements in paragraphs 238 and 384 of the DAC Reporting Directives [DCD/DAC/STAT(2023)9/FINAL].

7.3. Biennial report

44. To address members' concerns about the ODA integrity and effectiveness in the context of PSI, the Secretariat will carry out biennially a thorough analysis of the geographic, recipient income group, sectoral and thematic characteristics as well as additionality of all PSI, including equities, reported in ODA under both the instrument and institutional approaches. It will also analyse the quality of the grant equivalent reporting by individual members, monitor the volumes involved and compare these values across the methods and approaches used. A particular attention will be paid to the share of donor effort in PSI in individual members' total ODA.

45. Findings from this analysis will be presented to the DAC in a dedicated report for information. Potential issues identified through this exercise will be addressed as part of members' subsequent discussions.

46. The biennial report will also present the Secretariat's assessment of the comparability of the ex-ante and ex-post methods. The frequency of this assessment is specified in paragraph 50.

47. The WP-STAT will use the findings presented in the biennial report to review and, if agreed, revise relevant aspects of the directives on the treatment of equities.

48. See also section 4.2 of DCD/DAC/STAT(2023)20/REV2 for more details on the biennial report discussed as part of the third batch of issues of the review of the provisional reporting methods for PSI.

7.4. Review mechanism

49. Members will duly review the methods for the treatment of equities in 2030. Building upon the biennial reports (see section 7.3) and supported by the Secretariat's analysis of the collected data on equities, the review will consider in particular the accuracy and comparability of the ex-ante and ex-post methods (see paragraph 50). Outcomes of the review will be shared with members. Depending on the outcomes of the review, revisions to relevant parts of the methodology will be proposed for members' consideration. Should the review outcomes unveil limited comparability of the ex-ante and ex-post methods and/or artificial inflation of ODA, revisions will be proposed to enhance consistency in the measurement of donor effort in equities.

50. The assessment of the comparability of the ex-ante and ex-post reporting methods will be based on robust evidence. This includes an assessment of the cap on discounted reflows under the ex-post method, where members reporting under this method would also be required to share to the Secretariat the reflows beyond the cap. The first assessment will feed into the 2030 review (see paragraph 49). Subsequent assessments will be carried out once every four to six years with outcomes presented in biennial reports (see paragraph 46).

51. Given the volatile nature of capital markets, including investment returns and dividend yields, the Secretariat will review the equity surcharge component of the discount rates and, if needed, propose adjustments for consideration by members. This review will be carried out once every four to six years.

52. See also section 4.3 of DCD/DAC/STAT(2023)20/REV2 for more details on the review mechanism discussed as part of the third batch of issues of the review of the provisional reporting methods for PSI.

8. Other considerations

53. Comparability is a key feature of the DAC statistics. Discussions on mechanisms for monitoring the comparability of the instrument and institutional approaches will be discussed as part of batch 3 under step 4 on monitoring, safeguards and disciplines [see DCD/DAC/STAT(2022)15, DCD/DAC/STAT(2022)29 and DCD/DAC/STAT(2023)20/REV2].

9. Implementation

54. Reporting on the donor effort in extending equities on a grant equivalent basis will be implemented as from members' 2024 reporting on flows in 2023. Members that are unable to implement these reporting methods in 2024 may use a transition period of one to two years.[22]

55. To promote consistency with the measurement of donor effort in other types of PSI and maximum comparability across PSI vehicles, members strive to measure their donor effort in extending equities on an ex-ante basis. In specific cases, ex-post method may be used.

56. Until the implementation of the grant equivalent accounting using the methods outlined in section 5, the provisional reporting methods will continue to apply as regards ODA accounting and data disclosure.[23]

57. Upon implementation i.e. the switch from cash flows to the grant equivalent measurement of donor effort:

a. Using the ex-ante method, reflows on equities committed prior to the year of the switch will no longer be counted as negative ODA, given the profound change in the accounting method, including point of measurement of donor effort. In this context, members will communicate to the Secretariat, as part of their Advance Questionnaire, an aggregate figure concerning equities that will no longer be counted in ODA due to the methodological change. In the interest of transparency, this information will be included in the ODA press release on the year of the switch.

b. Using the ex-post method, reflows on equities committed prior to the year of the switch will continue to be recorded as negative grant equivalents.[24] This is to avoid a second break in the series when eventually moving to the ex-ante method.

[22] Members will notify the Secretariat should they need a longer transition period.

[23] Paragraph 9C of DCD/DAC/STAT(2023)9/ADD3 states that "individual equity investments to private sector entities in developing countries will continue to be reported on a cash-flow basis:

- Positive ODA would be recorded at the time of investment and the proceeds of sales would be reportable as negative ODA applying a cap on reflows corresponding to the original investment. To be ODA-eligible, equities need to comply with the ODA definition i.e. have the economic development and welfare of developing countries as their primary purpose and be in line with Reporting Directives [see in particular paragraph 135 of DCD/DAC/STAT(2023)9/FINAL].
- Contributions to investment funds may be ODA-eligible if in accordance with the existing Directives [see in particular paragraph 136 of DCD/DAC/STAT(2023)9/FINAL]."

[24] Reflows on equities committed in the past that cannot be discounted would be reported according to the provisional reporting methods (see footnote 21).

Annex A. Illustrative example, ex-ante method

8. In 2020, a DFI made an equity investment of USD 20 million to a company in an LMIC. For the purpose of this demo, it is called Equity A.

Reporting according to the ex-ante method

9. An analysis of equities exited during 2011-20 indicated their weighted average maturity of 7 years and weighted average rate of return at 6% (see Table 2). Using these variables, the donor effort in extending the equity A is USD 5.88 million with a grant element of 29.41% (see Table 3). See also see Annex B.1.

Table 2. Calculation of expected maturities and return under the ex-ante method

Equity portfolio	Gross disbursement (USD million), 2020 prices	Exit year	Maturity	Realised return
Equity 1	20.7	2020	6.2	6.9%
Equity 2	12.3	2017	10.0	-8.0%
Equity 3	5.7	2016	3.5	33.0%
			7.0 = (6.2×20.7 + 10.0×12.3 + 3.5×5.7) / (20.7+12.3+5.7)	**6.0%** = (6.9%×20.7 - 8.0%×12.3 + 33.0%×5.7) / (20.7+12.3+5.7)

Table 3. Calculation of the grant element of Equity A using ex-ante method

Initial investment in 2020	Equity value upon exit (expected maturity of 7 years and expected return of 6%)	Discount factor (discount rate = 10.5%)	Present value of future payments	Grant element	Grant equivalent, USD million
20	28.4 = 20 + 7×6%×20	2.01	14.12	29.41%	**5.88**

Monitoring and adjustment ex post

10. In 2028, the DFI exited two companies and sold its stakes. One of the equities was the investment above (Equity A, exited one year later than expected). The other (Equity B) had been reported using the ex-ante method with a grant equivalent of USD 7.72 million. The sum of grant equivalents reported for these two equities is **USD 13.60 million**.

