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**Development Co-operation Directorate
Development Assistance Committee**

DAC Working Party on Development Finance Statistics

Private sector instruments: ODA-eligibility assessment

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

This note presents a proposal for the ODA-eligibility assessment of members' vehicles that extend private sector instruments. 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. The paper puts forward a methodology for a strengthened assessment procedure as well as an updated version of the assessment template.

Members are invited to share their views on the assessment procedure and template outlined in the note and, if relevant, suggest concrete improvements needed to conclude their discussions on the ODA eligibility-assessment.

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

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1. ODA-eligibility assessment of members' PSI vehicles

1.1. Introduction

1. The provisional reporting methods for private sector instruments (PSI) include the requirement for members to conduct a self-assessment of their PSI vehicles on which they have chosen to report ODA. In the context of Part 1 of members' review of these methods, consulted stakeholders highlighted the need for strengthened mutual accountability throughout this process, in line with the agreed 2016 HLM principles. Some members also identified a need for more transparency on the methods used for establishing ODA coefficients on capital increases of PSI vehicles.

2. This paper therefore presents a proposal for strengthening the assessment of the ODA-eligibility of members' vehicles that extend private sector instruments. The proposal covers both the procedure and the template for the assessment. This proposal has been developed in line with the 2016 HLM principles for PSI, taking into account the outcomes of the Part 1 of the review in Q1-2 of 2022 [[DCD/DAC/STAT\(2022\)15](#) and [DCD/DAC\(2022\)39/REV1](#)] as well as members' feedback received to date. It further builds upon members' discussions at the September 2022 WP-STAT meeting [[DCD/DAC/STAT\(2022\)30](#)] and subsequent considerations of the PSI project team.

3. **Members are invited to share their views on the assessment procedure and template outlined in this document and, if relevant, suggest concrete improvements needed to conclude their discussions on the ODA-eligibility assessment.**

1.2. 2016 HLM principles related to the ODA-eligibility assessment of PSI vehicles

4. The general principles ix. and x. of the 2016 HLM Communiqué state that

ix. The ODA-eligibility assessment will be carried out for all bilateral DFIs and, upon request, for other vehicles, using a common template. The Secretariat will undertake the necessary analysis and present a recommendation on ODA eligibility for consideration by the DAC or a body designated by the DAC. HLM follow-up: elaborate a proposal for the template.

x. The assessment will be based on an examination of the DFI's mandate, project portfolio, investment strategy and due diligence mechanisms. It will consider the extent to which the institution allocates its finance to ODA-eligible countries, promoting the economic development and welfare of developing countries as its main objective. If necessary, i.e. if the institution is active also in non ODA-eligible countries and/or activity areas, the share of ODA-eligible activities in the institution's total portfolio will be estimated, to establish a coefficient for ODA reporting. Information on the institution's investment strategy and due diligence mechanisms will serve to assess additionality of the finance. HLM follow-up: develop a proposal for the assessment criteria.

5. Principle xi further sets reporting requirements on additionality of PSI at the activity level in the CRS, irrespective of the approach used. These will be considered more in detail as part of members' discussions on step 2.2 of the review process in 2023 [see [DCD/DAC/STAT\(2022\)29](#)].

1.3. Assessment procedure

1.3.1. Objective and ODA coefficient

6. The objective of the ODA-eligibility assessment of members' PSI vehicles is to:

- a. Estimate the extent to which the vehicles' activities are ODA-eligible;
- b. Foster transparency and members' mutual accountability;
- c. Promote peer learning;
- d. Demonstrate development focus as well as the due diligence and additionality mechanisms of members' PSI vehicles;
- e. Monitor comparability of the instrument and institutional approaches over time.

7. The extent to which members' PSI vehicles are ODA-eligible is expressed through the ODA coefficient. It reflects the share in the PSI vehicles' total disbursements (denominator for the calculation) of disbursements that are compliant with all three of the following ODA criteria (nominator for the calculation). For PSI vehicles' disbursements to be ODA-eligible, they need to be:

- f. Allocated to countries and territories included on the DAC List of ODA Recipients;
- g. Administered with the promotion of economic development and welfare of developing countries as their main objective (development motive); and
- h. Additional financially and/or in value, together with their development additionality.

Figure 1. Calculation of the ODA coefficient

$$\text{ODA coefficient} = \frac{\text{Disbursements with a development motive, additional and allocated to ODA Recipients}}{\text{All disbursements}}$$

8. Activities by PSI vehicles that are not allocated to ODA Recipients, or that are not administered with the promotion of economic development and welfare of developing countries as their main objective, or that are not additional are not ODA-eligible.

1.4. PSI vehicle

9. The ODA-eligibility assessment will be carried out for all vehicles extending PSI¹ which are considered in the context of ODA, irrespective of the reporting approach used. This encompasses all such vehicles that are formally part of the donor government, including members' Development Finance Institutions (DFIs), other vehicles, programmes and funds administered by or on behalf of the donor government. In this context,

- i. For development agencies with specific PSI programmes, the assessment will only concern those programmes (and not the entire institution).

