

Unclassified

English - Or. English

7 December 2022

Development Co-operation Directorate
Development Assistance Committee

Cancels & replaces the same document of 2 December 2022

DAC Working Party on Development Finance Statistics

Private sector instruments: treatment of credit guarantees

Working Party on Development Finance Statistics, 15-16 December 2022, Paris

The Cancel/Replace was issued for the classification change. This note presents a proposal for the treatment of credit guarantees in the DAC statistics. It has been developed in line with the 2016 HLM principles, taking into account WP-STAT and Secretariat work to date as well as members' deliberations in the PSI project team. It puts forward ODA-eligibility rules and a method for calculating grant equivalents, including related parameters, reporting requirements, rules for data disclosure, safeguards specific to guarantees and other provisions.

Members are invited to share their views on this proposal and, if relevant, suggest concrete improvements to conclude their discussion on credit guarantees in the context of their review of the provisional reporting methods for PSI.

This paper is for DISCUSSION under item 4.a of the draft annotated agenda [DCD/DAC/STAT/A(2022)4].

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JT03509559

Treatment of credit guarantees

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. 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 issuing guarantees on a grant equivalent basis, in line with the agreed 2016 HLM principles.¹

2. This proposal has been developed in line with the 2016 HLM general principles for PSI², 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 builds upon members' discussions at the September 2022 WP-STAT meeting [DCD/DAC/STAT(2022)31] and subsequent deliberations of the PSI project team as well as grant element simulations by the Secretariat and members. It puts forward ODA-eligibility rules, a method for calculating grant equivalents and related parameters, reporting requirements, possible rules for data disclosure as well as additional safeguards and other considerations.

3. Members are invited to share their views on this methodological proposal and, if relevant, suggest concrete improvements needed to conclude members' discussion on credit guarantees in the context of their review of the provisional reporting methods for PSI.

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.

¹ Details on the approach for members' discussions in the context of the review Part 2 can be found in DCD/DAC/STAT(2022)29.

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

Eligibility

1. 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
 - a. Allocated to countries or territories included on the DAC List of ODA Recipients;
 - b. Administered with the promotion of economic development and welfare of developing countries as their main objective (trade and export credit guarantees are excluded from ODA);
 - c. Additional financially, in value or both, combined with their development additionality;
 - d. Of a maturity of more than one year.

Parameters and method

2. 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.³
5. 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 of the guarantee maturity, grace period, fee rate and fee payment schedule, including payment frequency.
3. In line with the HLM principles, the discount rate for credit guarantees is composed of
 - a. A factor representing guarantor's operating cost (1%),
 - b. A risk-adjustment factor differentiated by DAC income group (4% for LDCs and other LICs, 2% for LMICs and 1% for UMICs) and
 - c. A private sector surcharge in the case of guarantees that cover credit to private debtors (1%).

Table 1. Discount rate architecture for credit guarantees

	LDCs and other LICs	LMICs	UMICs
Base factor	1%	1%	1%
Risk-adjustment	4%	2%	1%
Private sector surcharge	1%	1%	1%
Discount rate	6%	4%	3%

6. The technical grant element threshold for credit guarantees is set to 0% as a means of acknowledging the limited relevance of concessionality threshold for PSI and avoiding

³ 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.

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

7. Donor effort in issuing credit guarantees is measured at the issuance stage.
8. To avoid double counting of effort and risk, and keep members' reporting simple to the extent possible, the following items are not reportable in ODA:
 - a. Flows resulting from activated guarantees (see paragraph 15);
 - b. Effort in assuming callable capital and alike with multilateral development banks and potentially other multilateral organisations;
 - c. Counter-guarantees and reinsurance⁴ that involve other donors or multilateral organisations as guarantors/insurers, creditors or debtors.

Reporting requirements and data disclosure

9. 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 (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.

10. To be able to calculate grant equivalents of credit guarantees using the method outlined above, the following instrument-specific data items are required: guaranteed amount at the issuance stage, guarantee issuance date, first fee payment date, final fee payment date, guarantee fee rate, fee payment schedule and number of fee payments per annum. Received guarantee fee and flows resulting from activated guarantees will be reportable for transparency purposes too. All of these data items will be integrated in the CRS reporting template, making use of existing data fields to the extent possible. For guarantees on loans to the private sector, reporting on additionality is required too (see Annex).

