

Unclassified

DCD/DAC(2016)51

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

25-Nov-2016

English - Or. English

**DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE**

DCD/DAC(2016)51
Unclassified

ODA Modernisation of Private Sector Instruments (PSI): way forward following the consultation with the Export Credit Group

DAC Meeting, 6 December 2016

This document is submitted for DISCUSSION and APPROVAL (paragraphs 11-15) under item 5 of the draft annotated DAC agenda [DCD/DAC/A(2016)18].

Contact:
Julia Benn - Tel: +33(0)1 45 24 90 39 - Email: julia.benn@oecd.org

JT03406272

Complete document available on OLIS in its original format

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

English - Or. English

ODA MODERNISATION OF PRIVATE SECTOR INSTRUMENTS (PSI): WAY FORWARD FOLLOWING THE CONSULTATION WITH THE EXPORT CREDIT GROUP

1. This note informs the Committee of progress in work on ODA modernisation of private-sector instruments (PSI) in two recent meetings: the Working Party on Development Finance Statistics (WP-STAT) on 17 November 2016 and the consultation with the Export Credit Group (ECG) on 18 November 2016. Both were organised in follow-up to discussions at the DAC Senior Level Meeting (SLM) on 10-11 October 2016. The consultation with the ECG focused on the methods for calculating ODA and their possible unintended consequences in terms of trade distortions and conflicts with the rules of the World Trade Organisation (WTO), while the WP-STAT meeting focused on other outstanding questions.¹ The Secretariat is in the process of preparing summaries of both meetings and will circulate these ahead of the 6 December 2016 DAC meeting. This paper therefore only provides a brief summary and focuses on the issues where the Committee's guidance is urgently required on the next steps in this work.

Outcomes from the consultation with the ECG

2. The discussion on the options for strengthening the boundary between PSI loans and export credits² was based on written contributions from four members: the United States and Spain [DCD/DAC/STAT/RD(2016)3/RD1/REV1], Denmark [DCD/DAC/STAT(2016)3/RD2] and France [DCD/DAC/STAT(2016)3/RD3]. These included suggestions for a set of discount rates and grant element thresholds for PSI, alternative to those proposed in the SLM paper [DCD/DAC(2016)46], fine-tuning the concept of financial additionality, clarifying the definition of PSI as well as tied and untied PSI, and strengthening the transparency measures³.

3. The consultation was most insightful and helped to narrow down the areas in which the ODA reform on PSI raised concerns from the ECG perspective. In particular:

- It was clarified that the concerns by the ECG only relate to trade-related operations (i.e. cross-border financing projects which involve import of goods and services by the developing country). This implies that some forms of PSI are unproblematic. An example explicitly mentioned at the meeting was credit lines to local financial institutions. Equity investment was also generally considered as not directly trade-related.
- The main concern is not about export credit transactions being reported as ODA, but about the possible application by third parties of the parameters (discount rate and threshold) of the ODA calculation for PSI loans and guarantees to export credits, which could suggest that some export credits convey significant concessionality and are hence infringing the WTO rules. Concerns over the unintended consequences of the PSI reform on broader international negotiations on export credit guidelines were also expressed. The exclusion of export credits from the scope of PSI in DAC statistics was clearly demonstrated through a decision tree and well understood.

1. See DCD/DAC/A(2016)16 and DCD/DAC/STAT/A(2016)3/REV1 for the meeting agendas.

2. Item 4 of the agenda.

3. In addition to the safeguards already built in the proposal (e.g. biennial monitoring report).

4. The consultation highlighted the differences in the purpose of calculating grant elements or concessionality levels for loans and guarantees in the DAC and ECG contexts. In DAC statistics on PSI the grant equivalent calculation is a quantitative assessment of the cost involved in risk taking and not a quantitative assessment of concessionality. (PSI are non-concessional instruments.) For the ECG, export credits that are in conformity with the Arrangement are considered to convey zero concessionality, given that the terms of the transactions are regulated through minimum interest rates, minimum premium rates and maximum repayment terms. In the case of tied aid, the Arrangement provides for minimum concessionality levels (35%/50%) that are calculated using dynamic and currency-specific discount rates (Differentiated Discount Rates). It is useful also to recall the fact that the Arrangement (and WTO rules) define whether an operation is authorised or not, while the ODA reporting rules define the methods and parameters for calculating the ODA amount for an operation.

