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DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire

Annexes – module F

These Reporting Directives were approved by the Development Assistance Committee (DAC) on 30 August 2024. They are now issued as FINAL and UNCLASSIFIED.

Annexes are presented in three separate documents: DCD/DAC(2024)40/ADD1/FINAL, DCD/DAC(2024)40/ADD2/FINAL and DCD/DAC(2024)40/ADD3/FINAL.

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MODULE F: REPORTING METHODS FOR PRIVATE SECTOR INSTRUMENTS (PSI)

Background

The important role of the private sector in development has always been acknowledged in the international development discourse. To build markets in developing countries, many donors have founded development finance institutions (DFIs) and similar vehicles that extend private sector instruments (PSI). The Addis Ababa Conference on Financing for Development gave a new impetus to this type of activities, identifying the private sector as a resourceful partner in advancing economic development and welfare in developing countries.

Prior to the ODA modernisation, most PSI deployed by bilateral DFIs and other PSI vehicles other than equities had been out of scope of ODA. The 2014 HLM Communiqué[1], however, opened the door for a profound reconsideration of the measurement of donor effort in DAC statistics, with the 2016 HLM Communiqué[2] adding concrete principles for integrating PSI in the modernised ODA measure. ODA donor effort would then consist of grants and grant equivalents of loans, equities, guarantees, mezzanine finance and other instruments. The resulting statistical system would foster innovation, incentivise greater mobilisation of private resources for development, promote local private sector development and domestic resource mobilisation, and build ODA integrity through enhanced transparency, accountability and comparability.

While the agreement on the provisional reporting methods[3] in 2018 furthered members' discussions on PSI in ODA, it failed to establish coherence, consistency and comparability across members, and put a question mark on the credibility of ODA. The continued measurement of certain PSI in ODA on a cash-flow basis introduced hybrid accounting of ODA, which brought DAC statistics at odds with the OECD Recommendation on Good Statistical Practice.[4] Reported data have been found patchy and members' reporting on additionality incomplete and unconvincing. Moreover, the provisional methods do not include at all some elements foreseen by the 2016 HLM Communiqué, such as the possibility to switch between reporting approaches and comprehensive monitoring and review mechanisms.

[1] See DCD/DAC(2014)69/FINAL.

[2] See DCD/DAC(2016)11.

[3] See DCD/DAC/STAT(2023)9/ADD3/FINAL.

[4] See STD/CSSP/WPTGS(2016)23.

During 2022-23, DAC members engaged in a review of the provisional arrangement, starting with key stakeholder consultations (Part 1) to inform their subsequent deliberations on grant equivalent methods and related details (Part 2), taking the 2016 HLM Principles as a basis for discussion.[5]

The review delivered a DAC agreement on a set of methods for PSI, organised in the following three Annexes:[6]

- Annex 23: Additionality, reporting requirements, safeguards, monitoring and review mechanism,
- Annex 24: ODA-eligibility assessment of PSI vehicles,
- Annex 25: grant equivalent methods and related methodological provisions for individual private sector instruments. This Annex also includes reporting examples, illustrations and tables.

Implementation and transition period

These methods become effective in 2024 reporting on 2023 ODA with the possibility of a transition period of one year for loans to the private sector, guarantees, subordinated loans and loan-type reimbursable grants. A two-year transition period can be used for equities, preferred equities and reflow-based reimbursable grants. The provisional reporting methods [see DCD/DAC/STAT(2023)9/ADD3] remain effective during the transition period. See Annex 25 for more details on the transition period for individual instruments.

[5] See more details on the outcomes of the Part 1 of the review and next steps in DCD/DAC/STAT(2022)15 and DCD/DAC(2022)39/REV1. Details on the approach for members' discussions in the context of the review Part 2 can be found in DCD/DAC/STAT(2022)29.

[6] The approved methods can be found in DCD/DAC(2023)22/FINAL (Batch 1 topics), DCD/DAC(2023)33/FINAL (Batch 2 topics) and DCD/DAC(2023)48/FINAL (Batch 3 topics).

Annex 23: Additionality, reporting requirements and data disclosure, safeguards, monitoring and review mechanisms

1. Additionality

1. Additionality is a core ODA-eligibility criterion of PSI (see principle v and xi). To facilitate members' comparable reporting, the provisional reporting methods include a definition of financial, value and development additionality and invite activity-level reporting on additionality type (financial, value or both) in combination with additionality description and a description of the development objective. Reporting on additionality is critical not only for demonstrating the ODA eligibility of PSI, but also for communicating members' approaches to building local markets free of market-distortive tendencies.

2. In line with principles v, x and xi of the 2016 HLM Communiqué, additionality of PSI is considered at two levels, notably:

a. In the context of the ODA-eligibility assessment of members' PSI vehicles, concerning the mechanisms used to assess additionality (see Annex 24); and

b. For each individual PSI activity.

1.1. Streamlined DAC definition of additionality

3. Members use a unique definition of additionality in the context of DAC statistics. This definition makes a distinction between financial, value and development additionality.

4. For a PSI activity to be ODA-eligible, it must be additional financially or in value, together with its development additionality (see Box 1).

1.2. Strengthened reporting requirements on additionality in CRS and related safeguards

5. Details on additionality of individual PSI activities are reported through the following CRS fields (see also section 6.1 of Annex 25):

a. "Additionality type", using a standardised classification facilitating reporting on additionality in a way that is streamlined, comparable and easy to analyse. The categories are included in Table 1.

b. “Additionality description”, providing clarifications or complementary explanations on the additionality type.

c. “Additionality - Development objective”, to demonstrate the development additionality of individual PSI activities, particularly their intended development impact.

6. Reporting on the additionality type and development objective is required for all individual PSI activities of PSI vehicles reported in the context of ODA. Multiple additionality types can be reported for each activity. Reporting on additionality description is required for PSI activities reported as conveying:

a. Value and development additionality (but not financial additionality); or

b. Additionality type “Other, please specify” (see Table 1).

7. See also chapter 5.III. of these Directives for comprehensive instructions for CRS++ item-level reporting.

Box 1. Streamlined definition of additionality for reporting of PSI in ODA

The DAC statistics distinguish between three types of additionality: “financial additionality”, “value additionality” and “development additionality”. Financial and value additionality seek to avoid market distortions. **For a PSI activity to be ODA-eligible, it must be additional financially or in value, together with its development additionality.**

A PSI activity conveys

- **Financial additionality** in cases where private sector partners are unable to obtain financing from capital markets (local or international) for a specific activity at the necessary terms and/or scale, or where it mobilises finance from the private sector that would otherwise not have been invested.
- **Value additionality** in cases where the official sector provides or mobilises, alongside its investment, non-financial value to private sector partners that the capital markets would not offer and which will lead to better development outcomes. It is often pursued through investment conditionality, active ownerships (e.g. board participation), capacity building activities, advisory services and other technical assistance and other ways.
- **Development additionality** if it is intended to deliver development impact that would not have occurred without the partnership between the official and the private sector.