11. Equities exited during 2019-28 had weighted average maturity of 6 years and weighted average realised return of 4% (annualised). Accordingly, the donor effort calculated ex post is USD 6.38 million for Equity A and USD 6.87 million for Equity B. The sum of the grant equivalents calculated ex post is **USD 13.25 million**, i.e. USD 0.35 million less than reported applying the ex-ante method.

12. Accordingly, a downward adjustment of **USD -0.35 million** could be warranted. Given that its value differs by less than 10% of the initial grant equivalents and is less than USD 10 million, the adjustment is not mandatory. The adjustment would be recorded in the CRS field for grant equivalents in the reporting year 2028 as a new activity with unspecified geographic, sectoral or thematic details (see Annex B.2).

Annex B. CRS reporting requirements and rules for data disclosure for equities reported in ODA using the ex-ante method

B.1 Ex-ante measurement

	CRS item number	CRS item name	Reporting example	Data requirement	Level of data disclosure
A. Identification data	1	Reporting year	2020	Required	Activity-level
	1b	Commitment date	15-06-2020	Required	Activity-level
	2	Reporting country / organisation	123	Required	Activity-level
	3	Extending agency	123	Required	Activity-level
	4	CRS Identification N°	2023000001	Required	Activity-level
	5	Donor project N°	EQ567	Required	Activity-level
	6	Nature of submission	1	Required	Activity-level
B. Basic data	7	Recipient code	321	Required	Activity-level
	8	Channel of delivery name	Bank ABC	Required	Activity-level
	9	Channel code	62002	Required	Activity-level
	10	Bi/Multi	1	Required	Activity-level
	11	Type of flow (…)	60	Required	Activity-level
	12	Type of finance	510	Required	Activity-level
	13	Co-operation modality	C01	Required	Activity-level
	14	Short description / Project title	Equity investment (…)	Required	Activity-level
	15	Sector / Purpose code (…)	24030	Required	Activity-level
C. Supplementary data	16	Geographical target area	[Text]	Voluntary	Activity-level
	16b	Regional aid to LDCs		Voluntary	Activity-level
	17	Expected starting date	01-07-2020	Required	Activity-level
	18	Expected completion date	15-06-2028	Required	Activity-level
	19	Description	An investment to (…)	Required	Activity-level
	19b	SDG focus	5.1;8.10;13.1	Voluntary	Activity-level
	19c	Keywords		Voluntary	Activity-level
	20	Gender equality	1	Required	Activity-level
	21	Aid to environment	0	Required	Activity-level
	22	Democratic and inclusive governance	0	Required	Activity-level
	23	RMNCH	0	Required	Activity-level
	23b	Disaster risk reduction	0	Required	Activity-level
	23c	Nutrition	0	Voluntary	Activity-level
	23d	Inclusion and empowerment of persons with disabilities	0	Voluntary	Activity-level
	24	FTC		Required	Activity-level
	25	PBA		Required	Activity-level
	26	Investment	1	Required	Activity-level
	27	Type of blended finance	3	Required	Activity-level
	28	Biodiversity	0	Required	Activity-level
	29	Climate change - mitigation	0	Required	Activity-level
	30	Climate change - adaptation	1	Required	Activity-level
	31	Desertification	0	Required	Activity-level
D. Volume data	32	Currency	302	Required	Activity-level
	33	Commitments	20000	Required	Activity-level
	33b	Capital Expenditure %	100	Voluntary	Activity-level
	34	Amounts extended	20000	Required	Activity-level

	CRS item number	CRS item name	Reporting example	Data requirement	Level of data disclosure
	34b	ODA grant equivalent	5881.7	Required	Activity-level
	35	Amounts received	0	Required	Aggregated by donor, agency, type of finance and recipient
	36	Amount untied	TBD	TBD	TBD
	37	Amount partially untied	TBD	TBD	TBD
	38	Amount tied	TBD	TBD	TBD
	39	Amount of IRTC		Required	Activity-level
	40	If project type, amount of experts-commitments		Required	Activity-level
	41	If project type, amount of experts-extended		Required	Activity-level
	42	Amount of export credit		Required	Activity-level
	43a	Leveraging mechanism and role/position	7	Voluntary	See paragraph 228 of DCD/DAC/STAT(2023)9/FINAL
	43b	Amounts mobilised from the private sector	30000	Voluntary	
	43c	Origin of the funds mobilised	3	Voluntary	
E. For non-grants only		Guaranteed amount *[new]*	NULL	NULL	Activity-level
		Average use of portfolio guarantees % *[new]*	NULL	NULL	Activity-level
	44	Type of repayment	NULL	NULL	Activity-level
	45	Number of repayments per annum	NULL	NULL	Activity-level
	46	Interest rate *Expected return per annum*	6000	Required	Not disclosed
	49	Final repayment date *Date of expected maturity*	18-06-2027	Required	Not disclosed
	50	Interest received *Dividends received per annum*	0	Required	Aggregated by donor, agency, type of finance and recipient
	51	Principal disbursed and still outstanding *Equity disbursed and still held*	20000	Required	Not disclosed
	52	Arrears of principal	NULL	NULL	Not disclosed
	53	Arears if interest	NULL	NULL	Not disclosed
F. For PSI	54	PSI flag	[2.1][3][4.1]	Required	Activity-level
	55	Additionality type	1	Required	Activity-level
	56	Additionality assessment	[Text]	Required	Activity-level
	57	Additionality – development objective	[Text]	Required	Activity-level

Note: the grant equivalent value entered in field 34b is calculated using a discount rate of 10.5%. Reporting on sales and dividends received is also required under the ex-ante method for transparency and monitoring purposes.

B.2 Ex-post adjustment to reporting under the ex-ante method, selected fields

	CRS item number	CRS item name	Reporting example	Data requirement	Level of data disclosure
	1	Reporting year	2028	Required	Activity-level
	2	Reporting country / organisation	123	Required	Activity-level
	3	Extending agency	123	Required	Activity-level
	7	Recipient code	998	Required	Activity-level
	11	Type of flow (…)	60	Required	Activity-level
	12	Type of finance	510	Required	Activity-level
	14	Short description / Project title	Ex-post adjustment on ex-ante (…)	Required	Activity-level
	15	Sector / Purpose code (…)	99810	Required	Activity-level
	32	Currency	302	Required	Activity-level
	33	Commitments	0	Required	Activity-level
	34	Amounts extended	0	Required	Activity-level
	34b	ODA grant equivalent	-351.74	Required	Activity-level
	35	Amounts received	0	Required	Aggregated by donor, agency, type of finance and recipient

Annex C. Illustrative example, ex-post method

13. In 2028, a DFI exits three equity investments: Equity A invested in 2020 with USD 20 million, Equity B invested in 2021 with USD 15 million and Equity C, invested in 2023 with USD 5 million. All three investments were made in LMICs.

Investment (gross disbursements)

14. Positive grant equivalents are reported in 2020 for Equity A, 2021 for Equity B and 2023 for Equity C, reflecting the face value of the investments, i.e. USD 20 million, USD 15 million and USD 5 million respectively.

