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Development Co-operation Directorate
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DAC Working Party on Development Finance Statistics

Private sector instruments: treatment of credit guarantees

Working Party on Development Finance Statistics, 21-23 March 2023, Paris

This note presents a proposal for the treatment of credit guarantees 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].

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Treatment of credit guarantees

1. Background

1. Development guarantees are currently not reportable as ODA, as per the provisional reporting methods for private sector instruments (PSI). This disincentivises their deployment despite their proven effectiveness in mobilising private finance for sustainable development. 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 issuing credit guarantees on a grant equivalent basis, in line with the agreed 2016 HLM principles.

2. Developed in line with the agreed 2016 HLM general principles for PSI,¹ this proposal takes into account the outcomes of the Part 1 of the review in 2022,² and builds upon members' discussions at the WP-STAT meeting in September 2022 [DCD/DAC/STAT(2022)31], special WP-STAT session in November 2022, WP-STAT meeting in December 2022 [DCD/DAC/STAT(2022)50], 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

Guarantees are counted on a grant equivalent basis, applying differentiated discount rates and, when appropriate, an additional risk premium for the private sector (see principle v). As guarantees are non-funded instruments, the discount rates will only take into account operating costs and risk adjustment factors (not the funding cost). HLM follow-up: work with DFIs to establish the relevant discount rates and the risk premia for the private sector. Also formalise the grant equivalent methodology to be applied on public guarantees, and on guarantees other than credit guarantees.

3. Eligibility

5. 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 credit guarantees to be ODA-eligible, they need to be

- Allocated to countries or territories on the DAC List of ODA Recipients;

¹ See [DAC-HLM-Communique-2016.pdf](#)

² 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.

³ 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.

- Administered with the promotion of economic development and welfare of developing countries as their main objective (export credit guarantees are excluded from ODA);
- 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 issuing credit guarantees is measured on a grant equivalent basis. Related grant elements are based on a mathematical assessment of the concessionality of the guarantee fee taking into account specific terms and conditions of the guarantee, such as maturity and exposure reduction.⁵

7. The method for calculating grant equivalents of guarantees uses that for loans as a basis and adapts it to the specificities of the guarantee instrument. The elements needed for the calculation comprise the guaranteed amount, guarantee maturity, guarantee exposure reduction schedule, guarantee fee rate and fee payment schedule, including payment frequency.

8. In line with the HLM principles, the discount rate for credit guarantees is composed of the following factors (see Table 1):

- A base factor representing the guarantor's operating cost (1%), including provisions;
- 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 issuing guarantees on credit to private debtors.⁶

9. The technical grant element threshold for credit guarantees is set to 0% as a means of acknowledging the limited relevance of concessionality thresholds for PSI and avoiding incentivising unnecessary subsidisation (see 2016 HLM principle v.). It is also expected to help keep members' data reporting manageable.

10. Donor effort in issuing credit guarantees is measured at their issuance stage.

11. The above method for calculating grant equivalents of credit guarantees concerns guarantees on loans extended by private sector entities or local public institutions (see also section 3). Guarantees on loans extended by donors and multilateral organisations are not considered here (see also section 5).

⁵ Guarantee fee subsidies transferred to a dedicated reserve fund within the donor government structure are reportable in ODA as capital contributions to PSI vehicles, following rules for the institutional approach.

⁶ The private sector surcharge for credit guarantees is aligned with that for loans to the private sector, see DCD/DAC/STAT(2022)49/REV1.

Table 1. Discount rate architecture for credit guarantees

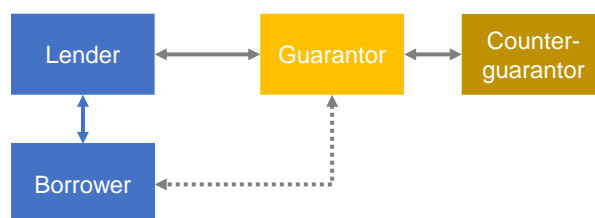
| | LDCs and other LICs | LMICs | UMICs |
|--------------------------|---------------------|-------------|-------------|
| Base factor | 1% | 1% | 1% |
| Risk-adjustment factor | 4% | 2% | 1% |
| Private sector surcharge | 1% | 0.5% | 0.1% |
| Discount rate | 6% | 3.5% | 2.1% |