8. Additionality, regardless of type, will be demonstrated either through the additionality description field (for cases with value additionality and development additionality, or additionality type “Other, please specify”) or activity description field (for cases with financial additionality), or separate supporting documents submitted to the Secretariat as part of members’ CRS reporting.

9. Moreover, to promote ODA integrity, information reported on additionality of all PSI activities will be subject to special scrutiny by the Secretariat. This includes, among other things, cross-validation with project titles, descriptions and other types of qualitative data of the CRS template, and an analysis of additionality descriptions (see paragraphs 5-8). In this context, members may be requested to strengthen

the additionality description, activity description, and/or share additionality documents on specific PSI activities to demonstrate their additionality (and thereby also their ODA-eligibility).[7]

10. If details on additionality of individual PSI activities as outlined in paragraphs 6 and 8 have not been provided, reporting on additionality will be deemed incomplete and their ODA-eligibility thus not demonstrated. See section 3.2 for an ODA-integrity safeguard related to additionality.

1.3. DAC classification of additionality of PSI

11. To facilitate members' CRS reporting on additionality in a way that is streamlined, comparable and easy to analyse, the classification in Table 1 is used. While the classification facilitates members' transparency and the Secretariat's subsequent scrutiny on additionality (see paragraph 9), it remains strictly descriptive. For example, there can be a PSI allocated to an LDC that is additional only for its financial terms unavailable on the market (but not necessarily because it is allocated to an LDC).

12. As specified in paragraph 6, reporting on the additionality type is required for all individual PSI activities of PSI vehicles reported in the context of ODA.

Table 1. Classification of additionality types

Additionality category	Additionality code	Additionality type	Description
For any individual PSI activity reported in ODA, indicate whether it is considered additional as it:			
Financial additionality	11	Targets underserved geographies	This includes LICs, LDCs, SIDS or other high-risk or capital-constrained markets.
	12	Targets underserved sectors or segments	This includes high-risk or capital-constrained sectors of economic activity (or parts thereof), or underserved population groups.
	13	Conveys investment terms unavailable on the market	This includes both volume and qualitative aspects (e.g. currency, maturity, interest and/or fees, amortisation schedule, flexible collateral, return expectations etc.) to promote a project bankability. Anchor investments or investments that enable financial close are included here too.
	14	Mobilise private finance	This includes interventions that aim to mobilise private finance which would not have otherwise been invested.
Value additionality	21	Mitigate non-financial risks	This includes various country, regulatory, project, macroeconomic, political and other risks. The official sector may use its reputation, convening power or good relationship with authorities and/or the private sector in developing countries to mitigate such risks.
	22	Promotes pro-development business models	This includes various capacity-building activities that specifically aim to improve the business models of private sector partners to improve their development impact *beyond* the adoption of environmental, social and governance (ESG) standards.
	23	Promotes knowledge transfer and generation	This includes various capacity-building activities in support of in-house research and development (R&D), access to networks and associations, growth etc.
	99	Other, please specify	

1.4. Implementation

13. Members adopt the streamlined definition of additionality and implement the updated reporting framework on additionality in their data reporting starting in 2024 on activities in 2023, with a possible transition period of one or two years, depending on the instrument, as specified in Annex 25.

[7] In the context of members' reporting on individual PSI activities, demonstration of additionality involves the provision of transparent and comprehensive details on the outcomes of members' assessment of the additionality of individual PSI activities, using the streamlined definition of additionality in Box 1.

14. For activities committed prior to the implementation year, members may use the definition of additionality and related reporting requirements agreed upon in the context of the provisional reporting methods.[8]

1.5. Review

15. As further outlined in section 5, members will review the DAC definition of additionality and related reporting requirements in 2030. This also includes the classification of additionality types in Table 1.

2. Reporting requirements and data disclosure

2.1. One system, one set of rules

16. The 2016 HLM Principles were designed with the understanding that the institutional setups of members' PSI mechanisms and the characteristics of employed financial instruments are largely comparable across all members. Most DFIs and other PSI vehicles benefit from regular capital increases, provide financial services to the private sector on terms that are close to the market, make profits and reinvest them, and may be asked to transfer parts of their capital back to the government. Some PSI vehicles may also emit dividends to their owners/shareholders (see Figure 1).

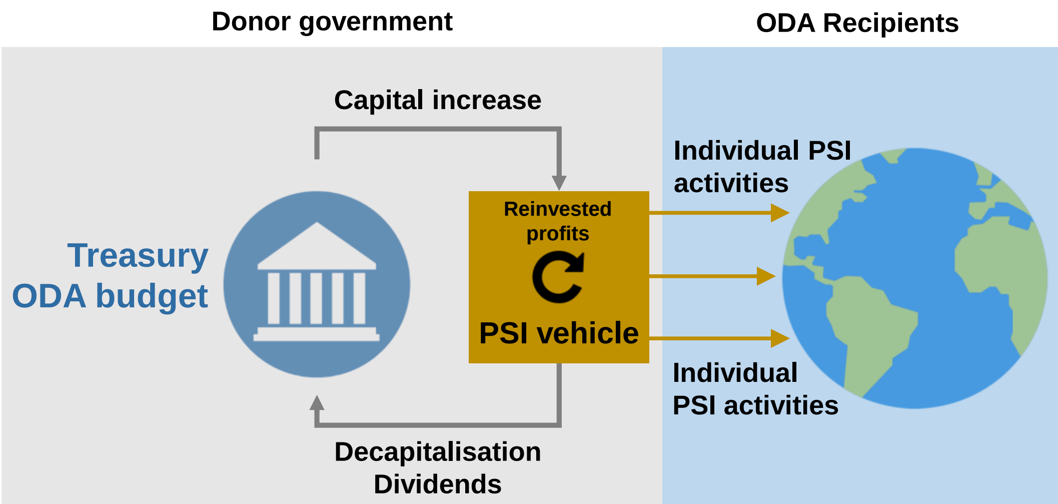
17. In this vein, the 2016 HLM Principles put forward requirements that are equal across all members that choose to report donor effort in PSI in ODA, whatever the approach (institutional or instrument). Principles iii, vii, xiii and xiv require that all such members

a. Assess the ODA-eligibility of their PSI vehicles (see Annex 24),

b. Report comprehensive data on PSI (see section 2.4) and

c. Agree to disclose their data on PSI in DAC statistics following a unique set of rules (see section 2.5).