Reflows (sales and dividends)

Scenario A: no need for ex-post adjustment

15. In 2028, all three equities were sold. Equity A for USD 45 million, Equity B for USD 8 million and Equity C for USD 10 million. The sum of dividends received during the lifetime of these equities are USD 5 million, USD 2 million and USD 1 million respectively. The discounted sum of sales and dividends upon exit amount to USD 22.19 million for Equity A, USD 4.97 million for Equity B and USD 6.68 million for Equity C. The sum of discounted reflows on these exited equities in 2028 is thus USD 34.14 million. This is lower than the face value of the initial investments (USD 40 million). There is thus no need for ex-post adjustment to bring the sum of grant equivalents on these equities to zero over time (see Table 4.A).

Table 4. Ex-post method

Grant equivalents, USD million

4.A No need for ex-post adjustment

	Equity A	Equity B	Equity C	Adjustment
2020	20			
2021		15		
2022				
2023			5	
(...)				
2028	-22.49*	-4.97	-6.68	NULL

** Calculated as (45+5) / (1+0.105)^8*

4.B With an ex-post adjustment

	Equity A	Equity B	Equity C	Adjustment
2020	20			
2021		15		
2022				
2023			5	
(...)				
2028	-30.59*	-4.97	-6.68	+2.24

** Calculated as (53+15) / (1+0.105)^8*

Scenario B: with an ex-post adjustment

16. In 2028, all three equities were sold. Equity A for USD 53 million, Equity B for USD 8 million and Equity C for USD 10 million. The sum of dividends received during the lifetime of these equities are USD 15 million, USD 2 million and USD 1 million respectively. The discounted sum of sales and dividends upon exit amount to USD 30.59 million for Equity A, USD 4.97 million for Equity B and USD 6.68 million for Equity C. The sum of discounted reflows on these exited equities in 2028 is thus USD 42.24 million. This is higher than the face value of the initial investments (USD 40 million). An ex-post adjustment of USD +2.24 million can be recorded in 2028 to bring the sum of grant equivalents on these equities to zero over time (see Table 4.B).

Annex D. CRS reporting requirements and rules for data disclosure for equities reported in ODA using the ex-post method

D.1 Equity investment (disbursement)

	CRS item number	CRS item name	Reporting example	Data requirement	Level of data disclosure
A. Identification data	1	Reporting year	2020	Required	Activity-level
	1b	Commitment date	15-06-2020	Required	Activity-level
	2	Reporting country / organisation	123	Required	Activity-level
	3	Extending agency	123	Required	Activity-level
	4	CRS Identification N°	2023000001	Required	Activity-level
	5	Donor project N°	EQ567	Required	Activity-level
	6	Nature of submission	1	Required	Activity-level
B. Basic data	7	Recipient code	321	Required	Activity-level
	8	Channel of delivery name	Bank ABC	Required	Activity-level
	9	Channel code	62002	Required	Activity-level
	10	Bi/Multi	1	Required	Activity-level
	11	Type of flow (…)	60	Required	Activity-level
	12	Type of finance	510	Required	Activity-level
	13	Co-operation modality	C01	Required	Activity-level
	14	Short description / Project title	Equity investment (…)	Required	Activity-level
	15	Sector / Purpose code (…)	24030	Required	Activity-level
C. Supplementary data	16	Geographical target area	[Text]	Voluntary	Activity-level
	16b	Regional aid to LDCs		Voluntary	Activity-level
	17	Expected starting date	01-07-2020	Required	Activity-level
	18	Expected completion date	31-12-2029	Required	Activity-level
	19	Description	An investment to (…)	Required	Activity-level
	19b	SDG focus	5.1;8.10;13.1	Voluntary	Activity-level
	19c	Keywords		Voluntary	Activity-level
	20	Gender equality	1	Required	Activity-level
	21	Aid to environment	0	Required	Activity-level
	22	Democratic and inclusive governance	0	Required	Activity-level
	23	RMNCH	0	Required	Activity-level
	23b	Disaster risk reduction	0	Required	Activity-level
	23c	Nutrition	0	Voluntary	Activity-level
	23d	Inclusion and empowerment of persons with disabilities	0	Voluntary	Activity-level
	24	FTC		Required	Activity-level
	25	PBA		Required	Activity-level
	26	Investment	1	Required	Activity-level
	27	Type of blended finance	3	Required	Activity-level
	28	Biodiversity	0	Required	Activity-level
	29	Climate change - mitigation	0	Required	Activity-level
	30	Climate change - adaptation	1	Required	Activity-level
	31	Desertification	0	Required	Activity-level
D. Volume data	32	Currency	302	Required	Activity-level
	33	Commitments	20000	Required	Activity-level
	33b	Capital Expenditure %	100	Voluntary	Activity-level
	34	Amounts extended	20000	Required	Activity-level

	CRS item number	CRS item name	Reporting example	Data requirement	Level of data disclosure
	34b	ODA grant equivalent	20000	Required	Activity-level
	35	Amounts received	0	Required	Aggregated by donor, agency, type of finance and recipient
	36	Amount untied	TBD	Required	Activity-level
	37	Amount partially untied	TBD	Required	Activity-level
	38	Amount tied	TBD	Required	Activity-level
	39	Amount of IRTC		Required	Activity-level
	40	If project type, amount of experts-commitments		Required	Activity-level
	41	If project type, amount of experts-extended		Required	Activity-level
	42	Amount of export credit		Required	Activity-level
	43a	Leveraging mechanism and role/position	7	Voluntary	See paragraph 228 of DCD/DAC/STAT(2023)9/FINAL
	43b	Amounts mobilised from the private sector	30000	Voluntary	
	43c	Origin of the funds mobilised	3	Voluntary	
E. For non-grants only		Guaranteed amount *[new]*	NULL	NULL	Activity-level
		Average use of portfolio guarantees % *[new]*	NULL	NULL	Activity-level
	44	Type of repayment	NULL	NULL	Activity-level
	45	Number of repayments per annum	NULL	NULL	Activity-level
	46	Interest rate *Expected return per annum*		Optional	Not disclosed
	49	Final repayment date *Date of expected maturity*		Optional	Not disclosed
	50	Interest received *Dividends received per annum*	0	Required	Aggregated by donor, agency, type of finance and recipient
	51	Principal disbursed and still outstanding *Equity disbursed and still held*	20000	Required	Not disclosed
	52	Arrears of principal	NULL	NULL	Not disclosed
	53	Arears if interest	NULL	NULL	Not disclosed
F. For PSI	54	PSI flag	[2.2][3][4.2]	Required	Activity-level
	55	Additionality type	1	Required	Activity-level
	56	Additionality assessment	[Text]	Required	Activity-level
	57	Additionality – development objective	[Text]	Required	Activity-level

