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DAC Working Party on Development Finance Statistics

Private sector instruments: treatment of loans to the private sector

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This note presents a proposal for the treatment of loans to the private sector in DAC statistics, as part of the review of the provisional reporting methods for private sector instruments (PSI). Developed in line with the agreed 2016 HLM general principles for PSI, the proposal takes into account the outcomes of the Part 1 of the review in the first semester of 2022 and builds upon members' discussions and other activities in the context of the WP-STAT since September 2022. It puts forward ODA-eligibility rules, a method for calculating grant equivalents and related parameters, reporting requirements, rules for data disclosure as well as ODA-integrity safeguards and other considerations.

This paper is shared for APPROVAL under item 4 of the draft annotated agenda [DCD/DAC/STAT/A(2023)1].

Julia Benn – E-mail: julia.benn@oecd.org

Tomáš Hos – E-mail: tomas.hos@oecd.org

Valérie Gaveau – E-mail: valerie.gaveau@oecd.org

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Treatment of loans to the private sector

1. Background

1. The provisional reporting methods for private sector instruments (PSI) instruct to account for loans to the private sector in ODA on a cash-flow basis. This leads to a hybrid ODA measure.¹ As part 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 loans to the private sector on a grant equivalent basis. In this context, it puts forward ODA-eligibility rules, a method for calculating grant equivalents and related parameters, reporting requirements, rules for data disclosure as well as ODA-integrity safeguards and other considerations.

2. Developed in line with the agreed 2016 HLM general principles for PSI,² this proposal takes into account the outcomes of the Part 1 of the review in 2022, and builds upon members' discussions at the WP-STAT meeting in September 2022 [DCD/DAC/STAT(2022)32], special WP-STAT session in November 2022, WP-STAT meeting in December 2022 [DCD/DAC/STAT(2022)49], regular deliberations of the PSI project team as well as Secretariat's simulations and data analysis.³ It has also been informed by consultations with CSOs and MDBs in December 2022 and January 2023 respectively as well as general orientations received from the DAC at its meeting in February 2023.⁴

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

2. 2016 HLM Principles

4. The general 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).

¹ Currently, donor effort in extending loans to the private sector is measured on a cash-flow basis, whereas effort in providing sovereign loans is accounted for on a grant-equivalent basis.

² See [DAC-HLM-Communique-2016.pdf](#)

³ See more details on the outcomes of the Part 1 of the review and next steps in DCD/DAC/STAT(2022)15 and DCD/DAC(2022)39/REV1. Details on the approach for members' discussions in the context of the review Part 2 can be found in DCD/DAC/STAT(2022)29.

⁴ See draft summary record of the meeting in DCD/DAC/M(2023)2.

3. Eligibility

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

- Allocated to countries or territories on the DAC List of ODA Recipients;⁵
- Administered with the promotion of economic development and welfare of developing countries as their main objective;
- Additional financially, in value or both, combined with their development additionality;
- Of a maturity of more than one year.

4. Parameters and method

6. Donor effort in extending loans to the private sector is measured on a grant equivalent basis. Related grant elements are based on a mathematical assessment of the loan concessionality, comparing the loan nominal value (face value) and the sum of the discounted future debt-service payments (net present value) by the debtor to the creditor.

7. The calculation of grant elements/equivalents of loans to the private sector is built upon that for sovereign loans, including the composition of the discount rates (see Table 1):

- A base factor of 5% (IMF unified discount rate), representing the loan funding cost;
- 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
- A private sector surcharge differentiated by DAC income group (1% for LDCs and other LICs, 0.5% for LMICs and 0.1% for UMICs), representing the risk associated with providing loans to the private sector.