¹ In line with the HLM 2016 Principles, PSI include the following non-grant instruments: loans to the private sector, guarantees, equity investments, mezzanine/hybrid finance and reimbursable grants.

- j. For PSI vehicles with a portfolio of less than USD 50 million, ODA-eligibility will be assessed by members' own self-assessments.²
- k. Contributions and investments to investment funds as well as blended finance funds and facilities administered by multilateral organisations are not subject to the ODA-eligibility assessment procedure.

10. Activities concerning PSI vehicles which have not been assessed on their ODA eligibility cannot be included in members' ODA reporting. Instead, they can be reported as other official flows (OOF) in the context of CRS. In any case, members are encouraged to report outflows from any PSI vehicle as TOSSD, provided they meet relevant sustainability criteria.

1.5. Assessment process and methodology

11. To strengthen the assessment procedure and align it with the 2016 HLM principles, the Secretariat assesses the ODA-eligibility of members' PSI vehicles.

12. Members submit a completed assessment template to the Secretariat once every five years or upon request by the Secretariat or DAC member itself.

1.5.1. Information sources

13. The Secretariat's assessment of PSI vehicles will be based on information provided by members through the assessment template and CRS data reporting. The template primarily seeks the following inputs (see also Annex):

- l. A breakdown of total disbursements by the PSI vehicle, indicating the ODA-eligible and non-ODA-eligible shares (see paragraph 7), complemented with additional methodological explanations and safeguards.
- m. Qualitative inputs:
 - i. Mandate/mission of the PSI vehicle (in support of analysis of the development motive of the vehicle and its disbursements to ODA Recipients);
 - ii. Development focus and due diligence mechanisms of the PSI vehicle (in support of analysis of the development motive of the vehicle and its disbursements to ODA Recipients); and
 - iii. Additionality mechanisms of the PSI vehicle (in support of analysis of the additionality of the vehicle and its disbursements to ODA Recipients).

14. For newly capitalised or restructured vehicles, members are expected to share the assessment template with the Secretariat, if possible, prior to the first reporting year. Assessments of such vehicles will be based on best available information ex-ante, such as mission statement, mandate, approved investment and development strategy and similar

² The self-assessment will be conducted by the reporting members themselves in the spirit of the provisions outlined in this note and using the criteria described in paragraph 7 and the template in Annex of this note. The completed template will be shared with the Secretariat for inclusion in the report described in paragraphs 22-24.

provisions. Once such vehicles have become operational, the Secretariat may request an updated assessment template to verify the vehicle's ODA-eligibility.

15. Moreover, to support its analysis, the Secretariat may complement these details with information available in various online channels, annual reports, financial statements and similar sources. If need be, the Secretariat may also reach out to the assessed vehicles and donor governments for additional inputs.

1.5.2. Assessment steps

I. Secretariat's assessment

16. To assess the ODA-eligibility of members' PSI vehicles, the Secretariat will mirror the provided disbursement breakdown to the qualitative information provided through the template, CRS data reporting and potentially other inputs. In this context, the Secretariat will evaluate the extent to which the available qualitative details support the disbursement breakdown and its ODA-eligible share in particular. This evaluation will be carried out for each template section (B. mandate/mission, C. development focus, due diligence and untying, and D. additionality mechanisms), using a simple scoring system with 5 for "fully demonstrated" and 0 for "not demonstrated". The ODA criteria on development objective and additionality (see paragraph 7) will have been verified if:

- n. All three template sections have been scored 4 or 5; and
- o. Where relevant, evidence reported through CRS data (e.g. additionality and development objective) further demonstrates compliance with the assessed ODA-eligibility criteria.

17. If this not the case, the Secretariat will invite the member to improve the template and possibly also relevant CRS data items within a period of three months. Having received additional inputs, the Secretariat will re-assess the PSI vehicle on its ODA-eligibility.

18. Outcomes of this assessment round, including the ODA coefficient, will be shared with members in the context of the WP-STAT.

19. Should the resulting ODA coefficient be lower than 100%, the Secretariat will provide members with a detailed reasoning behind such conclusions.

II. Peer review

20. Should members not agree with the Secretariat's analysis, a second opinion may be sought through a peer review in the context of the WP-STAT, involving at least one other member. Supported by the Secretariat, the peer reviewer(s) will follow the assessment methodology outlined in paragraphs 16-19 and present their conclusions to the WP-STAT.

III. Guidance from the DAC

21. Should the member still disagree with the outcomes of the peer review, guidance will be sought from the DAC.

IV. Report

22. When the coefficient has been settled, the Secretariat will present the assessment findings, including the ODA coefficient(s) of the PSI vehicle(s), to the DAC in a dedicated report.