D.2 Equity exit (sale), selected data fields

	CRS item number	CRS item name	Reporting example	Data requirement	Level of data disclosure
A. Identification data	1	Reporting year	2028	Required	Activity-level
	1b	Commitment date	15-06-2020	Required	Activity-level
	2	Reporting country / organisation	123	Required	Activity-level
	3	Extending agency	123	Required	Activity-level
	4	CRS Identification N°	2023000001	Required	Activity-level
	5	Donor project N°	EQ567	Required	Activity-level
	6	Nature of submission	1	Required	Activity-level
D. Volume data	32	Currency	302	Required	Activity-level
	33	Commitments	0	Required	Activity-level
	33b	Capital Expenditure %		Voluntary	Activity-level
	34	Amounts extended	0	Required	Activity-level
	34b	ODA grant equivalent	-30592.20	Required	Activity-level
	35	Amounts received	53000	Required	Aggregated by donor, agency, type of finance and recipient
E. For non-grants only	44	Type of repayment	NULL	NULL	Activity-level
	45	Number of repayments per annum	NULL	NULL	Activity-level
	46	Interest rate *Expected return per annum*		Required under ex-ante method	Not disclosed
	49	Final repayment date *Date of expected maturity*		Required under ex-ante method	Not disclosed
	50	Interest received *Dividends received per annum*	15000	Required	Aggregated by donor, agency, type of finance and recipient
	51	Principal disbursed and still outstanding *Equity disbursed and still held*	0	Required	Not disclosed

Note: The grant equivalent value entered in field 34b is calculated using a discount rate of 10.5%. Reporting on sales and dividends received is also required under the ex-ante method for transparency and monitoring purposes.

D.3 Ex-post adjustment to ex-post reporting, selected fields

	CRS item number	CRS item name	Reporting example	Data requirement	Level of data disclosure
	1	Reporting year	2028	Required	Activity-level
	2	Reporting country / organisation	123	Required	Activity-level
	3	Extending agency	123	Required	Activity-level
	7	Recipient code	998	Required	Activity-level
	11	Type of flow (…)	60	Required	Activity-level
	12	Type of finance	510	Required	Activity-level
	14	Short description / Project title	Ex-post adjustment on ex-post (…)	Required	Activity-level
	15	Sector / Purpose code (…)	99810	Required	Activity-level
	32	Currency	302	Required	Activity-level
	33	Commitments	0	Required	Activity-level
	34	Amounts extended	0	Required	Activity-level
	34b	ODA grant equivalent	2240.43	Required	Activity-level
	35	Amounts received	0	Required	Aggregated by donor, agency, type of finance and recipient

Treatment of mezzanine finance instruments and reimbursable grants [DCD/DAC/STAT(2023)4/REV4]

1. Background

1. Mezzanine finance instruments are currently not reportable as ODA, as per the provisional reporting methods for private sector instruments (PSI). This disincentivises their deployment and therefore limits donors' capacity to mobilise private finance for sustainable development. Moreover, it negatively affects the integrity of the DAC statistics due to the limited comparability of the instrument and institutional approaches. Similarly, no explicit guidance is provided on the treatment of reimbursable grants. In the context of members' review of the provisional reporting methods, this paper addresses this anomaly in the DAC statistics and proposes recording the donor effort in extending mezzanine finance and reimbursable grants on a grant equivalent basis.[25]

2. This proposal has been developed in line with the 2016 HLM general principles for PSI[26], taking into account the outcomes of Part 1 of the review of the provisional reporting methods in Q1-2 of 2022 [DCD/DAC/STAT(2022)15 and DCD/DAC(2022)39/REV1]. It is also inspired by members' methodological discussions in the past[27] and during the PSI review to date, including the meetings of the WP-STAT in March and May-June 2023 and the meeting of the DAC on 5 July 2023.[28] The note puts forward ODA-eligibility rules, methods and related parameters for calculating grant equivalents, reporting requirements, rules for data disclosure, safeguards and other considerations.

3. **Members are invited to approve this proposal.**

2. Mezzanine finance instruments

2.1. Scope

4. The existing directives define mezzanine finance as "instruments relating to the layer of financing between a company's senior debt and equity, with features of both debt and equity". They further specify that claims of mezzanine finance providers are subordinate to those by senior lenders but with benefits compared to those of junior equity investors. There are two main types of mezzanine finance instruments: junior loans and preferred equity.[29]

a. Examples of junior loans include loans with voting rights or other benefits, shareholder loans and subordinated loans (these terms are not mutually

[25] Details on the approach for members' discussions in the context of the review Part 2 can be found in DCD/DAC/STAT(2022)29.

[26] See DAC-HLM-Communique-2016.pdf

[27] See DCD/DAC/STAT(2016)2 and DCD/DAC(2017)18/REV1.

[28] Following the discussion at the WP-STAT meeting on 30 May–1 June 2023, the proposal on reimbursable grants presented in DCD/DAC/STAT(2023)13/REV1 has been integrated in this document.

[29] See Annex 10b of the Reporting Directives in DCD/DAC/STAT(2023)9/ADD1.

exclusive). In general, junior loans have subordinate access to liquidity in the case of default compared to senior lenders.

b. Preferred equity includes investments which, in the event of default, give the investors access to liquidity that is subordinate to lenders but preferred to junior equity investors. Preferred equity holders have usually preferred access to dividends compared to junior equity holders.

5. See paragraph 8 of the Reporting Directives [DCD/DAC/STAT(2023)9/FINAL] for scope of resource flows covered by DAC statistics.

2.2. 2016 HLM Principles

6. The 2016 HLM principles do not explicitly mention mezzanine finance. However, the provisional reporting methods and members' past discussions recognise them as private sector instruments. Given the proximity of junior loans to (senior) loans to the private sector and preferred equity to (junior) equity, this proposal considers the 2016 HLM principles as providing sufficient orientations for members' discussions on the treatment of mezzanine finance instruments.

7. In this context, principle xii of the 2016 HLM Communiqué states that

Loans are counted on a grant equivalent basis. The discount rate for the grant element calculation will be differentiated by income group as in the 2014 DAC HLM agreement, in principle with an additional risk premium (see principle v) reflecting the fact that lending to private sector entities is generally more risky than lending to the official sector. HLM follow-up: elaborate i) a proposal for the risk premium (the additional risk premium could vary by income group) and ii) a recommendation on whether loans to the private sector should be exempted from a threshold or whether a technical threshold should be set (see principle v).

Equity investments by DFIs or other vehicles in private sector entities in developing countries are counted on a grant equivalent basis ex post, i.e. they are initially counted at face value and their reflows discounted ex post, upon exit. The reflows will be discounted using differentiated discount rates by income group, applying a cap on reflows corresponding to the original investment. In specific cases and where enough information is available to estimate the reflows and risk undertaken, measurement will be on a grant equivalent basis calculated ex ante, adjusted ex post. HLM follow-up: work with DFIs to determine the appropriate discount rates for this calculation.

2.3. Eligibility

8. In line with the spirit of the HLM Communiqué and members' discussions to date as well as the general principles underpinning the DAC statistics, for mezzanine finance instruments to be ODA-eligible, they need to be

a. Allocated to countries or territories on the DAC List of ODA Recipients;[30]

b. Administered with the promotion of economic development and welfare of developing countries as their main objective;

[30] This may also include mezzanine finance instruments invested in intermediaries, including CIVs, in donor and third countries, provided the main objective of the financing is the promotion of economic development and welfare of ODA Recipients, and relevant due diligence has been carried out by the PSI vehicle.

c. Additional financially, in value or both, combined with their development additionality.