Table 1. Discount rate architecture for loans to the private sector

	LDCs and other LICs	LMICs	UMICs
Base factor	5%	5%	5%
Risk-adjustment factor	4%	2%	1%
Private sector surcharge	1%	0.5%	0.1%
Discount rate	10%	7.5%	6.1%

8. The technical grant element threshold for loans to the private sector is set to 0% as a means of acknowledging the limited relevance of a concessionality threshold for PSI and

⁵ In specific cases, this may also include loans channelled through private sector intermediaries in donor and third countries, provided the investments are clearly earmarked for activities in the countries and territories on the DAC List of ODA Recipients, and relevant due diligence has been carried out. See also section 7 for relevant safeguards.

avoiding incentivising unnecessary subsidisation (see 2016 HLM principle v.). It is also expected to help keep members' data reporting manageable.

9. The point of measurement for the donor effort in extending loans to the private sector is each individual loan disbursement, in line with members' ODA reporting for sovereign loans.

5. Reporting requirements

10. In the interest of transparency and comparability, reporting requirements and data disclosure rules for loans to the private sector are identical under both the instrument and institutional approach. In particular, the grant equivalent of individual PSI loans is also reportable, for memorandum, by members applying the institutional approach. This is required for comparing ODA figures across members following different reporting approaches (see HLM principle xiii).

11. Reporting requirements on loans to the private sector are identical to those on sovereign loans. Reporting on the additionality of individual loans is required too.

6. Rules for data disclosure

12. In response to growing transparency needs, yet keeping in mind commercial sensitivities and potential legal restrictions related to engaging with the private sector, there is no restriction to data disclosure, under either reporting approach, with the exception of:

- Interest rate, grace period (first repayment date) and arrears – these data items are not to be disclosed.
- Received loan principal and interest per annum – these data are to be disclosed aggregated by donor, donor agency, type of finance and recipient.

13. For commitments and gross disbursements, channels of delivery as well as loan maturities (commitment and last repayment dates), repayment schedules (including number of repayments per annum), grant elements and grant equivalents are to be disclosed at activity level (see Annex).⁶

7. Safeguards

14. The name of debtor institution is reported through the CRS field for channel of delivery.

15. For loans channelled through private intermediaries in donor or third countries, the country of residence of such channels is clearly stated in the description field of members' activity-level CRS reporting. A comprehensive explanation for the choice of such channels is provided through the CRS fields on development objective and additionality.

16. To address concerns expressed by some consulted stakeholder groups about blurring the lines between export credits and development loans to the private sector, the

⁶ 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.

DAC and ECG Secretariats will carry out a joint analysis of relevant data biennially, principally consisting of:

- A comparison of the terms and conditions of development loans to the private sector and direct export credits in areas where such concerns are believed the most relevant, e.g. in the energy, transport and other infrastructure sectors;
- An analysis of the additionality of relevant loans to the private sector and possibly other aspects.

17. In parallel, to address members' concerns about the ODA effectiveness in the context of PSI, the DAC Secretariat will carry out biennially a thorough analysis of the geographic, recipient income group, sectoral and thematic characteristics of all PSI, including loans to the private sector, reported in ODA under both the instrument and institutional approaches.

18. Findings from both analyses will be presented to the DAC as well as ECG in a dedicated report for information. Potential competition or other issues identified through this exercise will be addressed as part of subsequent DAC discussions.

19. The WP-STAT will use the outcomes of this analysis to review and, if agreed, revise relevant aspects of the directives on the treatment of loans to the private sector.⁷

8. Other considerations

20. Treatment of loans to investment funds will be addressed in conjunction with members' discussions on the treatment of equities as part of the second batch of members' review [see DCD/DAC/STAT(2023)/3 and DCD/DAC/STAT(2023)/13].

21. Treatment of junior loans (e.g. subordinated loans) will be addressed in the context of members' discussion on the treatment of mezzanine finance instruments as part of the second batch of members' review [see DCD/DAC/STAT(2023)/4].

22. The discount rate architecture applicable to loans to the private sector has no bearing whatsoever on agreed principles, parameters and other aspects of the treatment of sovereign loans or any other instruments.

