

Joint CSO recommendations ahead of the September 2022 meeting of the Development Assistance Committee (DAC) Working Party on Development Finance Statistics (WP STAT): Towards increased quality and integrity of ODA in the context of Private Sector Instruments and Special Drawing Rights.

We understand that members of the DAC have agreed to adopt a pragmatic approach to unlock the discussions on Private Sector Instruments (PSI) with the aim of possibly reaching an agreement by the end of the year. The upcoming WP STAT meeting on 28th to 30th September will be an important forum of discussion towards this goal. At the same meeting there will also be an update on the ODA eligibility of Special Drawing Rights (SDRs) loans.

The undersigned are all concerned about the quality and integrity of ODA statistics, thus we call on you to consider the following concerns in your upcoming meeting:

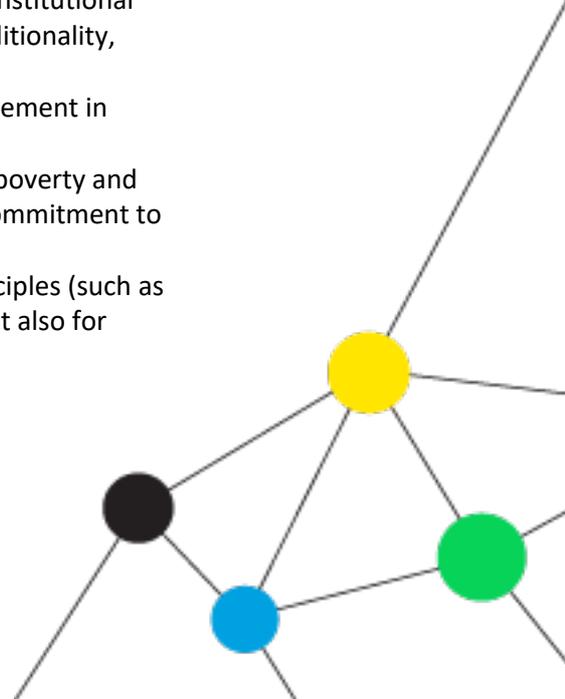
ODA reported under Private Sector Instruments and the current review process

Between 2018 and 2021, ODA reported as PSI has risen from US\$ 2.5 billion, to US\$ 3.8 billion, to US\$ 4 billion, and to US\$ 4.1 billion, respectively, representing an increase of 39 per cent over the four-year period. The distribution of PSI ODA by geography and sectors suggests that both target countries and sectors where investments are most profitable. An average of 52 per cent of country-allocated PSI ODA went to upper-middle-income countries — mainly Turkey, Serbia, Brazil and South Africa — compared to an average of 3.5 per cent for least developed countries - mainly Cambodia, Tanzania, Somalia and Ethiopia. Banking and financial sector, industry, mining and construction and the energy sector were the primary sectors of focus.

Such emphases in PSI ODA reported to date raise questions about their impact in addressing poverty and inequalities. Overall, both the instrumental and institutional approaches to inclusion of PSI resources raise serious concerns about additionality, notably those resources reported under the institutional approach.

There are considerable risks in using ODA to support private sector engagement in development through PSIs, which include:

- The diversion of ODA away from its core mandate of eradicating poverty and reducing inequalities, challenging donors' agreed international commitment to 'leave no one behind';
- Unintended negative impacts on development effectiveness principles (such as democratic local ownership, transparency and accountability), but also for