2.4. Parameters and methods

9. Donor effort in extending mezzanine finance instruments is measured on a grant equivalent basis.

10. As regards the underlying calculation, junior loans are treated the same way as loans to the private sector [see DCD/DAC(2023)22] and preferred equity the same way as equity [see DCD/DAC/STAT(2023)3/REV3].

11. The discount rate architecture is composed of

a. A base factor of 5% (IMF unified discount rate) representing the funding cost,

b. A risk-adjustment factor differentiated by DAC income group (4% for LDCs and other LICs, 2% for LMICs and 1% for UMICs) representing country risk, and

c. A surcharge for mezzanine finance instruments differentiated by DAC income group (2.5% for LDCs and other LICs, 2% for LMICs and 1.6% for UMICs).[31]

12. For junior loans, the technical grant element threshold is set to 0%, in line with the treatment of loans to the private sector [see DCD/DAC(2023)22].

Table 5. Discount rate architecture for mezzanine finance instruments

	LDCs and other LICs	LMICs	UMICs
Base factor	5%	5%	5%
Risk-adjustment factor	4%	2%	1%
Mezzanine finance surcharge	2.5%	2%	1.6%
Discount rate	**11.5%**	**9%**	**7.6%**

2.5. Reporting requirements, data disclosure and safeguards

13. For junior loans, reporting requirements, rules for data disclosure and safeguards are identical to those for loans to the private sector [see DCD/DAC(2023)22]. For preferred equity, they are identical to those for equities [see DCD/DAC/STAT(2023)3/REV3].

14. For mezzanine finance instruments with a multi-country or regional focus, grant equivalents are calculated using a discount rate corresponding to the income group to which all, or a majority of targeted ODA recipients belong. The list of countries and/or territories targeted by such investments should be indicated in the CRS description field for the sake of transparency and to allow quality controls on the calculation of the grant equivalent.

15. For regionally allocated investments without further specification on individual recipient countries and/or territories, the prevalent income group within the region is used to determine the discount rate.[32]

[31] The value of the private sector surcharge for mezzanine finance instruments is higher than that for loans to the private sector and lower than that for equities. It builds on the private sector surcharge for loans to the private sector plus an extra premium of 1.5%.

[32] This is consistent with guidance provided on loans for multi-country agreements in paragraphs 238 and 384 of the DAC Reporting Directives [DCD/DAC/STAT(2023)9/FINAL].

16. It is further clarified that the country of residence of channels has no bearing on the choice of discount rates used for calculating donor effort.

2.6. Other considerations

17. Comparability is a key feature of the DAC statistics. Discussions on mechanisms for monitoring the comparability of the instrument and institutional approaches will be discussed as part of batch 3 topics on additionality, reporting requirements and data disclosure, and monitoring, safeguards and disciplines [see DCD/DAC/STAT(2022)15, DCD/DAC/STAT(2022)29 and DCD/DAC/STAT(2023)20/REV2].

2.7. Implementation

18. The implementation of reporting donor effort in extending mezzanine finance instruments on a grant equivalent basis follows that for loans to the private sector [see DCD/DAC(2023)22] or equities [see DCD/DAC/STAT(2023)3/REV3], as relevant.

3. Reimbursable grants

3.1. Scope

19. The existing directives define reimbursable grants as contributions "to a recipient institution for investment purposes, with the expectation of long-term reflows at conditions specified in the financing agreement. The provider assumes the risk of total or partial failure of the investment; it can also decide if and when to reclaim its investment."[33]

20. Further consultations with members have suggested two distinct types of reimbursable grants used in the context of development finance: loan-type reimbursable grants and reflow-based reimbursable grants.

a. For loan-type reimbursable grants, details on repayments are agreed ex ante upon the conclusion of the financing agreement. Such reimbursable grants involve exposure to risk that is comparable to loans.

b. For reflow-based reimbursable grants, details on reflows are unknown ex ante as they depend on the performance of the underlying investments. This type of reimbursable grants typically involves exposure to risk that is comparable or greater to that of equities, irrespective of the channelling institution type.[34]

21. See paragraph 8 of the Reporting Directives [DCD/DAC/STAT(2023)9/FINAL] for scope of resource flows covered by DAC statistics.

3.2. 2016 HLM Principles

22. The general principle xii. of the 2016 HLM Communiqué states that

[33] See Annex 10b of the Reporting Directives in DCD/DAC/STAT(2023)9/ADD1.

[34] Reimbursable grants are typically provided when more concessional financing is required than what DFIs could offer. When reimbursable grants are administered by multilateral partners, donors do not benefit from the preferred creditor status and do not own shares in the fund; the level of risk is the same as in funds managed by private entities.

Reimbursable grants are hybrid debt instruments with different types of agreement and initial investment profiles. In cases where enough information is available to estimate the reflows and risk undertaken, measurement will be on a grant equivalent basis; in other cases, an ex-post calculation will be applied. HLM follow-up: elaborate a method for reporting on reimbursable grants, taking into account their hybrid nature.

3.3. Eligibility

23. In line with the spirit of the HLM Communiqué and members' discussions to date as well as the general principles underpinning the DAC statistics, for reimbursable grants to be ODA-eligible, they need to be

a. Allocated to countries or territories included on the DAC List of ODA Recipients;[35]

b. Administered with the promotion of economic development and welfare of developing countries as their main objective;

c. Additional financially, in value or both, combined with their development additionality.

3.4. Parameters, methods, reporting requirements, data disclosure and safeguards

24. Donor effort in extending reimbursable grants is measured on a grant equivalent basis. Given the different levels of available information and different risk levels regarding reflows depending on the type of reimbursable grant, grant equivalents are calculated:

a. Using the same method, parameters and thresholds as for loans [DCD/DAC(2023)22 and DCD/DAC/STAT(2023)9/FINAL] in cases where terms and conditions are set at the commitments stage (e.g. loan-type reimbursable grants);

b. Using the same method and parameters as for equities [see DCD/DAC/STAT(2023)3/REV3] in cases where reflows are subject to the performance of the underlying investment (e.g. reflow-based reimbursable grants).

25. Reporting requirements, data disclosure and safeguards on reimbursable grants are the same as those for loans to the private sector or equities, as relevant.

26. To facilitate members' reporting and in the interest of transparency and monitoring, the Secretariat will review and, if need be, refine the sub-categories of financial instruments concerning reimbursable grants in Annex 10b of the Reporting Directives [DCD/DAC/STAT(2023)9/ADD1].

27. In addition, the treatment of non-grant instruments extended to multilateral organisations, including the trust funds they administer, will be discussed after the review of the provisional reporting methods for PSI.

[35] This may also include reimbursable grants invested in financial intermediaries in donor and third countries, provided the main objective of the financing is the promotion of economic development and welfare of ODA Recipients, and relevant due diligence has been carried out by the extending PSI vehicle.

3.5. Implementation

28. The implementation of reporting donor effort in extending reimbursable grants on a grant equivalent basis follows that for loans to the private sector [see DCD/DAC(2023)22] or equities [see DCD/DAC/STAT(2023)3/REV3], as relevant.