5. Related methodological provisions

12. To avoid double counting of effort and risk, and to keep members' reporting simple to the extent possible, the following items are not reportable in ODA:

- Effort in providing callable capital and other similar contingent liabilities supporting the core resources of multilateral development banks (MDBs) and other multilateral organisations. Pay-outs on called capital of multilateral organisations continue being treated according to existing directives on multilateral grants and capital subscriptions.
- Effort in issuing counter-guarantees and reinsurance⁷ on guarantees provided by other official providers. The official guarantor closest to the final beneficiary reports the donor effort in ODA (see also Figure 1).
- Effort in issuing guarantees on donors' own loans. Donor effort of such loans is measured after the application of the guarantee (based on the terms and conditions of the loan after the application of the guarantee).⁸

Figure 1. Illustration of a counter-guarantee scheme



13. Effort in providing guarantees on loans extended by MDBs and other multilateral organisations is not reported as ODA when such guarantees are issued. When called, pay-outs to multilateral organisations on such guarantees continue being treated according to existing directives on multilateral grants and capital subscriptions.⁹ Members shall discuss the treatment of these types of guarantees in the future upon finalisation of their review of the provisional reporting methods for PSI.

⁷ In the context of this methodology, counter-guarantees and reinsurance include arrangements where a guarantor passes part of the risk to another guarantor (see Figure 1).

⁸ This treatment is similar to that of interest subsidies.

⁹ Such inflows to multilateral organisations are treated as core contributions to multilateral organisations to avoid double counting at the level of total flows.

14. Effort in issuing guarantees on loans extended by other donors will be discussed in the future.

6. Reporting requirements

15. In the interest of transparency and comparability, reporting requirements and data disclosure rules on credit guarantees are identical under both the instrument and institutional approach. In particular, the grant equivalents of individual PSI are also reportable, for memorandum, by members applying the institutional approach. This is required for comparing ODA figures across members following different reporting approaches (see principle xiii).

16. To be able to calculate grant equivalents of credit guarantees using the method outlined above, the following data are required in members' CRS reporting:

- Guaranteed amount,
- Guarantee issuance date,
- Exposure reduction starting date (when the guaranteed amount starts decreasing, e.g. through repayment of the guaranteed asset),
- Guarantee maturity date (when the guarantee service ceases to exist),
- Guarantee fee rate, fee payment schedule and number of fee payments per annum.

17. Moreover, received guarantee fees will be reportable for transparency purposes. All these data items will be integrated in the CRS reporting template, making use of existing data fields to the extent possible. Reporting on additionality is required too (see Annex 1).

18. For monitoring of PSI on a cash-flow basis and in the interest of transparency, reporting on flows resulting from guarantee calls is required too. Such flows are recorded in OOF (see HLM principle i.).

7. Rules for data disclosure

19. 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, with the exception of guarantee fee rates, guarantee exposure reduction schedule and arrears, using either approach. Channel of delivery as well as guarantee maturities (issuance and last guarantee maturity dates), number of fee payments per annum, grant elements and grant equivalents will be disclosed at the activity level. Received guarantee fees per annum will be disclosed aggregated by donor, donor agency, type of finance and recipient (see Annex 1).¹⁰

20. As regards flows resulting from activated guarantees, there is no restriction to data disclosure, noting that their financial terms and conditions are not required.

¹⁰ 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.

8. Safeguards

21. The name of guaranteed creditor institution is reported through the CRS field for channel of delivery. The channel code field then captures further characteristics of the creditor (e.g. type of private sector institution).

22. Moreover, to foster transparency and in the interest of ODA integrity, members are requested to use the CRS description fields (e.g. project title and description) to provide the following qualitative details:

- Names of all the parties involved (e.g. as applicable and to the extent possible, names of guaranteed creditors, debtor, final beneficiaries etc.) and their country/territory of residence;
- Type of agent covered by the guarantee (e.g. sovereign from a developing country, local private sector, foreign country private sector etc.);
- Type of issued guarantees (e.g. individual loan guarantees, loan portfolio guarantees and counter-guarantees extended to private creditors).

23. To address concerns expressed by some consulted stakeholder groups about blurring the lines between export credit and development guarantees, the 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 and export credit guarantees in areas where such concerns are believed to be the most present, e.g. in the energy, transport and other infrastructure sectors;
- An analysis of the additionality of relevant credit guarantees and possibly other aspects.