23. 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 at a later stage of the Part 2 of the review process under step 4 on monitoring, safeguards and disciplines [see DCD/DAC/STAT(2022)15 and DCD/DAC/STAT(2022)29].

9. Implementation

24. Reporting on the donor effort in extending loans to the private sector 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

⁷ Review mechanisms will be discussed more in detail as part of the third batch of members' review.

period of one year during which the provisional reporting methods will continue to apply as regards ODA accounting and data disclosure.⁸

25. Upon request, data on loans to the private sector committed prior to the first implementation year (see paragraph 24) will be made available in line with the rules for data disclosure of provisional reporting methods for private sector instruments.⁹

Annex: CRS reporting requirements and rules for data disclosure for loans to the private sector reported in ODA (under both the instrument and institutional approaches)

	CRS item number	CRS item name	Reporting example	Data requirement	Level of data disclosure
A. Identification data	1	Reporting year	2023	Required	Activity-level
	1b	Commitment date	15-06-2023	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°	LN789	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 (...)	10	Required	Activity-level
	12	Type of finance	421	Required	Activity-level
	13	Co-operation modality	C01	Required	Activity-level
	14	Short description / Project title	SME credit line (...)	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	01-07-2023	Required	Activity-level
	18	Expected completion date	31-12-2027	Required	Activity-level
	19	Description	A line of credit to (...)	Required	Activity-level
	19b	SDG focus	8.10	Voluntary	Activity-level
	19c	Keywords		Voluntary	Activity-level
	20	Gender equality	0	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

⁸ Paragraph 9B of DCD/DAC/STAT(2020)44/ADD3 states that “loans committed or disbursed in 2018 would be reported as ODA on a cash-flow basis (provided they had at least 25% concessionality (=threshold) calculated using a discount rate of 10%).” Moreover, “reflows from previous years’ PSI would count as negative ODA (provided that the underlying transactions had initially been counted as ODA)”.

⁹ See Annex 3 of DCD/DAC/STAT(2020)44/ADD3 and Annex 2 in DCD/DAC/STAT(2020)23.

D. Volume data	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	0	Required	Activity-level	
	31	Desertification	0	Required	Activity-level	
	32	Currency	302	Required	Activity-level	
	33	Commitments	20000	Required	Activity-level	
	33b	Capital Expenditure %	15000	Voluntary	Activity-level	
	34	Amounts extended	15000	Required	Activity-level	
	34b	ODA grant equivalent	1814.161	Required	Activity-level	
	35	Amounts received	0	Required	Aggregated by donor, agency, type of finance and recipient	
	36	Amount untied	20000	Required	Activity-level	
	37	Amount partially untied	0	Required	Activity-level	
	38	Amount tied	0	Required	Activity-level	
	39	Amount of IRTC	0	Required	Activity-level	
	40	If project type, amount of experts-commitments	0	Required	Activity-level	
	41	If project type, amount of experts-extended	0	Required	Activity-level	
	42	Amount of export credit	0	Required	Activity-level	
	43a	Leveraging mechanism and role/position	9	Voluntary	See paragraph 229 of DCD/DAC/STAT(2020)44	
	43b	Amounts mobilised from the private sector	10000	Voluntary		
	43c	Origin of the funds mobilised	2	Voluntary		
	E. For loans only	44	Type of repayment	1	Required	Activity-level
		45	Number of repayments per annum	2	Required	Activity-level
		46	Interest rate	01500	Required	Not disclosed
		47	Second interest rate		Required	Not disclosed
		48	First repayment date	01-12-2023	Required	Not disclosed
		49	Final repayment date	10-01-2028	Required	Activity-level
		50	Interest received	0	Required	Aggregated by donor, agency, type of finance and recipient
		51	Principal disbursed and still outstanding	15000	Required	Not disclosed
52		Arrears of principal	0	Required	Not disclosed	
53	Arrears of interest	0	Required	Not disclosed		
F. For PSI	54	PSI flag	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	

Note: Reporting on the tying status of PSI will be discussed in later stage of members' review.