Clarifications on the treatment of guarantees other than credit guarantees, portfolio guarantees, loans to collective investment vehicles and non-grant instruments to public-private partnerships [DCD/DAC/STAT(2023)13/REV2]

1. Background

1. Members' deliberations in the past and in the context of the review of the provisional reporting methods for private sector instruments (PSI) have sought clarifications on the treatment of various sub-types of PSI or specific ways of engaging the private sector in development finance. In particular, members have requested guidance on the treatment of guarantees other than credit guarantees, portfolio guarantees as well as the treatment of non-grant instruments to public-private partnerships (PPPs) and loans to collective investment vehicles.[36]

2. The clarifications presented in this document were developed in line with the 2016 HLM general principles, taking into account the outcomes of Part 1 of the review of the provisional reporting methods in Q1-2 of 2022 [DCD/DAC/STAT(2022)15 and DCD/DAC(2022)39/REV1], members' discussions in the past and during the PSI review to date. They complement the methods considered under the first two batches of the PSI review.[37] Upon members' approval, the clarifications will be integrated into the directives on the treatment of loans to the private sector and credit guarantees (see sections 2.1, 3.1, 4.1 and 5).[38]

3. **Members are invited to approve this proposal.**

2. Treatment of guarantees other than credit guarantees

4. Members' discussions on the treatment of guarantees as part of the first batch of topics were limited to credit guarantees. Members advised to address the treatment of guarantees on financial instruments other than loans, such as equity or mezzanine finance instruments, in conjunction with their deliberations on those underlying instruments.

5. Paragraphs 7-10 complement the section "4. Parameters and methods" of the method on the treatment of credit guarantees [DCD/DAC(2023)22]. Other sections of the method for credit guarantees apply to the treatment of guarantees other than credit guarantees too.[39]

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[36] Details on the approach for members' discussions in the context of the review Part 2 can be found in DCD/DAC/STAT(2022)29.

[37] See DCD/DAC(2023)22/FINAL for the approved methodology for loans to the private sector and credit guarantees.

[38] The treatment of bonds and convertible debt will be discussed in the future upon finalisation of the review of the provisional reporting methods for private sector instruments. Pending the outcomes of this discussion, bonds and convertible debt will be considered on a case-by-case basis.

[39] In line with the section "5. Related methodological provisions" of the treatment of credit guarantees [DCD/DAC(2023)22/FINAL], the treatment of guarantees to multilateral organisations,

6. Upon approval, this clarification will be integrated in the methodology for credit guarantees.

2.1. Complementary guidance

7. Donor effort in issuing guarantees on financial instruments other than loans is measured on a grant equivalent basis at the issuance stage.

8. The related method for calculating grant elements is identical to that for credit guarantees. Consequently, the elements needed for the calculation comprise the guarantee maturity, guarantee exposure reduction schedule, guarantee fee rate, fee payment schedule and fee payment frequency. Information on the guaranteed instrument, and thus the instrument-specific risk involved, is communicated through the CRS field "financial instrument".[40]

9. As regards discount rates, the base and risk-adjustment factors are the same as for credit guarantees. The surcharge component of the discount rate is aligned with the values agreed for the guaranteed instruments [see Table 6 as well as DCD/DAC(2023)22, DCD/DAC/STAT(2023)3/REV3 and DCD/DAC/STAT(2023)4/REV4]. Moreover, due to the high risk-profile of first-loss guarantees, related discount rates are identical to those for guarantees on equity investments.

Table 6. Discount rate architecture for guarantees other than credit guarantees

	LDCs and other LICs	LMICs	UMICs
Base factor	1%	1%	1%
Risk-adjustment factor	4%	2%	1%
Surcharge (as for the guaranteed instrument)	• 4% for guaranteed equities • 2.5% for guaranteed mezzanine finance instruments	• 3.5% for guaranteed equities • 2% for guaranteed mezzanine finance instruments	• 3.1% for guaranteed equities • 1.6% for guaranteed mezzanine finance instruments
Discount rates per guaranteed instrument:			
Equity	**9%**	**6.5%**	**5.1%**
Mezzanine finance	**7.5%**	**5%**	**3.6%**

10. Technical threshold used for guarantees other than credit guarantees is the same as for credit guarantees.

11. See Annex A of this document for an illustrative example of a guarantee on an equity investment.

3. Treatment of portfolio guarantees

12. Aside from guarantees on individual transactions, donors also issue guarantees on portfolios of intermediary institutions, such as finance institutions and investment funds. Typically, such portfolio guarantees aim to promote financial inclusion in developing

including the trust funds they administer, will be discussed after the review of the provisional reporting methods for PSI.

[40] Currently, the list of financial instruments used in DAC statistics includes one code for all types of guarantees "1100=guarantee/insurance" [see Annex 10b of the Reporting Directives DCD/DAC/STAT(2023)9/ADD1]. Upon the conclusion of the review of the provisional reporting methods for PSI, the Secretariat will propose, for members' approval, a refined list of financial instruments to facilitate their reporting on guarantees.

countries through enhanced access to financial services by small and medium-sized enterprises (SMEs).

13. Contrary to guarantees on individual financial transactions, portfolio guarantees are characterised by their filling period at the beginning and diverse amortisation profiles of the guaranteed assets during the guarantee lifetime. While both elements affect the actual guaranteed amount (and the guarantor's exposure), neither is known in detail to the guarantor ex ante.

14. Paragraphs 16-20 complement the section "4. Parameters and methods" of the treatment of credit guarantees [DCD/DAC(2023)22]. Other sections of the method for credit guarantees apply to the treatment of guarantees other than credit guarantees too.[41]

15. Upon approval, this clarification will be integrated in the methodology for the credit guarantees.

3.1. Complementary guidance

16. Donor effort in issuing portfolio guarantees is measured using the same method as for credit guarantees [see DCD/DAC(2023)22].

17. The calculation of grant elements of portfolio guarantees involves the following two steps:

a. First, the grant element of a fully used portfolio guarantee is established (i.e. assuming no filling period and stable guarantee exposure from date of issuance to date of maturity).

b. Second, a coefficient reflecting the expected use of the portfolio guarantee is established and applied to the grant element obtained in step a.[42] The coefficient value is reported through a dedicated CRS field (new). This CRS item will be disclosed.

18. Discount rates are based on the geographic allocation of the guaranteed portfolio and the type of guaranteed assets (e.g. loans to the private sector, equities or mezzanine finance instruments). For mixed portfolios, it is recommended to use a rate of discount that is the most conservative.

19. For guarantees covering assets allocated to multiple ODA recipients or in cases where the exact allocation and beneficiaries are not specified at the time of the guarantee issuance, donor effort is measured using the discount rate of the DAC income group to which all, or a majority of targeted countries belong. See paragraphs 238 and 384 of the DAC Reporting Directives DCD/DAC/STAT(2023)9. It is further clarified that the country

[41] In line with the section "5. Related methodological provisions" of the treatment of credit guarantees [DCD/DAC(2023)22/FINAL], the treatment of guarantees to multilateral organisations, including the trust funds they administer, will be discussed after the review of the provisional reporting methods for PSI.