5. The discussion on the blurring of the lines between export credits and ODA also has a link with the issue of tying status. Strengthening the safeguards in this area will entail further work on the untied versus tied definition and reinforcing the measures for a more transparent monitoring of PSI.

6. The consultation concluded that the ECG concerns were legitimate; to address them, a package solution could be envisaged including quantitative or objectively verifiable criteria for ODA eligibility, strengthened safeguards regarding the additionality of PSI, and improved transparency and monitoring. It was suggested that a joint taskforce be established to elaborate a technical proposal on each of these elements by February 2017. These should build on the contributions from the US, Spain, Denmark and France, and comments from other members at the WP-STAT and DAC-ECG meetings. The task force should not draw into question the HLM decisions. Draft terms of reference of such a taskforce are presented below for members' consideration and approval.

7. The consultation also clearly highlighted that the landscape of financing available for projects in developing countries has evolved. Members noted that DFIs and ECAs were at times financing (and possibly competing for) components of the same projects in developing countries. ECAs are working more and more to ensure a developmental impact of their operations, and may even be requested by the governments to mobilise resources for development. Further discussion with the ECG should therefore also assess the consequences of the ECAs' changing mandates and investment portfolios in regard to activities previously thought to be the space for PSI vehicles. This opens avenues for future consultations between the ECG and the DAC.

Progress achieved at the 17 November WP-STAT meeting

8. The WP-STAT meeting was meant to advance PSI work in the areas where agreement had not been reached at the SLM and further work had been requested by DAC senior representatives.⁴ Significant progress was made at the meeting in several areas with clearly defined action points:

- *Refining the definition of additionality*: the Secretariat will revise the proposal on the definition and reporting on additionality based on members' comments and concrete suggestions.⁵
- *Eligibility of instruments other than loans*: members will provide their written comments on possible supplementary eligibility criteria for guarantees, equities and mezzanine finance and the

4. At the SLM, consensus had been achieved on some implementation details, including the proposed template and procedure for assessing the ODA eligibility of DFIs and other PSI vehicles, and the lock-in mechanism for changing the approach for reporting on PSI in ODA.

5. The refinement of the definition of financial additionality will be discussed in the task force.

Secretariat will take these into account in the PSI package that will be presented for approval by the DAC.

- *Methods for calculating ODA*: members confirmed their agreement with the methods (the parameters - discount rates and threshold - were subject to a separate discussion).⁶
- *Treatment of profits and dividends paid back to the Government*: the discussion highlighted convergence of members' statements of principles and the possibility to reconcile political and technical aspects.

9. The discussion on PSI thresholds and discount rates at the WP-STAT meeting acknowledged the need to consult with the ECG prior to finalisation of the proposal on this topic.

10. Based on progress achieved at the WP-STAT and with the help of the task force, the Secretariat will prepare the package on the implementation details of ODA modernisation of PSI for consideration and approval at the 9 March 2017 meeting of the DAC.

Terms of reference for the task force

11. 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.

12. 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.⁷ In carrying out this task, the task force will carefully examine the joint proposal from the United States and Spain, and subsequent 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 for PSI the grant element is a quantitative assessment of the cost involved in risk taking, based on averages across DFI portfolios, and not a quantitative assessment of concessionality of each individual instrument. 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 define the methods and parameters for calculating the ODA amount for an operation. Taking into account the differences in the purpose 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.

6. France was still checking the equity calculation.

7. 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.

- Qualitative safeguards: The task force should elaborate proposals for reinforcing the safeguards (in addition to the decision tree⁸) 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 using tied aid makes a prior notification to the Participants group and whereby the group can challenge the commercial non-viability of a project. The task force should elaborate a proposal building on the proposals by Denmark and France, to ensure that PSI do not infringe with the Arrangement and WTO rules.

13. The task force should develop the proposals with full consideration of 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

14. The task force will be constituted of technical experts on PSI, export credits and DAC statistics. In addition, an expert in this subject from WTO or a United Nations Agency may be invited to participate. The DAC Chair will make a proposal on the composition of the task force at the 6 December DAC meeting. The Secretariat will present a proposal for a timeline and working arrangements.

15. The role of the taskforce is to develop proposals and advice as defined in these ToR for consideration by the DAC. The task force has no decisional power.

Decision points

16. **The Committee is invited to approve the terms of reference for the task force as outlined in paragraphs 11-15.**

8. 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.