IMPLEMENTATION DETAILS OF THE 2016 HLM AGREEMENT ON ODA MODERNISATION OF PSI
TASK FORCE TERMS OF REFERENCE

The DAC is expected to conclude its work on the implementation details of the 2016 HLM agreement on ODA modernisation of PSI in March 2017. At its meeting on 6 December 2016, the Committee decided to establish a technical task force to help develop a package proposal that addresses members’ concerns over ODA modernisation of PSI blurring the lines with export credits.

This note contains the proposed terms of reference including the composition of the task force (see paragraphs 3-8), based on the initial draft [DCD/DAC(2016)51, paragraphs 11-15] and members’ comments.

The ToRs are submitted to members for APPROVAL under the written procedure. If no comment is received by 16 December, the ToRs will be considered approved, and the task force will be established on that basis.

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IMPLEMENTATION DETAILS OF THE 2016 HLM AGREEMENT ON ODA MODERNISATION OF PSI

TASK FORCE TERMS OF REFERENCE

Background

1. At the February 2016 DAC High Level Meeting (HLM), members agreed on the principles to better reflect, in ODA, the donor effort involved in the use of private-sector instruments (PSI). The DAC is expected to conclude its work on the implementation details of the 2016 HLM agreement on ODA modernisation of PSI in March 2017. At its meeting on 6 December 2016, the Committee decided to establish a technical task force to help develop an implementation package proposal that addresses members’ concerns over ODA modernisation of PSI blurring the lines with export credits.

2. This note contains the proposed terms of reference (ToRs) for the task force, based on the initial draft discussed at the DAC meeting on 6 December [see DCD/DAC(2016)51, paragraphs 11-15] and members’ comments. The ToRs are submitted to members for approval. If no comment is received by 16 December 2016, the ToRs will be considered approved, and the task force will be established on that basis.

Terms of reference

3. The DAC is expected to conclude its work on the implementation details of the 2016 HLM agreement on ODA modernisation of PSI in March 2017. A technical task force will be established to help develop a package proposal that addresses members’ concerns over ODA modernisation of PSI blurring the lines with export credits.

4. Expected result: A proposal on the qualitative safeguards, transparency, monitoring and quantitative or objective criteria for ODA eligibility for PSI, including the specific grant equivalent calculation for PSI.

5. The focus of work is on trade-related PSI (loans and guarantees), i.e. cross-border financing for projects which involve import of goods and services by the developing country. The specific questions to be covered are listed below.

   Calculating PSI grant element and setting a technical threshold: The task force should elaborate a proposal for a discount rate that reflects the underlying instruments and their market-oriented character and that does not over-inflate ODA. The task force will discuss the funding cost, administrative cost and private sector surcharge components of the discount rate and make a proposal on their respective values. In carrying out this task, the task force will carefully examine the joint proposal from the United States and Spain, and subsequent

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1. The risk adjustment factors for country income groups are outside the scope of the ToR as they have been agreed at the DAC HLM 2014. Principle v of the DAC HLM 2016 agreement specifies that a risk premium for the private sector is needed in principle in the discount rate in addition “to the already agreed sovereign risk premia”.

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comments from members, both at the WP-STAT meeting and the DAC-ECG consultation held on 17 and 18 November 2016 respectively.

It will also take into account the fact that PSI are non-concessional and that their grant elements are meaningful only at the overall portfolio level. The task force should also elaborate a proposal for a technical threshold for PSI, compatible with the 2016 HLM agreement, considering the arguments put forward by Denmark, France, Spain, the US and other members.

The Arrangement and WTO rules define whether an operation is authorised or not, while the ODA reporting rules (laid out in the Statistical Reporting Directives) define whether an operation can be reported as ODA or not and the methods and parameters for calculating the ODA amount for an operation. Taking into account the differences in the purpose and methodologies of calculating grant elements for loans and guarantees in the DAC and ECG contexts, the task force may also propose alternative wording for describing the ODA calculation for PSI in DAC statistics.

- **Qualitative safeguards:** The task force should elaborate proposals for reinforcing the safeguards (in addition to the decision tree\(^2\)) to avoid blurring the lines between export credits and ODA. The exclusion of export credits from the scope of the ODA modernisation of PSI should be made explicit. The eligibility criteria for an operation to qualify as PSI in DAC statistics should be further strengthened: developmental motive and in particular additionality.

- **Transparency provisions:** Members have suggested that trade-related PSI should be subject to similar transparency provisions as tied aid whereby the donor intending to finance a project, above a certain threshold, makes a prior notification to the Participants group. The task force should elaborate a proposal to ensure that PSI do not infringe with the Arrangement and WTO rules. In carrying out this task, the task force will carefully examine the proposals by Denmark and France.

6. The task force should develop the proposals to be compatible with the HLM agreements reached in December 2014 and February 2016 and should not re-open issues that have been agreed. It should be attentive to the comparability of members' reporting under the instrument and institutional approaches, and bear in mind that the system will be fully reviewed on the basis of two years of implementation.

**Composition and role of the task force**

7. The task force will be constituted of technical experts on PSI, export credits and DAC statistics from Korea and Japan (Co-Chairs), Denmark, France, Germany, the Netherlands, Spain, Switzerland, the United Kingdom and the United States. A whole of government approach should be followed with representation from both the development and export credit communities. Both DAC and ECG Secretariats will support the work of the task force. In addition, an expert on WTO rules may be invited to participate.

8. The role of the task force is to develop proposals and advice as defined in these ToRs for consideration by the DAC. The task force has no decision-making power.

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2. The decision tree was presented both at the WP-STAT meeting and the DAC-ECG consultation. It visualises the safeguard principles of the February 2016 HLM agreement on PSI.
Working arrangements and timeline

9. The working arrangements of the task force will secure an open, transparent and inclusive process so that other members will be able to closely follow the process and engage:

- All task force documents will be made accessible for DAC and ECG members at the community space of WP-STAT.
- De-briefing calls for DAC and ECG members will be organised after each task force meeting.
- DAC and ECG members, who are not part of the task force, will be invited to share their comments with the task force in writing.
- Other experts (such as from WTO, CSOs, private sector) will be invited to contribute to specific questions as needed.
- DAC members will be briefed throughout the process (see paragraph 10), including at its 2 February 2017 meeting.

10. The deadline for proposals arising from the task force is February 2017. To meet this objective, the following timeline is proposed:

- Task force kick-off call in the afternoon of 19 December 2016: agreement on working methods and timeline.
- Two 2-day meetings by the Task Force at the beginning and end of January.
- Presentation of the task force conclusions and recommendations to a broader expert meeting (development and export credit communities, CSOs and private sector) mid-February.
- Discussion of the task force conclusions and recommendations at the WP-STAT informal meeting scheduled on 28 February – 2 March 2017.

11. The timeline aims at a package decision by the DAC at its 9 March 2017 meeting.