Recommendations on the Development Assistance Committee's Approach to Incorporating Private Sector Instruments in ODA

The Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) aims to promote greater private sector engagement in development by including allocations to private sector financing instruments (PSI) in the calculation of member states' official development assistance (ODA). The changes envisioned under the review process are broad and may fundamentally change the nature of ODA by considering non-concessional finance as ODA. They are also set to influence aid allocations, by incentivizing DAC members to make new ODA resources available to PSI (potentially diverting resources from other priorities or modalities), re-label existing resources as ODA (in particular resources currently reported as other official flows, or OOF), or change sector allocations of ODA (PSI tend to target sectors related to economic infrastructure and growth, rather than the social sectors).

We recognize that there is an important role for the private sector in development, and that engaging the public and the private sectors will be critical to meet the financing needs of the SDGs. To this effect, in 2015 we put forward a set of principles to inform how aid donors engage with the private sector in development cooperation[1]. Public engagement with the private sector should be backed by strong principles to ensure that engagement effectively contributes to sustainable development, poverty eradication and inequality reduction. **The DAC's reform process offers an opportunity to develop rigorous and demanding criteria and standards to better regulate the use of aid in private sector investments, and to ensure that development motivations are not undermined by commercial motivations, or the interests of DAC members seeking to use ODA to support their own private sector.**

The following recommendations – which we address to DAC Members and the DAC Secretariat – aim at ensuring the reform leads to a principled approach of the use of aid to leverage private finance. We hope these recommendations will be taken into consideration at the meeting of the Working Party on Development Finance Statistics (4-5 July 2016) and at the DAC's Senior Level Meeting (October 2016).

Recommendations

1. Institutional assessment framework

The institutional assessment framework is the main entry point through which institutions will establish their ODA-eligibility. As such, it is critical that the framework is implemented in a transparent and credible way, and includes reference to good development practice.

Recommendations

1.1 The institutional assessment framework should set out clear, transparent benchmarks for institutional ODA-eligibility.

This should include an articulation of minimum benchmarks that each institution should meet to be ODA-eligible. Examples could include, but are not limited to the following, to be ODA-eligible: explicit development mandate; systematic and credible approach to ensuring additionality; project- and portfolio-level results reporting; and policies and provisions to ensure transparency and accountability.

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[1] Delivering sustainable development: A principled approach to public-private finance https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/dp-delivering-sustainable-development-public-private-100415-en.pdf

1.2 The assessment framework should be broadened to include reference to development effectiveness principles.

Currently there is no mention of development effectiveness principles in the institutional assessment framework. This is a significant oversight given the existing commitments of DAC members and the important role that the OECD has played in the development and socialization of the principles including in pushing to extend the principles beyond aid to all development cooperation. Providers of ODA-eligible PSI should be required to articulate and demonstrate how their approach aligns to best practice in the provision of ODA.

1.3 The assessment framework should be broadened to include reference to debt sustainability issues.

Given the debt risks associated with PSI, the framework should also include reference to how PSI providers address debt sustainability for borrowers and the countries in which they operate.

1.4 The Secretariat should provide a clear and transparent rationale for the ODA-eligibility of institutions.

The Secretariat should provide its rationale for ODA-eligibility to external stakeholders. This is in line with current practice.

2. Institutional versus instrument-specific reporting

The instrument-specific approach may have greater potential to facilitate transparency to external stakeholders and lead to investments in countries where the needs for external financing are greatest. To ensure the credibility and transparency of the reporting system, the DAC should disclose all information reported on PSI (regardless of the approach selected by DAC members).

Recommendations

2.1 DAC members should adopt the instrument-specific approach to report on PSI.

DAC members will have to report against the institutional and instrument-specific approaches to the Secretariat regardless of the approach selected by DAC members for presentation in official statistics. Though the Secretariat will use this information to assess the comparability of the two approaches and in its biennial report, this information will be used for internal purposes only. The instrument-specific approach will offer greater opportunities for external stakeholders to assess allocations across PSI on comparable terms across different types of providers. Moreover, the use of higher risk premiums for LDCs and LICs should incentivize more allocations to countries in greater need of private sector finance.

2.2 The Secretariat should fully disclose all information reported to the DAC on PSI.

The dual reporting system is an element of non-transparency in the current proposal and has potential to cause confusion, particularly for external stakeholders. Though DAC members may choose to report against the institutional approach, the figures provided according to the instrument-specific approach should also be made available to provide transparency on ODA allocations.

3. Shifting from concessionality to additionality

The existing concessionality criterion sets a clear benchmark in terms of what counts as ODA and what does not. The shift from concessionality to additionality represents a fundamental shift in the ODA concept. Though the Secretariat is working on establishing a minimal concessionality threshold, it is unclear if such a benchmark will be sufficient to preserve the traditional character of ODA, how it will impact ODA levels overall and how the concessionality criterion will function in conjunction with the additionality criterion. The additionality criterion, in addition to assessing financial additionality, should also seek to assess what developmental additionality is being delivered (see recommendation 4.3).

The DAC's current proposal provides no clear benchmark to establish additionality as is the case with the concessionality criterion.