24. In parallel, to address members' concerns about the ODA integrity and 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 credit guarantees, reported in ODA under both the instrument and institutional approaches.

25. Findings from both analyses will be presented to the DAC as well as the 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.

26. 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 credit guarantees.

9. Other considerations

27. Treatment of guarantees on equity investments, mezzanine finance and other private sector instruments will be discussed alongside members' deliberations on those instruments as part of the second batch of review topics [see DCD/DAC/STAT(2023)/3 and DCD/DAC/STAT(2023)/13].

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

29. Comparability is a key feature of the DAC statistics. 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].

10. Implementation

30. Reporting on the donor effort in issuing credit guarantees 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 year during which the provisional reporting methods will continue to apply as regards ODA accounting¹¹ and data disclosure.

Annex: CRS reporting requirements and rules for data disclosure for credit guarantees 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 |
| | | Guarantee issuance date | | | |
| | 2 | Reporting country / organisation | 123 | Required | Activity-level |
| | 3 | Extending agency | 123 | Required | Activity-level |
| | 4 | CRS Identification N° | 2023000002 | Required | Activity-level |
| 5 | Donor project N° | GU456 | Required | Activity-level | |
| B. Basic data | 6 | Nature of submission | 1 | Required | Activity-level |
| | 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 | 1100 | Required | Activity-level |
| | 13 | Co-operation modality | C01 | Required | Activity-level |
| C. Supplementary data | 14 | Short description / Project title | Guarantee to strengthen on-lending capacity (...) | Required | Activity-level |
| | 15 | Sector / Purpose code (...) | 24030 | Required | Activity-level |
| | 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 | Creditor: Bank ABC (private), Country A. Debtor: Bank XYZ (private), Country B. Individual loan guarantee for strengthening (...) | Required | Activity-level |
| 19b | SDG focus | 8.10 | Voluntary | Activity-level | |
| 19c | Keywords | | Voluntary | Activity-level | |
| 20 | Gender equality | 0 | Required | Activity-level | |

¹¹ Paragraph 9D of DCD/DAC/STAT(2020)44/ADD3 states that “due to the lack of agreement on the details of accounting for ODA eligibility of mezzanine finance and guarantees, such instruments would not be included in ODA, except to the extent that guarantees are called and payments made in which case existing processes specify these payments are measured on a cash flow basis.”

| | | | | | |
|-------------------|--|---|------------|---------------|--|
| | 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 | 0 | Required | Activity-level |
| | 31 | Desertification | 0 | Required | Activity-level |
| D. Volume data | 32 | Currency | 302 | Required | Activity-level |
| | 33 | Commitments | | | Activity-level |
| | 33b | Capital Expenditure % | | | Activity-level |
| | 34 | Amounts extended | | | Activity-level |
| | 34b | ODA grant equivalent | 637.2705 | Required | Activity-level |
| | 35 | Amounts received | | | Activity-level |
| | 36 | Amount untied | 18000 | 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 | 6 | Voluntary | See paragraph 229 of DAC Reporting Directives |
| 43b | Amounts mobilised from the private sector | 20000 | Voluntary | | |
| 43c | Origin of the funds mobilised | 2 | Voluntary | | |
| E. For non-grants | New field | Guaranteed amount | 18000 | Required | Activity-level |
| | 44 | Type of repayment <i>Type of fee payment</i> | 1 | Required | Activity-level |
| | 45 | Number of repayments per annum <i>Number of fee payments per annum</i> | 12 | Required | Activity-level |
| | 46 | Interest rate <i>Guarantee fee rate</i> | 01500 | Required | Not disclosed |
| | 47 | Second interest rate | | NULL | Not disclosed |
| | 48 | First repayment date <i>Exposure reduction starting date</i> | 01-12-2023 | Required | Not disclosed |
| | 49 | Final repayment date <i>Guarantee maturity date</i> | 10-01-2028 | Required | Activity-level |
| | 50 | Interest received <i>Guarantee fee received</i> | 22.5 | Required | Aggregated by donor, agency, type of finance and recipient |
| | 51 | Principal disbursed and still outstanding | NULL | NULL | NULL |
| | 52 | Arrears of principal | NULL | NULL | Not disclosed |
| 53 | Arrears of interest <i>Arrears of guarantee fee</i> | 0 | Required | Not disclosed | |
| F. For PSI | 54 | PSI flag | 2 | Required | Activity-level |
| | 55 | Additionality type | 3 | 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.