Figure 1. A single PSI system



18. Overall, principles i, ii, iv, viii and xiii instruct that the effort of the official sector in providing PSI is counted as ODA, while the financial flows themselves are tracked separately. Two different approaches

[8] See enhancement v. of the provisional reporting methods [DCD/DAC/STAT(2023)9/ADD3/FINAL].

co-exist for reporting and members decide which approach they apply in their ODA accounting on individual PSI vehicles, with the other being reported for memorandum to build transparency and allow for monitoring.

2.2. Two points of measurement of donor effort

19. In pursuit of a more comparable and fit-for-purpose measurement of ODA, through the 2014 HLM Communiqué, members agreed to measure their donor effort in sovereign loans on a grant equivalent basis.[9] The 2016 HLM Principles explicitly extend this rationale to PSI.

20. In this context, principles ii, iv, vi and xii establish a measurement of donor effort at two distinct points of the PSI system (see Figure 1), namely:

a. **Transfer of capital to PSI vehicles**. Donor effort in such intra-governmental transfers takes into account the ODA coefficient established as part of the ODA-eligibility assessment (see Annex 24) as well as reflows to the donor government (i.e. decapitalisations and dividends paid to the government).

b. **Individual PSI activities**. Donor effort in individual PSI activities is expressed through their grant equivalents, calculated using instrument-specific methods (see Annex 25).

2.3. Two reporting approaches

21. Members choose one of the points of measurement in section 2.2 for ODA accounting purposes and report the other for memorandum to promote transparency and allow for monitoring of comparability (principle xiii). In this context,

a. Measurement of ODA donor effort at the point of capital increases is referred to as the "**institutional approach**";

b. Measurement of ODA donor effort at the point of individual PSI activities is referred to as the "**instrument approach**".

22. Under both approaches, decapitalisations of PSI vehicles and dividends paid to the government constitute reverse (negative) donor effort and enter in ODA grant equivalent calculation, provided the concerned PSI vehicles benefitted from at least one capital increase counted in ODA (see principles ii, vii).

23. For individual PSI vehicles, members may use only one reporting approach at time (principle ii), but may switch from one to the other (principles ii and xiii). This change of the point of measurement of ODA donor effort is, however, subject to a specific mechanism outlined in section 3.1.

2.4. Reporting requirements

24. In line with principle xiii of the 2016 HLM Communiqué, the same reporting requirements apply to all members reporting PSI in ODA, under the instrument and institutional approach. Members report:

a. **Donor effort**, including

    i. **Intra-governmental transfers**, i.e. capital increases and decapitalisations of PSI vehicles and dividends paid to the government

[9] See paragraph 10 of the 2014 HLM Communiqué [DCD/DAC(2014)69/FINAL].

(counted in ODA for institutional approach, and reported for memorandum under the instrument approach)[10];

ii. **Grant equivalents of individual PSI activities** (counted in ODA for instrument approach and reported for memorandum under the institutional approach);

b. **Cash flows** of individual PSI activities.

25. An overview of CRS reporting requirements is included in section 6.1 of Annex 25. It also includes an example of reporting on intra-governmental transfers and individual PSI activities. Furthermore, see also chapter 5.III. of these Directives for comprehensive instructions for CRS++ item-level reporting.

2.5. Data disclosure rules

26. In line with principle xiv, the same data items are published for all members that report PSI in ODA, under both the instrument and institutional approaches, using a unique set of disclosure rules:

a. There is no restriction to data disclosure on capital increases, decapitalisations and dividends paid to the government, noting these are reportable as annual aggregates.

b. Data on individual PSI activities will be disclosed according to relevant instrument-specific rules (see Annex 25 as well as chapter 5.I. of these Directives).

27. PSI data will be published through the DAC aggregate tables and the Creditor Reporting System (CRS).

2.6. Implementation

28. The reporting arrangement based on two points of measurement, using two reporting approaches and one set of reporting requirements and data disclosure rules will be implemented in 2024 on activities in 2023, with a possible transition period of one or two years, depending on the instrument, as specified in Annex 25.

29. During the transition period, the provisional reporting methods, including the related data disclosure rules, will continue to govern members' reporting on PSI.[11] The revised reporting arrangement has no retroactive effect.

3. Safeguards

3.1. Switching reporting approaches and the lock-in mechanism

30. As provided for in principles ii and xiii, members may change the approach for measuring donor effort in PSI. Specific provisions are, however, necessary to avoid ODA inflation through double counting of effort, and thus to protect the credibility of ODA. A lock-in mechanism is also necessary to ensure the comparability of members' reporting over time and in the context of the ODA-integrity safeguards related to essential data on PSI (see section 3.2).

[10] As stated in paragraph 22, decapitalisations and dividends paid to the government are counted as negative ODA grant equivalents for PSI vehicles which benefitted from at least one capital increase counted in ODA.

[11] See the provisional reporting methods [DCD/DAC/STAT(2023)9/ADD3/FINAL].

3.1.1. From the instrument to the institutional approach

31. When switching from the instrument to the institutional approach, members will notify the Secretariat prior to the submission of their annual Advance Questionnaire for the switching year.

32. Concerning PSI vehicles that extend equity, preferred equity and reflow-based reimbursable grants, the switch from the instrument to the institutional approach will be implemented with the transparency provisions described under the mechanism for changing the reporting method for equities (see section 3.4.5 of Annex 25).[12] This is necessary to avoid potential repetitive cancellations of outstanding equity portfolios from ODA accounting. For the same reason, should members wish to switch *back* to the instrument approach afterwards (see the lock-in mechanism below), their donor effort in the abovementioned instruments will be measured using the ex-ante method.

3.1.2. From the institutional to the instrument approach: lock-in mechanism

33. When switching from the institutional to the instrument approach, a lock-in period needs to be defined, during which the reporting approach may not be changed to avoid double counting of effort in ODA.[13]

34. The lock-in period is defined as the time span over which the two approaches have resulted in comparable donor effort. The lock-in period ends when the cumulative donor effort in (grant equivalents of) individual PSI activities since the first ODA capital increase has exceeded the cumulative donor effort in capital increases. This comparison of donor effort is made in constant prices.[14]

35. The switch may be effectuated in the first year after the end of the lock-in period. For example, if the cumulative grant equivalents of individual activities exceed the cumulative value of ODA capital increases in 2028, the switch can be implemented as part of reporting in 2030 on activities in 2029 (see Box 2 for an illustrative example).