[42] The coefficient is calculated based on evidence on portfolio guarantees issued during ten years prior to the year of reporting on new portfolio guarantees. Should information to estimate the expected use of portfolio guarantees be unavailable, the Secretariat will provide, upon request, a coefficient calculated based on available data. In this context, if needed, the Secretariat will request relevant inputs for such a calculation from members that issue portfolio guarantees as part of their development finance. The coefficients used in members' reporting will be subject to the Secretariat's monitoring [see DCD/DAC/STAT(2023)20/REV2].

of residence of the obligors has no bearing on the discount rates used for calculating donor effort.

20. Technical threshold used for portfolio guarantees is the same as for credit guarantees.

21. See Annex B of this document for an illustrative example of a loan portfolio guarantee.

4. Treatment of loans to collective investment vehicles

22. Members' deliberations on loans to the private sector invited discussions on the treatment of loans to investment funds and similar collective investment vehicles (CIVs) in conjunction with those on equities [see DCD/DAC(2023)22 and DCD/DAC/STAT(2023)3/REV3]. The discussion should consider the lower risk profile of debt instruments compared to equity shares and the need to avoid potential incentivisation of debt over equity when capitalising funds.

23. The different risk profiles of debt and equity investments have played a central role in designing parameters and methods for measuring donor effort in private sector instruments thus far. In particular, the equity surcharge has been set higher than the private sector surcharge for loans. Donor effort calculated for equity is thus generally higher than for loans and other debt instruments invested in CIVs.

24. Following from members' deliberations to date, no special method is proposed for loans to CIVs. Such investments are treated the same way as loans to the private sector, including discount rates and technical thresholds [see DCD/DAC(2023)22]. This guidance is consistent with the treatment of PSI to other types of financial intermediaries, such as financial institutions.

25. Moreover, members requested a clarification in relation to loans to the private sector allocated to multiple ODA recipients or in cases where the exact allocation and beneficiaries are not specified at the time of commitment.

26. Building upon existing directives for sovereign loans, paragraph 27 below provides guidance on the treatment of such multi-country loans to the private sector. Upon approval, this clarification will be integrated in the treatment of loans to the private sector [see DCD/DAC(2023)22].

4.1. Complementary guidance

27. For loans to CIVs and other intermediaries active in multiple ODA recipients or in cases where the exact allocation and beneficiaries are not specified at the time of commitment (e.g. credit lines and loans to investment funds), donor effort is measured using the discount rate of the DAC income group to which all, or a majority of targeted countries belong. For loans to regionally active intermediaries without further specification on individual recipient countries and/or territories, the prevalent income group within the region is used to determine the discount rate. See paragraphs 238 and 384 of the DAC Reporting Directives DCD/DAC/STAT(2023)9. It is further clarified that the country of residence of the intermediary channels has no bearing on the discount rates used for calculating donor effort.

5. Treatment of non-grant instruments to PPPs

28. Several members have been inquiring about the method and parameters to be used for measuring donor effort in extending non-grant instruments to channels that are presented as neither sovereign nor for-profit private. In 2021, members approved rules for the treatment of loans to INGOs, with clarifications on public-private partnerships (PPPs) to follow as part of the review of the provisional reporting methods for PSI [see DCD/DAC/STAT/RD(2021)3].

29. PPPs are a relatively broad category of channels. The Reporting Directives define a PPP as "an operational partnership whose board or other governance structure includes both public officials and private individuals" [see paragraph 261 of DCD/DAC/STAT(2023)9].

30. Two distinct types of institutions can be identified under the heading "Public-Private Partnerships (PPPs)" of the Annex 2 List of ODA-eligible international organisations. For the purposes of this note, a distinction is made between "fund-like PPPs" and "INGO/multilateral-like PPPs" (see also Table 7). Acknowledging the distinct nature of either PPP type, members' non-grant contributions to these channels are proposed to be treated as follows:

a. **Donor effort in extending non-grant instruments to fund-like PPPs is measured in line with the reporting methods for PSI**, i.e. on a grant equivalent basis, using instrument-specific discount rates (incl. surcharges). This type of PPPs primarily consists of investment funds and comparable pooling vehicles supported by donors (including their DFIs), multilateral organisations and the private sector to pursue development objectives in ODA recipients through market-based solutions, like for-profit investment funds.

b. **Donor effort in extending loans to INGO/multilateral-like PPPs is measured like loans to INGO or multilateral organisations other than global institutions or multilateral development banks**, i.e. on a grant equivalent basis, using a 6% discount rate and applying a 10% grant element threshold.[43] These PPPs are supported to mostly pursue specific not-for-profit objectives at the international level, similarly to INGOs and multilateral organisations other than global institutions or multilateral development banks.[44]

31. Accordingly, in the context of main DAC aggregates, non-grant contributions to fund-like PPPs would be categorised as private sector instruments, whereas loans to INGO/multilateral-like PPPs as bilateral (sovereign) loans.

32. Moreover, it is clarified that the Annex 2 List continues to provide reporting guidance on core support to PPPs that work across ODA-eligible and non-eligible themes or geographies and where an ODA coefficient may need to be applied. Accordingly, members' reporting on core contributions to PPPs (both grant equivalents and cash flows) should continue being multiplied by the ODA coefficient in the Annex 2 List.

33. Upon approval of this clarification, the Secretariat will consider ways to integrate this guidance in the Annex 2 List of ODA-eligible international organisations.

[43] See Tables 1 and 2 of DCD/DAC/STAT(2023)9 on pp. 21.

[44] It is noted that loans are channelled to/through this type of PPPs on a very exceptional basis. These PPPs are not considered to be likely channels of other non-grant instruments, such as equities.

Table 7. Types of PPPs currently included on the Annex 2 List of ODA-eligible international organisations

Channel code	Abbreviation	Channel name	Proposed treatment of non-grant contributions
Fund-like PPPs			
30019	TCX	Currency Exchange Fund N.V.	Like private sector instrument (PSI), i.e. on a grant equivalent basis, using instrument-specific discount rates (incl. surcharge).
30016	EFSE	European Fund for Southeast Europe	
30012	GCPF	Global Climate Partnership Fund	
30015	GEEREF	Global Energy Efficiency and Renewable Energy Fund	
30020	GEEREF II	Global Energy Efficiency and Renewable Energy Fund II	
30013	MEF	Microfinance Enhancement Facility	
30014	REGMIFA	Regional Micro, Small and Medium Enterprise Investment Fund for Sub-Saharan Africa	
30017	SANAD	SANAD Fund for Micro, Small and Medium Enterprises	
INGO/multilateral-like PPPs			
30018	AFC	Africa Finance Corporation	Like loans to INGOs or multilateral organisations other than global institutions or multilateral development banks, i.e. on a grant equivalent basis, using a 6% discount rate and applying a 10% grant element threshold.
30008		Cities Alliance	
31006	CEPI	Coalition for Epidemic Preparedness Innovations	
30007	GAID	Global Alliance for ICT and Development	
30001	GAIN	Global Alliance for Improved Nutrition	
47043		Global Crop Diversity Trust	
30003	GeSCI	Global e-Schools and Communities Initiative	
30004	GWP	Global Water Partnership	
30005	IAVI	International AIDS Vaccine Initiative	
30006	IPM	International Partnership on Microbicides	
30011	IUCN	International Union for the Conservation of Nature	
21056	REEEP	Renewable Energy and Energy Efficiency Partnership	
30009	SAS	Small Arms Survey	

Annex A. Example of reporting on a guarantee on an equity investment

29. In 2023, a DFI issued a guarantee on a private equity investment of USD 10 million in an enterprise with activities in an LMIC. The guarantee was issued for five years with a fee of 5% per annum, paid biannually to the guarantor. The guarantee was agreed to cover up to 90% of the initial investment (USD 9 million).