11. In response to growing transparency needs, yet keeping in mind commercial sensitivities and potential legal restrictions related to engaging with the private sector, under either reporting approach, it is proposed that there is no restriction to data disclosure, with the exception of guarantee fee rates, grace periods and arrears, using either approach. Channel of delivery as well as guarantee maturities (issuance and last fee payment date), fee payment schedules (including number of fee payments per annum), grant elements and grant equivalents will be disclosed at the activity level (see Annex).⁵

Safeguards

4. The CRS field for channel of delivery is used to report both the name of the guaranteed creditor as well as the debtor (see Annex).
12. 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, principally consisting of:

⁴ In the context of this methodology, counter-guarantees and reinsurance include arrangements where a guarantor passes part of the risk it guarantees to another guarantor.

⁵ 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.

- a. 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;
- b. An analysis of the additionality of relevant credit guarantees and possibly other aspects.

13. 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 reported in ODA under both the instrument and institutional approaches.

14. Findings from these 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.

Other provisions

15. While the donor effort in providing credit guarantees is included in ODA, flows resulting from their activation are reportable as OOF in the context of the DAC statistics, and in TOSSD, provided they meet relevant sustainability criteria. Flows entailing repayment obligation to the guarantor are reportable as standard loans, whereas flows with no such repayment obligation are reportable as standard grants.

16. 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.

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 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].

18. Treatment of guarantees on equity investments and mezzanine finance will be discussed alongside members' discussions on those private sector instruments [see DCD/DAC/STAT(2022)15 and DCD/DAC/STAT(2022)29].

19. Treatment of guarantees on loans to or from multilateral organisations as well as loans by other donors may be discussed in a later stage of members' review of the provisional reporting methods for PSI in 2023.

Implementation

20. Reporting on the donor effort in issuing credit guarantees on a grant equivalent basis would be implemented as from members' 2024 reporting on flows in 2023. Members that are unable to implement these reporting methods in 2024 may use of a transition period of one year during which the provisional reporting methods would continue to apply as regards ODA accounting and data disclosure.

Annex: Reporting requirements and rules for data disclosure for credit guarantees reported in ODA under both the instrument and institutional approaches

	CRS ite m n u m b e r	CRS ite m n a m e	Rep orti ng ex am pl e	Data re qui re me nt	Lev el of data disc losu re
A. Identification data	1	Reporting year	2023	Required	Activity-level
	1b	Commitment date Guarantee issuance 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°	[Text]	Required	Activity-level
B. Basic data	6	Nature of submission	1	Required	Activity-level
	7	Recipient code	555	Required	Activity-level
	8	Channel of delivery name	[Text] / [Text]	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
	14	Short description / Project title	[Text]	Required	Activity-level
	15	Sector / Purpose code (...)	23030	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	[Text]	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	PD/GG	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	

D. Volume data	30	Climate change - adaptation	0	Required	Activity-level
	31	Desertification	0	Required	Activity-level
	32	Currency	302	Required	Activity-level
	33	Commitments Guaranteed amount	18000	Required	Activity-level
	33b	Capital Expenditure %	NULL	NULL	NULL
	34	Amounts extended	NULL	NULL	Activity-level
	NULL	Grant element	NULL	NULL	Activity-level
	34b	ODA grant equivalent	637.2705	Required	Activity-level
	35	Amounts received	NULL	NULL	NULL
	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	44	Type of repayment Type of guarantee fee payment	1	Required	Activity-level
	45	Number of repayments per annum Number of guarantee fee payments per annum	12	Required	Activity-level
	46	Interest rate Guarantee fee rate	01500	Required	Not disclosed
	47	Second interest rate	NULL	NULL	Not disclosed
	48	First repayment date First guarantee fee payment date	01-12-2023	Required	Not disclosed
	49	Final repayment date Final guarantee fee payment date	10-01-2028	Required	Activity-level
	50	Interest received Guarantee fee received	22.5	Required	Aggregated by instrument and recipient
	51	Principal disbursed and still outstanding	NULL	NULL	Not disclosed
	52	Arrears of principal	31-11-2028	Required	Not disclosed
53	Arrears of interest Arrears of guarantee fee	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