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[12] These transparency provisions, copied for ease of reference here, include:

a. Members first notify the Secretariat prior to the submission of their annual Advance Questionnaire for the year of the switch.

b. From the year of the switch onwards, reflows on equities committed prior to that year will no longer be counted as negative ODA, given the profound change in the accounting method, including point of measurement of donor effort. In this context, members will communicate to the Secretariat, as part of their Advance Questionnaire, an aggregate figure concerning equities that will no longer be counted in ODA due to the methodological change. In the interest of transparency, this information will be included in the ODA press release on the year of the switch.

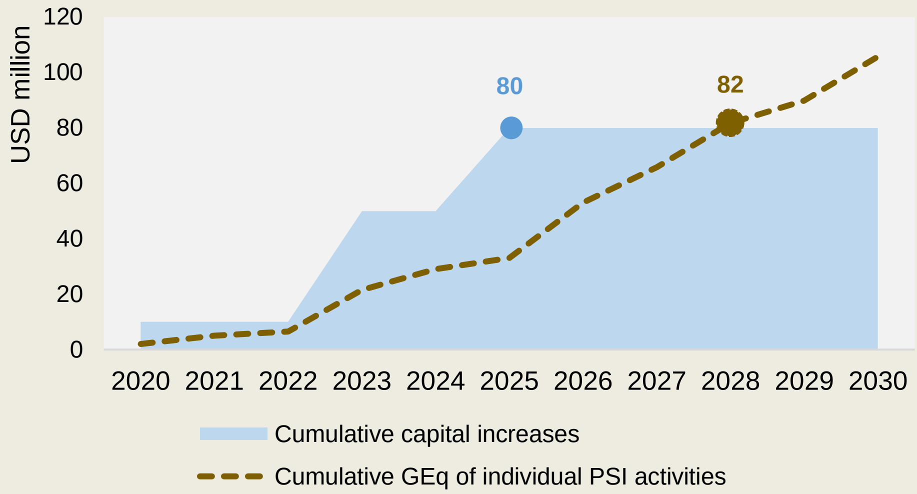
[13] See DCD/DAC/STAT(2016)15/REV1 for more details and past considerations on the lock-in mechanism.

[14] Concerning equity, preferred equity and reflow-based reimbursable grants, the lock-in period calculation can only be made using the ex-ante method.

Box 2. Example of a lock-in period

A donor government decided to increase the capital of its PSI vehicle with USD 70 million during 2023-25. The vehicle received USD 40 million in 2023 and USD 30 million in 2025 from the donor ODA budget. The vehicle had previously been capitalised with ODA funds in 2020 (USD 10 million). Overall, in 2025, the cumulative capital increases reported in ODA over time total at USD 80 million.

Figure 2. Lock-in period: 2020-28



In 2028, the cumulative grant equivalents of individual PSI activities of that vehicle since 2020 (first capital increase) exceed the cumulative volume of ODA capital increases. The end year of the lock-in period is thus 2028. The donor may switch to the instrument approach in the context of its reporting in 2030 on activities in 2029.

Note: This example is in current prices for the reason of a simple presentation.

Activation of the lock-in mechanism

36. Members who wish to switch from the institutional to the instrument approach will notify the Secretariat ideally one year prior to and in any case well before the submission of their annual Advance Questionnaire for the switching year.

37. Members that wish to switch to the instrument approach will provide the Secretariat with detailed calculation of the lock-in period, including an overview of relevant capital increases and grant equivalents of individual PSI activities.[15] See below for treatment of PSI before the implementation of the revised methods.

38. The switch may only be effectuated upon Secretariat's verification and validation of members' calculation of the lock-in period (see section 3.1.2).

[15] Details on the calculation can be provided through a reference to relevant CRS data (if those are complete), including details on grant equivalents calculated according to the revised methods (see Annex 25).

Treatment of PSI extended prior to the implementation of the revised methods for PSI

39. As a general rule, the calculation of the lock-in period takes into account capital increases made from 2018 onwards, as this is the year of the implementation of grant equivalent accounting in the DAC statistics as well as the implementation of the provisional reporting methods.

40. Grant equivalents of individual PSI activities for the period from 2018 until the implementation of the revised methods in 2024-25 are calculated retroactively based on financial details of individual activities (all instruments), using the instrument-specific methods (see Annex 25). Should such activity-level financial details be unavailable, the Secretariat will suggest possible ways for overcoming the data gaps.

3.2. ODA-integrity safeguards related to essential data on PSI

41. This section outlines two safeguards to promote comparability of members' data reporting and to incentivise provision of essential PSI data items, i.e. additionality and grant equivalents (with related financial details).

3.2.1. Safeguard on additionality and grant equivalents

42. The 2016 HLM Communiqué acknowledges the particular nature of PSI in the context of ODA due to the limited concessionality of the underlying activities and their mostly for-profit orientation. To allow members to demonstrate the ODA-eligibility of their PSI in ODA, the principle xi puts forward specific criteria and requirements in this area, notably detailed reporting on additionality. Hence, the Secretariat can only warranty the ODA status of members' individual PSI activities if their additionality has been demonstrated through relevant CRS fields, irrespective of the approach used (see also section 1.2).

43. Furthermore, the statistical framework for measuring donor effort in PSI functions with the understanding that both approaches generate comparable levels of ODA over time. To allow for monitoring of this critical premise and to ensure equal reporting requirements among all members, the Secretariat can only warranty the ODA status of members' individual PSI activities if data on individual PSI activities have been provided with all information necessary for calculating grant equivalents, irrespective of the approach used (see Annex 25).

44. See section 3.2.2 on a remedial adjustment of ODA donor effort if members do not report on additionality or grant equivalents of individual PSI activities, including related financial details to verify the grant equivalent calculation.

3.2.2. Remedial adjustment to ODA donor effort

45. The remedial adjustment to ODA donor effort is a last-resort safeguard to promote comparability in members' reporting under both approaches and to ensure that ODA-eligibility of members' PSI is demonstrated in a complete and transparent manner. It is thus only used in the event of non-provision of data items that are essential in the context of PSI. The remedial adjustment is per definition a downward adjustment.

46. Should members' CRS data reporting on additionality or grant equivalents and related financial details (see section 3.2.1) be incomplete, the Secretariat will request the missing data items as part of the regular data quality feedback rounds following the standard annual reporting cycle. If the requested data items, or a comprehensive explanation of extenuating circumstances,[16] have not been provided during a

[16] In their explanation of extenuating circumstances, members clearly explain the exceptional nature of the events that prevent them from providing the required information, accompanied with a timeline for filling the data gap. Should this timeline not be met, the remedial adjustment will be applied. In the interest of transparency, the explanation of extenuating circumstances will be included in the biennial report (see section 4.1).

period of three months following the request, a remedial adjustment will be introduced in ODA donor effort (ODA grant equivalents). A remedial adjustment is also applied to PSI activities for which additionality has not been demonstrated as described in section 1.2.

