Private Sector Instruments for the SDGs: Transparency in Finance for Development

INNOVATIONS FOR THE 2030 AGENDA

WHAT ARE PRIVATE SECTOR INSTRUMENTS (PSIs) FOR THE SDGs?

The Addis Ababa Action Agenda prescribed the private sector as a necessary actor to achieve growth and sustainable development. It called for mobilising financing flows from all sources, including domestic and international, public and private. The OECD DAC works to strengthen policies that **encourage the use of private sector instruments** (PSI) **to mobilise additional financial resources for development** to achieve the Sustainable Development Goals (SDGs).

Many OECD DAC members have established special public sector vehicles that help engage the private sector in financing for development. These vehicles have similar working methods to those of private sector operators and employ a range of financial instruments and arrangements (including equity, credit enhancements and guarantees). **Scaling the resources required for the 2030 agenda will call for a better valorisation of these efforts in the measurement of official development assistance** (ODA).

To capture a **credible and transparent picture** of how ODA is mobilising PSI, in 2016 OECD DAC members asked the OECD to develop methods to better reflect PSI in the DAC statistical system, while offering the right incentives and removing disincentives in the use of these instruments (so called ODA modernisation agenda).

The proposal is a package consisting of three main elements:

ODA measurement	Competition safeguards	Review before full implementation
Provide the right policies for using PSI to encourage mobilisation of private resources. Maintain consistency with earlier decisions (OECD DAC HLMs 2014 & 2016)	Maintain clear delineation between official development assistance and purely commercially-motivated flows.	Any adjustments to the statistical methods will need to avoid artificial increases and volatility in ODA volumes.

WHY IS PSI FOR THE SDGs IMPORTANT FOR DEVELOPMENT?

The private sector is fundamentally important in driving growth, creating jobs, generating wealth and increasing public revenues through taxation. Private businesses and banks operating in both national and international markets will play a key role going forward in providing the ideas, the ingenuity and the entrepreneurial energy required to find new, innovative solutions to sustainable development challenges in line with the transformative vision embodied in the SDGs. They will also provide essential development finance. Shifting to another order of magnitude in financing sustainable development – from mobilising billions to mobilising trillions – in order to leave no one behind, calls for redoubled efforts to engage the private sector in development, as has been foreseen in the Addis Ababa Action Agenda, which sets out the financing strategy for achieving the SDGs.

HOW CAN WE WORK TOGETHER TO ADVANCE ODA MODERNISATION OF PRIVATE SECTOR INSTRUMENTS?

The OECD has worked closely with the DAC to develop a proposal for the implementation of a balanced and coherent system that would promote longer-term support to the private sector where needed, ensuring efficient use of scarce public funds and targeting projects with high expected social returns, without creating market distortions. To do so, the OECD has supported collaboration with the export credit community to maintain a clear distinction between ODA and commercially-motivated flows.

Members are still working to reach agreement on one element of the package: the discount rates to use in the ODA calculation. The proposed discount rates [DCD/DAC(2017)18/REV2] represent a possible compromise, after several rounds of discussion, and with the understanding that they are part of a temporary framework valid for a two-year transition/pilot phase. The framework would be reviewed before full implementation and switch to ODA measurement based on grant equivalents. At the HLM, members have an unparalleled opportunity to make the best effort to come to an agreement on the discount rates and take a firm political commitment to conduct a full and thorough review of the PSI system in two years' time.

By agreeing the PSI for SDGs package, members will achieve several outcomes:

- Modern ODA measurement that is fit for purpose in the SDG era.
- Consistency of ODA measurement of PSI with that of sovereign loans.
- Incentives for the use of PSI providing for an efficient engagement of Development Finance Institutions with the private sector in developing countries.
- Strong competition safeguards through unprecedented transparency on PSI operations.
- Monitoring mechanism that prevents the blurring of the lines between loans and guarantees extended by PSI vehicles and export credit agencies.
- Continued dialogue between development and export credit communities on regulatory frameworks.

Agreeing to modernise the system now will prevent a detrimental effect on the mobilisation of private sector resources. An agreement will also limit ongoing disincentives embedded in the current statistical system, such as giving credit to failed investment.

WHAT'S NEXT?

If agreed, the full implementation of modernised ODA reporting on PSI for SDGs will take place according to the same schedule as for loans to the official sector, that is, in 2019 on 2018 expenditures when the ODA grant equivalent measure becomes the standard. Members should endeavour to actively contribute to successful implementation by complying with the agreed reporting requirements. Members should also undertake to constructively participate in the planned dialogue and joint work with the export credit community on competition issues.