30. The guarantee conveys a grant element of 5.90%, calculated with the following variables and parameters:

- Type of fee payment is assimilated to equal principal payment (as the guarantee fee is paid regularly);
- Number of fee payments per annum is set to 2 (as the guarantee fee is paid biannually);
- Guarantee maturity is set to 5 years (as the guarantee is agreed to last 5 years);
- Exposure non-reduction period[45] is set equal to the guarantee maturity (as the guaranteed amount is stable over the guarantee lifetime);
- Guarantee fee rate is 5% (equal to the guarantee annual fee) and
- Rate of discount is set to 6.5% (in line with values in Table 6).

31. Donor effort equals the grant element multiplied by the guaranteed amount, i.e. USD 0.53 million (=5.90% × USD 9 million). See Table 8 for more details on this calculation.

Table 8. Grant element calculation of a guarantee on an equity investment, USD million

	Period	Guaranteed amount	Exposure reduction	Fee	TOTAL	Six-month discount factor (discount rate = 6.5%)	Present value of future payments
	a	b	c	d	e=c+d	f=(1+6.5%)^a	g=e/f
Jan-23	0	9	0				
Jul-23	0.5	9	0	0.225	0.225	1.03	**0.22**
Jan-24	1	9	0	0.225	0.225	1.07	**0.21**
Jul-24	1.5	9	0	0.225	0.225	1.10	**0.20**
Jan-25	2	9	0	0.225	0.225	1.13	**0.20**
Jul-25	2.5	9	0	0.225	0.225	1.17	**0.19**
Jan-26	3	9	0	0.225	0.225	1.21	**0.19**
Jul-26	3.5	9	0	0.225	0.225	1.25	**0.18**
Jan-27	4	9	0	0.225	0.225	1.29	**0.17**
Jul-27	4.5	9	0	0.225	0.225	1.33	**0.17**
Jan-28	5	9	9	0.225	9.225	1.37	**6.73**
Sum of present value of future payments (PVFP) over the guarantee maturity							**8.47**
Grant element							**5.90%**
Grant equivalent of the equity guarantee							**0.53**

[45] Exposure non-reduction period is defined as the interval between the "guarantee issuance date" and the "guarantee reduction starting date". In this case, the latter is set equal to the "guarantee maturity date" as the guaranteed amount remains stable over the guarantee lifetime. See Annex on pp. 23-25 of DCD/DAC(2023)22/FINAL.

Annex B. Example of reporting on a portfolio guarantee

32. In 2023, a DFI issued a guarantee covering a loan portfolio of a local finance institution, predominantly allocated to LMICs. The guarantee has a maturity of 7 years with a fee of 2% per annum, paid annually to the guarantor. The maximum guaranteed amount is USD 25 million. Based on evidence available, the guarantee is expected to be used at 85% over its lifetime.

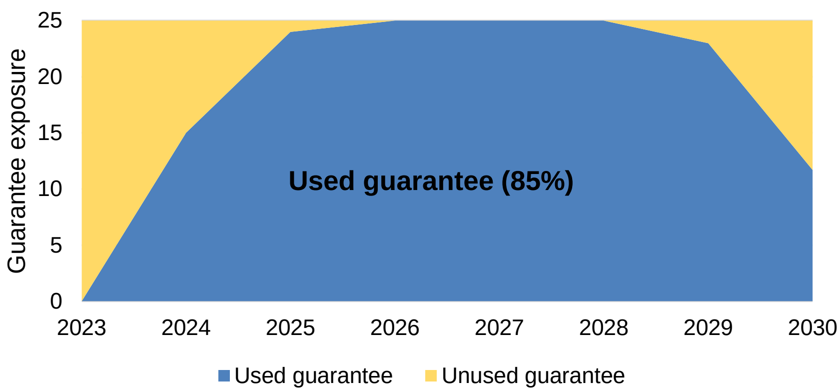
33. The portfolio guarantee conveys a grant element of 7.81%. It is calculated following two steps. First, it is assumed that the portfolio guarantee will be fully used. The grant element is 9.17%, calculated using the following parameters:

- Type of fee payment is assimilated to equal principal payment (as the guarantee fee is paid regularly);
- Number of fee payments per annum is set to 1 (as the guarantee fee is paid annually);
- Guarantee maturity is set to 7 years (as the guarantee is agreed to last 7 years);
- Exposure non-reduction period[46] is set equal to the guarantee maturity (as the guaranteed amount is assumed stable over the guarantee lifetime);
- Guarantee fee rate is 2% (equal to the guarantee annual fee) and
- Rate of discount is set to 3.5% [in line with the discount rate for credit guarantees allocated to LMICs, see DCD/DAC(2023)22].

34. In a second step, a coefficient reflecting the expected use of the portfolio guarantee (85%) is applied to the grant element of the fully used portfolio guarantee, resulting in a grant element of 7.81% (= 9.17% × 85%).

35. Donor effort equals the grant element multiplied by the guaranteed amount, i.e. USD 1.95 million (=7.81% × USD 25 million). See Table 9 for more details on this calculation.

Figure A B.1. Illustration of a portfolio guarantee



[46] Exposure non-reduction period is defined as the interval between the "guarantee issuance date" and the "guarantee reduction starting date". In this case, the latter is set equal to the "guarantee maturity date" as the guaranteed amount remains stable over the guarantee lifetime. See Annex on pp. 23-25 of DCD/DAC(2023)22/FINAL.

Table 9. Grant element calculation of a portfolio guarantee

	Period	Guaranteed amount	Exposure reduction	Fee	TOTAL	Six-month discount factor (discount rate = 3.5%)	Present value of future payments
	a	b	C	d	e=c+d	f=(1+3.5%)^a	g=e/f
Jan-23	0	25	0				
Jan-24	1	25	0	0.5	0.5	1.04	**0.48**
Jan-25	2	25	0	0.5	0.5	1.07	**0.47**
Jan-26	3	25	0	0.5	0.5	1.11	**0.45**
Jan-27	4	25	0	0.5	0.5	1.15	**0.44**
Jan-28	5	25	0	0.5	0.5	1.19	**0.42**
Jan-29	6	25	0	0.5	0.5	1.23	**0.41**
Jan-30	7	25	25	0.5	25.5	1.27	**20.04**
Sum of present value of future payments (PVFP) over the guarantee maturity							22.71
Grant element of a perfectly filled portfolio guarantee							9.17%
Expected use of the portfolio guarantee							85%
Grant element treated with coefficient on expected use							**7.81%** = 9.17% × 85%
Grant equivalent of the portfolio guarantee							**1.95**