47. If applicable, the remedial adjustments will be applied as follows:

a. Under the instrument approach, PSI activities with incomplete essential data items are disqualified from ODA donor effort. Accordingly, grant equivalents of concerned activities are not recorded in ODA.

b. Under the institutional approach, a negative entry is recorded in the ODA grant equivalent field under the reporting year for which PSI activities are reported with incomplete essential data items.

48. If applicable, remedial adjustments will be considered and thoroughly explained in the biennial reports (see section 4.1).

Mechanism for valuing the remedial adjustment under the institutional approach and ensuring comparability between the institutional and instrument approaches

49. While the remedial adjustment is rather straightforward to apply under the instrument approach, this process may be rather complex under the institutional approach. Particular attention thus needs to be paid to ensuring comparability between both reporting approaches. In this context, under the institutional approach:

a. The remedial adjustment may only be applicable to vehicles that:

   i. Have received, after the implementation of the revised methods for PSI, at least one capital increase included in ODA donor effort.

   ii. Operate within the lock-in period (see section 3.1.2), during which donor effort in individual PSI activities relates to capital increases counted in ODA.

b. Furthermore, under the institutional approach, the value of the remedial adjustment will be calculated, depending on the reported information, as follows:

   i. If data on grant equivalents are provided, the value of the remedial adjustment corresponds to the sum of grant equivalents of the concerned activities.

   ii. If data on grant equivalents are not provided, the value of the remedial adjustment is estimated based on grant elements reported by the concerned member in previous years. If such historical data are not available, instrument-specific DAC average grant elements are used instead.

   iii. If no data are provided for a given year, the downward adjustment corresponds to the ODA donor effort in the last capital increase.

c. In any case, the value of the remedial adjustment may not exceed the cumulative sum of capital increases included in ODA donor effort since 2018 (see paragraph 39).

3.2.3. Implementation

50. The safeguards on additionality and grant equivalents will be implemented in 2026 reporting on activities in 2025, i.e. after members' implementation of the revised methods (see Annex 25). This extended timeline is aimed at facilitating members' learning.

4. Monitoring mechanism

4.1. Biennial report

51. To ensure the credibility of ODA reporting on PSI, the HLM principle xv seeks a regular (biennial) report covering both quantitative and qualitative aspects of members' PSI.

52. In relation to members' methodological deliberations on individual instruments, the biennial report will summarise the outcomes of:

a. A joint analysis by the DAC and ECG Secretariats to address concerns expressed about blurring the lines between export credits and PSI.[17]

b. An analysis by the DAC Secretariat of the geographic, recipient income group, sectoral, thematic characteristics and additionality of all PSI reported in ODA to address concerns expressed about ODA integrity and effectiveness.[18]

53. Moreover, the report will include:

a. Overview and comparison of donor effort (grant equivalents) and net disbursements of PSI activities reported in ODA by member, PSI vehicle and financial instrument. Special attention will be paid to the share of PSI donor effort in individual members' total ODA.

b. Assessment of the quality and comprehensiveness of PSI data reported in ODA by individual members using either reporting approach, including both the intra-governmental transfers and individual PSI activities. For individual PSI activities, this also includes detailed data on reflows and information on additionality.

c. Assessment of the comparability of members' reporting of PSI in ODA under the instrument and institutional approaches over time.

d. For equities, the Secretariat's assessment of the comparability of the ex-ante and ex-post methods. The first assessment will feed into the 2030 review (see paragraphs 63-64). Subsequent assessments will be carried out once every four to six years with outcomes presented in biennial reports.

e. An estimation of reinvested profits of individual PSI vehicles, taking into account capital increases, gross disbursements, capital reflows and other service payments.

f. If applicable, a comprehensive explanation of remedial adjustments to ODA donor effort or explanations of extenuating circumstances in the context of the ODA-integrity safeguards on additionality and grant equivalents (see section 3.2).

[17] The contribution of the ECG Secretariat is subject to the finalisation of a working arrangement, including financing, between DAC and ECG Secretariats on future monitoring of PSI.

[18] See instrument-specific safeguards in Annex 25.

g. For PSI vehicles reported under either approach, the relation between capital increases, donor effort, and reinvested profits will be assessed in constant prices, using the revised reporting methods for PSI (see section 2 for reporting on PSI intra-governmental transfers and Annex 25 for grant equivalent methods of individual PSI activities). This assessment will be carried out once every four years, and will be based on robust evidence.

h. Analysis of average uses of portfolio guarantees (see section 2.8 of Annex 25).

54. The report will be issued as unclassified, discussed by the WP-STAT and presented to the DAC, and the ECG for information. Should the report identify competition or other issues pertaining to ODA integrity or effectiveness, the DAC will be invited to address them in a subsequent discussion. In case the report unveils competition issues, the ECG Secretariat will be invited to take part in the deliberations too.

55. The WP-STAT will use the findings presented in the biennial report to review and, if agreed, revise relevant aspects of the directives on private sector instruments (see section 5).

56. The biennial reports may also suggest members' discussion on the need for minimum standards and disciplines for PSI (principle xv). If members so decide, this may also involve the ECG and its Secretariat.

57. The first biennial report is expected to be produced in 2026, i.e. the year after the transition period for implementing instrument-specific methods (see Annex 25).

5. Review mechanism

58. HLM Principle viii introduced the need for reviewing the PSI framework. In this vein, the WP-STAT will review the outcomes of the biennial reports and, if agreed, revise relevant aspects of the updated reporting methods for PSI. Comparability of the reporting approaches and grant equivalent methods will be of particular importance in the context of the review to preserve ODA integrity.

59. Moreover, members will duly review the methods for the treatment of equities in 2030 (see section 5.1 below). As regards surcharge components of the discount rates for equities, this assessment will be carried out once every four to six years (see section 3.9 of Annex 25). This assessment will be informed, among other things, by an analysis of PSI cash flows.

60. In 2030, members will also review the DAC definition and reporting requirements on additionality (see section 5.1).

61. Potential adjustments to any part of the PSI framework resulting from the reviews outlined in paragraphs 58-60 will be subject to an approval by the WP-STAT and the DAC.

5.1. Review in 2030

62. In 2030, members will review the method for the treatment of equities (see section 3 of Annex 25) as well as the DAC definition of additionality and related reporting requirements (see section 1 of this Annex).