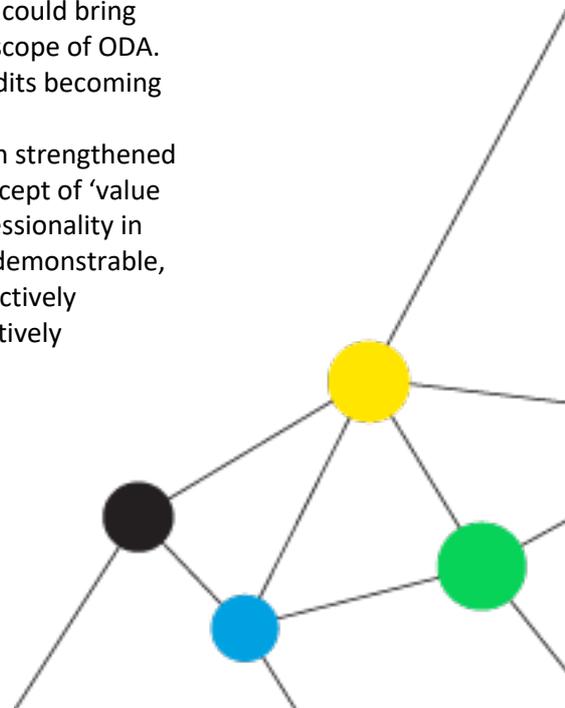


human rights norms, environmental sustainability, conflict and fragility, debt sustainability, illicit financial flows and tax avoidance;

- Increased privatisation or commercialisation of social sectors like health, education and water, particularly undermining access to universal high quality public services.

At a time of deep social, economic and political crises, the need for developmentally effective ODA is more critical than ever. It is essential that this current review of the 2018 PSI agreement prevents further undermining of ODA as a key resource for the eradication of poverty and inequalities. We therefore call for:

1. Rigorous and verifiable criteria and standards, as well as effective transparency and accountability mechanisms, that regulate the use of PSIs in development cooperation. Until then the reporting of PSIs operations should be to Other Financial Flows. These elements are essential to ensure that development objectives are not undermined by commercial motivations or that tied aid is not increased through partnerships with the private sector in the ODA provider country.
2. Full transparency and accountability of Development Finance institutions' (DFIs) portfolios. This includes publicly disclosing contracts involving ODA, and making their existing and future accountability mechanisms easily accessible for all citizens, in both the global north and global south, in line with the development effectiveness principles. Related information should be available on their respective websites as well as on request, and should be available in the official languages of the targeted countries.
3. Concessionality should remain the fundamental defining feature of ODA, distinguishing it from commercial transactions. Non-concessional official support for sustainable development is already reported to Total Official Support to Sustainable Development (TOSSD). To qualify as ODA, the terms of the PSI must be better than those provided by the market (thus concessional). Furthermore, the expansion of the criteria for ODA from concessionality to additionality for PSIs operations, corrupts this notion of ODA and could bring further tied aid or commercially motivated transactions into the scope of ODA. CSOs are particularly concerned with the possibility of export credits becoming eligible.
4. Additionality should be independently assessed and the definition strengthened by focusing on 'development additionality' and removing the concept of 'value additionality'. As noted above additionality cannot replace concessionality in determining ODA eligibility. Furthermore, additionality must be demonstrable, and thus show that risks for people and the environment are effectively minimised, women's rights and economic opportunities are effectively promoted, and the public sector is not undermined but rather





strengthened. DAC members should ensure they meet or exceed the requirements of the 2018 PSI agreement in the reporting of additionality, with the additionality fields provided in the Creditor Reporting System being a mandatory field for reporting PSIs.

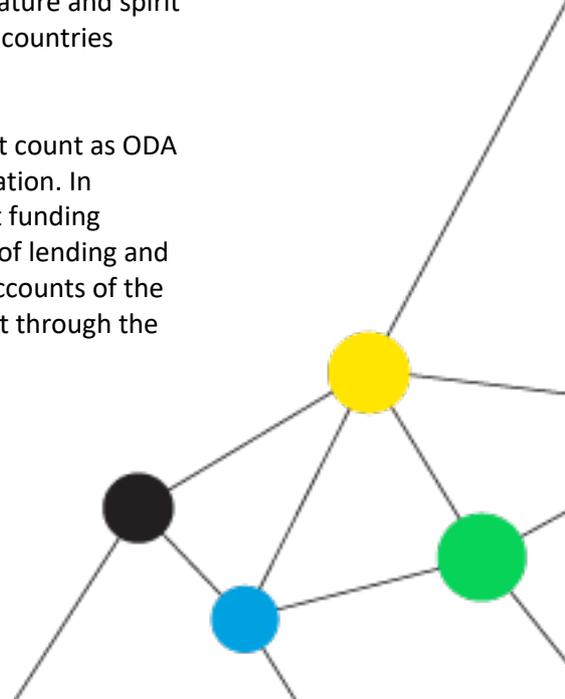
5. Bilateral development agencies should not use the institutional approach. The analysis of data for 2018 to 2020 leads to significant issues of transparency and the potential for an unrealistic inflation of ODA with the potential inclusion of activities that may not meet the criteria for ODA.
6. Take immediate steps to end all risks of formal and informal tying or other global north-global south distortions associated with delivering ODA through PSIs consistent with the DAC's long-standing commitments on untying ODA.