23. The report will be shared with the ECG and its Secretariat for information purposes.

24. To foster transparency and accountability, the DAC report will be published as unclassified. However, members will be given two months after the presentation of the report to the DAC to review it for publication purposes and remove any information deemed sensitive.

Assessment duration

25. The assessment remains valid until its update (see paragraph 12).

1.6. Implementation

26. The proposed strengthened assessment procedure, using the streamlined and simplified template would be implemented in 2024 alongside members' reporting on 2023 ODA.

Annex A. Proposed revised ODA-eligibility assessment template

Basic identification details

1. Please provide the full official name of the institution, its abbreviation and year of establishment.

A. Disbursement breakdown

27. What ODA coefficient was applied to the most recent capital increases of the PSI vehicle (irrespective of the reporting approach used)? How was it calculated?

28. Using Table 1 below, please indicate the sum of annual disbursements for the last three years which have been:

- a. Administered with the promotion of economic development and welfare of developing countries as their main objective (**development motive**) and are **additional** financially and/or in value, together with their development additionality;
- b. Allocated to countries and territories included on the **DAC List of ODA Recipients**. *For verification purposes, please provide a brief explanation on the method used for estimating this share in the case of regional activities.*

29. For newly established or restructured PSI vehicles, please provide ex-ante estimation of these disbursement totals based on relevant documents outlining the vehicle strategy, mandate and objectives. What safeguards are put in place to ensure these ex-ante estimations are implemented de facto?

Table 1. Breakdown of annual disbursements of the PSI vehicles

	Administered with a development motive and additional	Other
Allocated to ODA Recipients		
Other		

B. Mandate/mission (max score: 5)

	Score
30. Please describe the institution's statutes, mandate or mission statement and explain how it pursues development objectives.	
c. What role does the national government play in setting up such development objectives?	1
d. How do the statutes, mandate or mission statement address the additionality and non-market distortive nature of the private sector instruments extended by the vehicle, as well as its financial self-sustainability?	1

31. What mechanisms are put in place for the national government to ensure that the development objectives are pursued in effect? To which bodies is the PSI vehicle accountable for its development strategy?	1
32. Does the PSI vehicle extend dividends? Are they used for development purposes?	1
33. Please describe the shareholding structure of the PSI vehicle, including capital shares per shareholders. If applicable, what is the rationale for diversified shareholding of the PSI vehicle?	1

C. Development focus, due diligence and untying (max score: 5)

	Score
34. On development characteristics and impact:	
e. Please describe how the investment strategy of the PSI vehicle promotes the economic development and welfare of developing countries as the main objective at the level of individual activities.	0.5
f. Please explain how the PSI vehicle identifies its investment projects.	0.5
g. What mechanisms are put in place to maximise the development impact of the activities of the PSI vehicle (e.g. key performance indicators, development effectiveness assessment frameworks, ESG standards, methods to promote anti-corruption and domestic resource mobilisation)? Please describe the main elements of the impact measurement framework used by the PSI vehicle.	0.5
h. At what stage of the project pipeline is the development impact or effectiveness assessed? How are these assessment mechanisms reviewed and kept up to date? How are these assessments made available to the general public and with which detail?	0.5
i. What mechanisms are put in place to ensure that individual investments are aligned with the priorities and strategies of the recipient countries?	0.5
35. On national interest and untying:	
j. How is the interest of the donor country represented in the activities of the PSI vehicle?	0.5
k. Please explain the rationale and modalities of collaboration of the PSI vehicle with companies residing in donor countries. What are the areas of such collaboration?	0.5
l. Please explain the rationale and modalities of collaboration by the PSI vehicle with national and other export credit agencies. What are the areas of such collaboration?	0.5
m. In the context of loans and guarantees, how does the PSI vehicle actively promote the de facto untied nature of its activities (in line with the DAC Recommendation on Untying ODA)? If deemed irrelevant, please explain why.	0.5
n. In the context of loans and guarantees, what safeguards and transparency provisions are applied to ensure compliance with international trade agreements (e.g. ex-ante reporting to the OECD Arrangement on Officially Supported Export Credits and related Sector Understandings)? If deemed irrelevant, please explain why.	0.5

D. Additionality mechanisms (max score: 5)

	Score
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36. What mechanisms are put in place to ensure that individual activities of the PSI vehicle are additional?	1
o. At what stage of the project pipeline is the additionality of individual activities assessed? How are these assessments reviewed ex post?	0.5
p. How are these assessments made available to the general public and at what detail?	0.5
37. What methods are used to establish the additionality of individual activities of the PSI vehicle?	1
q. What benchmarks are used for establishing financial additionality?	0.5
r. How does the PSI vehicle exercise value additionality with its investees?	0.5
38. How is the additionality assessment framework reviewed and kept up to date? How are these assessments made available to the general public and with which detail?	1