5.1.1. Review of the treatment of equities

63. Members will duly review the methods for the treatment of equities in 2030. Building upon the biennial reports (see section 4.1 and especially paragraph 53.d) and supported by the Secretariat's analysis of the collected data on equities, the review will consider in particular the accuracy and comparability of the ex-ante and ex-post methods. Outcomes of the review will be shared with members.

Depending on the outcomes of the review, revisions to relevant parts of the methodology will be proposed for members' consideration. Should the review outcomes unveil limited comparability of the ex-ante and ex-post methods and/or artificial inflation of ODA, revisions will be proposed to enhance consistency in the measurement of donor effort in equities.

64. The assessment of the comparability of the ex-ante and ex-post reporting methods will be based on robust evidence. This includes an assessment of the cap on discounted reflows under the ex-post method, where members reporting under this method would also be required to share to the Secretariat the reflows beyond the cap.

5.1.2. Review of the DAC definition of additionality and related reporting requirements

65. Members will duly review the DAC definition of additionality and related reporting requirements. This also includes the classification of additionality types in Table 1. Building upon the biennial reports (see section 4.1) and supported by the Secretariat's analysis of the collected data on PSI, the review will consider the capacity of the methods to demonstrate the ODA characteristics of PSI, particularly for activities reported as conveying value and development additionality (but not financial additionality). Depending on the outcomes of the review, revisions to relevant parts of the methodology will be proposed for members' consideration.

6. Other considerations

6.1. Reporting on supplementary CRS items

66. As for any activity reported in the ODA grant equivalent measure, members are expected to report on all relevant qualitative fields of the CRS++ template. This includes, among other things, expected starting and completion dates, policy objective markers and keywords as well as type of blended finance. The CRS description field is used to communicate various characteristics of individual PSI, such as channel residence or instrument details not captured through the used classifications and codes. See also chapter 5.III. of these Directives for comprehensive instructions for CRS++ item-level reporting.

6.2. Untying of PSI

67. Over the last few years, DAC members and CSOs have stressed the need for a thorough discussion on PSI in the context of untying. Since untying is not an ODA-eligibility criterion for PSI, it is proposed to address this topic as part of members' review on modernising the reporting and implementation framework of the DAC Untying Recommendation [see DCD/DAC(2022)59] to ensure maximum synergies and cross-fertilisation of ideas. The review is expected to address the risks of possible increasing levels of tied aid in the context of PSI.[19]

6.3. Online table on PSI

68. Resources permitting, a new online data table with all types of PSI data (PSI intra-governmental transfers, cash flows and grant equivalents of PSI) in a downloadable format will be developed in OECD Data Explorer.

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[19] Enhancement vii of the provisional reporting methods for PSI [see DCD/DAC/STAT(2023)9/ADD3/FINAL] states that "Members will continue consultations in Phase 2 with ECG/Participants on competition and trade-related issues (subject to agreement by ECG/Participants)".

6.4. Development Co-operation Report provider profiles

69. Resources permitting, the provider profiles of the Development Co-operation Report (DCR) will include a section dedicated to PSI. It will offer a brief overview of the main trends on PSI, including

a. Total ODA donor effort scored by PSI;

b. Volumes of capital increases and other intra-governmental transfers over time;

c. Sums of grant equivalents and net disbursements of individual PSI activities;

d. Average grant elements of individual instruments (loans to the private sector, guarantees, equities mezzanine finance etc.) broken down by DAC income group;

e. DAC income group distribution of PSI gross disbursements;

f. Gross disbursements and reflows per financial instrument, noting that loan principal/equity sales would be presented separately from interest/dividends received.

6.5. Treatment of PSI beyond ODA

70. Some providers choose not to report their PSI in the ODA grant equivalent measure. It can also happen that some PSI vehicles will be assessed as not ODA-eligible as part of the ODA-eligibility assessment of PSI vehicles (see Annex 24). In this context,

a. In the interest of transparency, members strive to report outflows from such PSI vehicles. See chapter 1.I. of these Directives for more details on the scope of resource flows covered by DAC statistics.

b. Reporting on additionality, financial terms and conditions, channels and other descriptive pieces of information is strongly encouraged but optional. Donor effort in relation to such vehicles is not reportable in ODA. Data on intra-governmental transfers and grant equivalents of individual activities are not required for PSI beyond ODA.

c. Rules for data disclosure pertaining to PSI activities beyond ODA are identical to those reported in ODA.

7. CRS reporting guidance

71. The following lines provide guidance for members' reporting on PSI in CRS per type of PSI data (intra-governmental transfers, grant equivalents of individual PSI activities and cash flows) and more globally, using the CRS field "PSI flag" in combination with a new type of flow category. See section 6 of Annex 25 for illustrative examples of CRS reporting per type of PSI data under the institutional and instrument approaches.

72. See chapter 5.III. of these Directives and section 6.1 of Annex 25 for comprehensive instructions for CRS++ item-level reporting.

7.1. Type of flow for PSI

73. All types of PSI data (both cash flows and donor effort) are reported under the category of flows "60=Private sector instruments". This is needed to allow for members' reporting on all types of PSI data in a compact and comparable way, irrespective the reporting approach. Accordingly, categories "10=Official Development Assistance" and "21=Other Official Flows" are no longer used for reporting on PSI.

7.2. PSI flag

74. Members use the CRS field "PSI flag" to indicate which point of measurement of donor effort enters in ODA and which is reported for memorandum (i.e. which reporting approach is used). Moreover, it is used to indicate which accounting method is used for measuring donor effort in individual equity investments. The PSI flag is reported with the following values per reporting approach (see also Table 2).

7.2.1. Institutional approach

- 10=Capital increases or decapitalisations and dividends paid to the government that enter in ODA donor effort as grant equivalents. No cash flows (commitment, extended, received) are reported here.
- 40=Individual PSI activities with grant equivalents reported for memorandum and related cash flows.

7.2.2. Instrument approach

- 20=Individual PSI activities with grant equivalents that enter in ODA donor effort and related cash flows, using the instrument approach.[20]
- 10=Decapitalisations and dividends paid to the government that enter in ODA donor effort as grant equivalents. Under the instrument approach, this flag is used only in cases where the concerned PSI vehicle benefitted from one or more capital increases reported previously in ODA.
- 50=Capital increases or decapitalisations and dividends paid to the government reported for memorandum. This flag is used in the context of PSI vehicles, the capital increase(s) of which have not been reported in ODA.

75. Furthermore, under either approach, ex-ante measurement of donor effort in extending equities, preferred equities and reflow-based reimbursable grants is communicated using the PSI flag, assigning flags 21 or 41. Ex-post measurement is indicated through assigning codes 22 or 42 (see also Table 2).