Recommendation

3.1 The Secretariat should clearly articulate and justify the shift from concessionality to additionality, including the risks associated with this approach and how they will be managed to ensure the integrity of ODA.

The Secretariat has yet to fully articulate how the integrity of ODA will be preserved given the shift from concessionality to additionality. There is a need for greater clarity on this issue. The Secretariat should also indicate how it will manage the risks associated with the limited use of a concessionality criterion and a greater focus on additionality to assess the ODA-eligibility of PSI.

4. Activity-level reporting

We welcome the activity-level reporting requirement for PSI, which holds significant potential to improve data on PSI and transparency. However, we believe there are a number of ways in which activity-level reporting can be improved.

Recommendations

4.1 Include stringent requirements related to CRS reporting to qualify for ODA-eligibility.

The DAC has indicated an expectation that ODA-eligible PSI activities will be reported using the standard CRS fields, in addition to the new field on additionality. In the past, information reported on PSI has been incomplete. To maintain ODA-eligibility, all activities should be reported against all elements on the CRS, particularly those related to development outcomes.

4.2 Reporting against the policy marker system in the CRS should be mandatory and policy markers should be updated to effectively represent policy objectives common to PSI.

The policy marker system can be used to ensure that PSI activities are assessed against a range of potential development outcomes, including gender equality and environmental sustainability. The current policy marker system however, needs to be updated as it does not include a marker for job creation, which is often a key objective of PSI activities. A marker for disaster risk management is also needed, particularly given the role of DFIs in financing infrastructure.

4.3 Include reporting on development additionality in addition to financial additionality under the CRS.

The CRS additionality field makes no reference to development additionality. Institutions should be required to report on their expected development results, in addition to providing evidence of financial additionality.

4.4 Include reporting on the private sector entities that benefit from PSI.

Discussions in the DAC have not focused on the question of which private sector entities are supported through PSI. In reporting on their investments, DAC members should be asked to specify whether their support is benefiting developing countries' domestic private sector, or businesses from donor countries.

5. Monitoring provisions and safeguards

The monitoring provisions for PSI will be critical to ensuring transparency and accountability, as well as in the preparation of safeguards. As such, it is critical that DAC peer reviews and the biennial report on PSI address the key risks associated with PSI and ensure that PSI are aligned with good development practice. In addition, the Global Partnership for Effective Development Cooperation (GPEDC) has a role to play in monitoring PSI.

Recommendations

5.1 Ensure reviews of PSI examine development results, additionality, alignment with development effectiveness principles, and the allocation implications arising from the inclusion of PSI in ODA.

The DAC has indicated that the biennial report will examine additionality, institutional evaluation and reporting structures and corporate governance standards. It will also look at the allocation implications arising from the inclusion of PSI in ODA in terms of provision of ODA to the public and private sectors, and in terms of sectoral distribution. The lack of reference to development results, development effectiveness principles, and the UN Guiding Principles on Business and Human Rights however, is a major oversight. In addition to addressing these issues, the report should also tackle the question of the trade-off between leverage and additionality and the risk that PSI instruments could lead to a resurgence of tied aid practices. There is a risk that DAC members will focus their investments in countries and sectors where it is easier to leverage additional funds, rather than where financing is highly constrained and the likelihood of leveraging significant additional funds is limited. There is also a risk that DAC members will use PSI to support their own national firms rather than supporting those in partner countries.

5.2 Strengthen DAC peer reviews to include a more stringent assessment of the role of DFIs.

As they are currently structured, DAC peer reviews do not sufficiently assess the role of DFIs in terms of their contribution to development effectiveness, additionality and results. The DAC peer review methodology should be appropriately updated to reflect the increasing role DFIs are set to play in the provision of ODA.

5.3 Include more stringent criteria with respect to transparency and accountability in order for DFI operations to be ODA-eligible.

The current proposal does not sufficiently ensure that DFIs are transparent and accountable to the communities affected by their operations. To be ODA-eligible, DFIs should be required to ensure that information on projects and complaints mechanisms are accessible to those who are affected by them (including in local languages and through appropriate formats).

5.4 Monitor PSI through the Global Partnership for Effective Development Co-operation.

The GPEDC is a complementary forum to monitor PSI, including through discussions on the results of the biennial PSI report. It has the advantage of including all development stakeholders, namely developing countries, donors, international institutions, civil society, trade unions and the private sector.

6. Addressing grants to the private sector

Though technically included as part of PSI, there has been very little attention to grants in the technical discussions.

Recommendation

6.1 Grants to the private sector should be subject to the same provisions as other types of PSI.

The provisions related to non-concessional finance to the private sector should apply equally to grants. Though it is highly likely that grant-based programmes are growing, data on the total amount of grants provided to the private sector or to intermediaries that implement projects as part of partnerships with the private sector are poor. Transparency of grant-based programs would be greatly improved if they are subject to additionality assessments and reporting in the CRS similar to other PSI.

We urge DAC members to take these recommendations into consideration when reforming the rules. Should the proposed recommendations be discarded, civil society organisations are highly concerned that the reform may undermine the credibility of Official Development Assistance.