Last but not least, given the current data gaps around PSI, and the far-reaching implications of the current arrangements, it is essential to publicly monitor closely what impact the rules are currently having in practice, including all stakeholders in the global south and north.

Rechanneling Special Drawing Rights (SDRs) to developing countries through the Resiliency and Sustainability Trust (RST) should not be eligible as ODA

Regardless of the exact mechanism, our view is that re-channeling of SDRs should not count as ODA, as however they use their new SDRs donors would still be better off relative to before the allocation was agreed. DAC countries were incidental beneficiaries of the recent SDR allocation, which was agreed to help alleviate liquidity issues for lower income countries. Advanced economies have all publicly shared that they do not need their additional SDRs, and no DAC member has ever come close to needing to use their pre-existing stock to deal with crises. They would be no worse off even if they channelled all of their new SDRs. It is right and fair that these resources that have limited uses and so would otherwise just be sitting idly in reserve accounts, should be lent on to developing countries that need the additional resources. But to try to count this on-lending of resources that they were just gifted, goes against the nature and spirit of what ODA is, and can only be meant to inflate the ODA levels of donor countries rather than reflect real fiscal effort.

What's more, the majority of SDRs channelled through the RST should not count as ODA whether such contributions come from donors' new *or* existing SDR allocation. In reaching this conclusion, we apply the measures of the DAC - namely that funding should be concessional in character, as measured by analysing the terms of lending and risk involved. While there are important differences between the three accounts of the RST (explored more in the annex, pg. 4), it remains the case that SDRs lent through the deposit or loan accounts (expected to account for 98% of lent SDRs):





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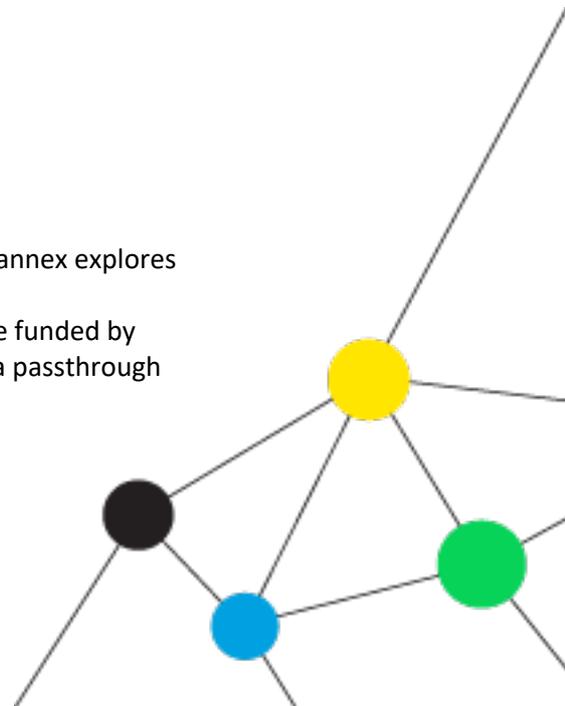
1. earn the same interest as they would have done otherwise
2. Have almost no risk of not being paid back (the risk is so low that lent SDRs would retain their status as reserve assets).

Therefore, it is our view that the channeling of SDRs through these accounts entails no fiscal effort (concessionality), and should thus not be counted as ODA. In particular, counting contributions at a grant equivalent using a discount rate of 5% is indefensible. This is not changed by the need in some countries to provide public guarantees to the central bank for such lending: this is a matter of internal accounting and it is implausible that lending to the RST could worsen countries' fiscal position at all. We hope that our concerns will be addressed in your forthcoming meeting and look forward to further discussing the outcomes of your deliberations.