Table 2. Revised CRS reporting instructions on PSI in ODA

	Commit-ment	Amount extended	Amount received*	Financial details	Grant equivalent	PSI flag, institutional approach	PSI flag, instrument approach	
A. Capital increases					YES	10	50	
B. Individual PSI activities	YES	YES	YES	YES	YES	40,41,42	20,21,22	
C. Decapitalisations					YES	10	10	50
D. Dividends					YES	10	10	50

Note: In the context of PSI, amount received includes received loan principal and proceeds from equity sales and equivalent capital reflows on other instruments. Financial details include received loan principal, dividends, guarantee fees and equivalent capital reflows on other instruments. ODA donor effort items are in **blue font**. Memorandum items are in **orange font**.

[20] Activities of ODA-eligible PSI vehicles reported under the instrument approach with donor effort (grant equivalent) at 0 are reported with PSI flags 20, 21 or 22 too.

7.3. Guidance per type of PSI data

7.3.1. Intra-governmental transfers

76. Intra-governmental transfers are reportable as aggregates by year, extending agency, capitalised PSI vehicle and financial instrument in combination with

a. A co-operation modality code “B05=intra-governmental transfers” (new);

b. No entries in the CRS volume fields, i.e. “commitment”, “amounts extended” and “amounts received”;

c. Unspecified entries in CRS fields on “recipient code” (998) and “purpose code” (99810).

77. Moreover, capital increases are reported as positive grant equivalents while decapitalisations and dividends paid to the government are reported as negative grant equivalents (provided the concerned PSI vehicles benefitted from at least one capital increase counted in ODA.[21]

78. Applicable PSI flags include 10 and 50 (see above).

7.3.2. Cash flows on individual PSI activities

79. Data on cash flows related to individual PSI activities are required. Members’ reporting on cash flows consists of details on commitments, disbursements and reflows (received loan principal and interest, proceeds from equity sales and dividends, received guarantee fees and equivalent reflows on other instruments).

80. Comprehensive reporting on reflows is necessary for monitoring PSI flows and donor effort ex post. It is also needed for calculating ex-post adjustments to the ex-ante measurement of donor effort in equities, preferred equities and reflow-based reimbursable grants.

7.3.3. Grant equivalents of individual PSI individual activities

81. Grant equivalents are reported for all ODA-eligible PSI activities. Related methods can be found in Annex 25.

82. Applicable PSI flags include 20, 21, 22 and 40, 41, 42 (see above).

7.4. Reporting on PSI beyond ODA

83. Individual PSI activities reported beyond ODA are reported in combination with a PSI flag “30= PSI activities for which donor effort is not measured ODA”, type of flow “60= Private sector instruments”. See also section 6.5.

[21] Since cash flows are not reported on intra-governmental transfers, it is no longer needed to offset ODA capital increases in OOF, contrary the provisional reporting methods.

Annex 24: ODA-eligibility assessment

1. 2016 HLM Principles

1. The general principles ix. and x. of the 2016 HLM Communiqué state in relation to the ODA-eligibility assessment that

> ix. The ODA-eligibility assessment will be carried out for all bilateral DFIs and, upon request, for other vehicles, using a common template. The Secretariat will undertake the necessary analysis and present a recommendation on ODA eligibility for consideration by the DAC or a body designated by the DAC. HLM follow-up: elaborate a proposal for the template.
>
> x. The assessment will be based on an examination of the DFI's mandate, project portfolio, investment strategy and due diligence mechanisms. It will consider the extent to which the institution allocates its finance to ODA-eligible countries, promoting the economic development and welfare of developing countries as its main objective. If necessary, i.e. if the institution is active also in non ODA-eligible countries and/or activity areas, the share of ODA-eligible activities in the institution's total portfolio will be estimated, to establish a coefficient for ODA reporting. Information on the institution's investment strategy and due diligence mechanisms will serve to assess additionality of the finance. HLM follow-up: develop a proposal for the assessment criteria.

2. Principle xi further sets reporting requirements on additionality of PSI at the activity level in the CRS, irrespective of the approach used (see section 1 of Annex 23).

2. Assessment procedure

2.1. Objective and ODA coefficient

3. The objective of the ODA-eligibility assessment of members' PSI vehicles is to:

   a. Assess the extent to which the vehicles' activities are ODA-eligible;
   b. Foster transparency and accountability;
   c. Promote peer learning;
   d. Demonstrate development focus as well as the due diligence and additionality mechanisms of members' PSI vehicles;
   e. Monitor comparability of the instrument and institutional approaches over time.

4. The extent to which members' PSI vehicles are ODA-eligible is expressed through the ODA coefficient. For any given PSI vehicle, the coefficient reflects the share of its disbursements to the private sector that are compliant with all three of the following criteria (nominator for the calculation) in the vehicle's total disbursements (denominator for the calculation, see Figure 3):

a. Allocated to countries and territories on the DAC List of ODA Recipients;[22]

b. Administered with the promotion of economic development and welfare of developing countries as their main objective;[23] and

c. Additional financially and/or in value, together with their development additionality.

Figure 3. Calculation of the ODA coefficient

$$\text{ODA coefficient} = \frac{\text{Disbursements to the private sector which are allocated to ODA Recipients, additional, and administered with a development motive}}{\text{All disbursements to the private sector}}$$

5. PSI disbursements that are not allocated to ODA Recipients, or that are not administered with the promotion of economic development and welfare of developing countries as their main objective, or that are not additional are not ODA-eligible.

6. Should PSI vehicles extend financing to the official sector[24], the reporting should be in compliance with relevant reporting directives. Accordingly, such financing should be excluded from the calculation of the ODA coefficient (see Figure 3).

2.2. PSI vehicle

7. The ODA-eligibility assessment will be carried out for all vehicles extending PSI which members report or consider reporting in ODA, irrespective of the reporting approach used. This encompasses all such vehicles that are formally part of the donor government, including members' development finance institutions (DFIs) as well as other vehicles, programmes and funds administered by or on behalf of the donor government. In this context,

a. For development agencies (other than DFIs) with specific PSI programmes, the assessment will only concern those programmes and the managing divisions/sections (and not the entire institution).

b. For PSI vehicles other than DFIs with annual disbursements of less than USD 50 million per year during three consecutive years, ODA-eligibility will be self-assessed by members themselves, unless advised otherwise by the member.[25] During a period of three years, if a significant number of PSI vehicles are self-assessed for one donor, the Secretariat will determine if remedial actions are needed and report back to the WP-STAT.

c. Private investment funds as well as blended finance funds and facilities administered by multilateral organisations (e.g. trust funds) are not subject to the

[22] In specific cases, this may also include activities extended through intermediaries in donor or third countries, provided the main objective of the financing is the promotion of economic development and welfare of ODA Recipients, and relevant due diligence has been carried out by the PSI vehicle.