ANNEX - Analysis of the three RST accounts

The RST has three separate accounts that lenders can contribute to. This annex explores their features in more detail:

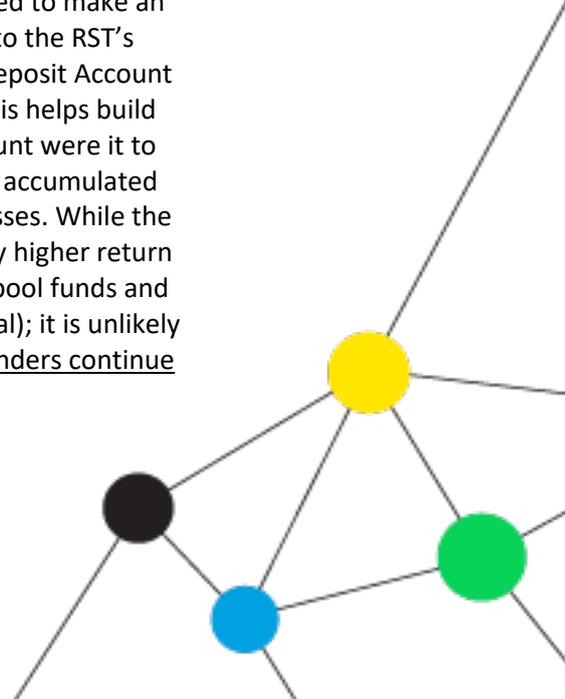
- **Loan Account:** Similar to the PRGT, the RST's Loan Account will be funded by voluntary loan commitments from contributors to be on-lent on a passthrough





basis. Contributors will earn interest up to the SDR rate while borrowers will incur interest costs (SDR rate plus a margin based on income status) and service charge to cover administrative expenses and reserve build-up. The Loan Account also includes an encashment buffer, whereby 20% of commitments will be set-aside in the event that a contributor requests early repayment to address a balance of payments issue or needs to bolster its reserve position. Given the existence of the encashment buffer, and the reserve account, by design this covers any risk that on-lent SDRs from the loan account would not be paid back, so there is no fiscal effort or risk to lenders.

- **Reserve Account:** The RST's Reserve Account serves as a financial buffer to manage credit and liquidity risk (in case of delayed repayment) and to cover the RST's administrative costs. Moreover, pending their use, Reserve Account resources will be invested to generate earnings and build reserves. Contributors to the Loan Account will also need to contribute an upfront minimum 2% of loan commitments — for which they will not be remunerated — to the Reserve Account. Reserve Account resources can also come from standalone, unremunerated contributions that are unrelated to the Loan Account as well as interest and investment earnings. There is some risk involved in lending to the reserve account, given that this is intended to absorb any credit losses. The risk is still low however given the IMF's unofficial preferred creditor status. There may be some argument since SDR loans will not be remunerated and only paid back at the ending of the RST life that they could be counted like capital contributions to multilaterals. Even if that were the case, the amount counting as ODA would be very small, reflecting just 2% of loans. However given the nature of SDRs, as noted below, it would be disingenuous for donors to try to count their use of SDRs as ODA.
- **Deposit Account:** Each contributor to the Loan Account is expected to make an upfront deposit of at least 20% of its Loan Account commitment to the RST's Deposit Account, and will earn interest up to the SDR rate. The Deposit Account invests contributions to generate earnings above the SDR rate; this helps build additional reserves and serves as a backstop to the Reserve Account were it to be exhausted. However, even in the IMF's most adverse scenario, accumulated interest earnings and the reserve account can easily absorb all losses. While the investments in the deposit account are expected to earn a slightly higher return than the SDR rate, this is enabled primarily because the IMF can pool funds and benefit from economies of scale (see paragraph 96 of the proposal); it is unlikely that lenders could have earned a similar return themselves. As lenders continue





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to earn the same rate on this loan as they would have done in the loan account (the SDR rate), they therefore do not lose anything in making this contribution. Furthermore the additional reserves earned through the investments provide an additional buffer should any loans not be paid back.

Signatories:

Best regards,

Kathrine Sund-Henriksen

Director, Norwegian Forum for Development and Environment