[23] See chapter 2.II. of these Directives for specific rules on the ODA-eligibility of certain items.

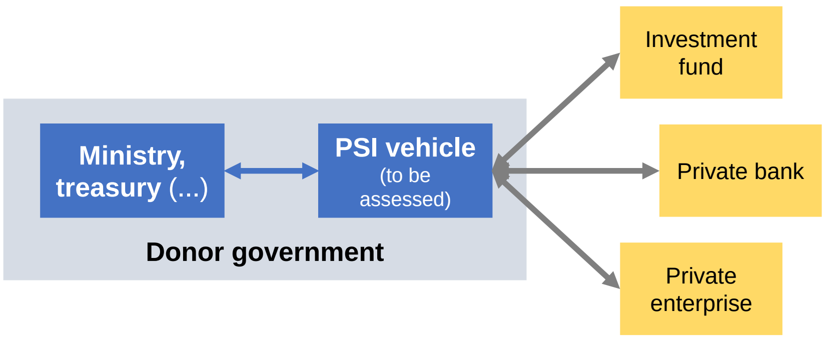
[24] See chapter 1.I. of these Directives for the definition of "official and private".

[25] The self-assessment will be conducted by members themselves in the spirit of the provisions outlined in this methodology and using the criteria listed in paragraph 4 and the template in section 3 of this Annex once every five years in line with paragraphs 11 and 13. The completed template, including scores, will be shared with the Secretariat for inclusion in the report described in section 2.4.3.

ODA-eligibility assessment provided for by the 2016 HLM principles. The ODA-eligibility status of members' investments to such vehicles is determined according to directives applicable to individual investments.

8. Donor effort in extending PSI concerning vehicles which have not been assessed on their ODA eligibility cannot be included in members' ODA reporting. While related activities are reported in the flow category for "Private Sector Instruments", their grant equivalents are not counted in the ODA grant equivalent measure. In any case, members are encouraged to report outflows from any PSI vehicle as TOSSD, provided they meet relevant sustainability criteria.

Figure 4. Illustration of a PSI vehicle



2.3. Assessment process and methodology

9. To strengthen the assessment procedure and align it with the 2016 HLM principles, the Secretariat assesses the ODA-eligibility of members' PSI vehicles.

10. The assessment will be based on information provided by members through the common assessment template (see section 3), CRS data reporting and, if needed, other sources of information, such as annual reports, financial statements, press releases etc.

11. The frequency of the assessment is described in paragraph 13.

12. The assessment remains valid until its next update.

2.4. Assessment steps

2.4.1. Completion of information sources

13. Members submit completed assessment templates to the Secretariat once every five years or upon request by the Secretariat or the DAC member itself. For newly capitalised or restructured vehicles, members will submit the completed template prior to the first reporting year.[26] As and when such vehicles have become operational, the Secretariat may request an updated assessment template to verify the vehicle's ODA-eligibility. The template is presented in section 3.

14. The common template primarily seeks the following inputs:

[26] Accordingly, assessments of such vehicles will be based on best available information *ex-ante*, such as mission statement, mandate, approved investment and development strategy and similar.

a. A breakdown of total disbursements to the private sector by the PSI vehicle, indicating the ODA-eligible share of these disbursements, complemented with additional methodological explanations and safeguards.

b. Qualitative inputs on the PSI vehicle's mandate, mission, ownership, development focus, impact, due diligence mechanisms and the additionality mechanisms in place.[27]

15. Members are expected to respond to all assessment questions of the template. If responses to certain questions cannot be provided, members will duly explain the reasons why it is so.

16. The Secretariat may also invite members on a bilateral basis to improve relevant CRS data to support the assessment.

17. Next steps of the assessment can only be started when the requested information has been provided.

18. The template also includes "info" questions which are not subject to the scoring and have no bearing to the assessment outcome. The information is requested in response to the transparency and accountability needs expressed by certain stakeholder communities and is intended to build trust and contribute to ODA integrity.

2.4.2. Secretariat's assessment

19. To assess the ODA-eligibility of members' PSI vehicles, the Secretariat will analyse the provided disbursement breakdown, information shared through the common template, CRS data reporting and, if needed, found in other sources (see paragraph 10). In particular, the Secretariat will evaluate the extent to which the available qualitative details support the ODA-eligible share of the disbursement breakdown.

20. The information shared through the common template will be analysed for each of the following three template sections: B. Mandate, mission and ownership, C. Development focus, impact and due diligence mechanisms, and D. Additionality mechanisms (see section 3), using a simple scoring system. Each of the three template sections contains several questions, the scores for which add up to 5 per section. The Secretariat will assign a maximum score for each assessment question if the provided information clearly answers the question (yes/no) or request, and thus demonstrates, as applicable, the PSI vehicle's development mandate and that genuine mechanisms for due diligence, development impact and additionality[28] are put in place to support the vehicles' daily operations.

21. The eligibility criteria on development objective and additionality (see paragraph 4) will have been considered verified if:

a. The sum of scores for each of the three template sections is 4 or 5; and

b. Where relevant, evidence reported through CRS data (e.g. additionality and development objective) further demonstrates compliance with the eligibility criteria.[29]

22. Accordingly, the ODA-eligibility will be considered not demonstrated if the sum of scores for any of the template sections is less than 4.

[27] Information on additionality mechanisms provided through the common template is complementary to (and does not replace) members' detailed reporting on the additionality of individual PSI activities in their CRS submissions.

[28] According to the 2016 HLM principle iii, additionality is a key ODA characteristic of PSI.

[29] This is only applicable to vehicles, the outflows of which have been reported through members' CRS submissions.

23. The Secretariat's assessment, including the ODA coefficient, will be shared bilaterally with individual members. Should the resulting ODA coefficient be lower than 100%, the Secretariat will provide detailed reasoning behind such conclusions. This may prompt a dialogue with individual members resulting in clarifications and potential qualitative improvements to the submitted template and/or CRS data, which may in turn affect the assessment outcomes. This dialogue and potential improvements to the template and/or CRS data will take no longer than three months.

24. Upon finalisation of the assessment, the Secretariat will present its findings to the WP-STAT for discussion.

2.4.3. Report

25. The Secretariat will present finding of the assessments and members' self-assessments, as applicable, in a report to the DAC once a year.[30]

26. The report will be shared with the ECG and its Secretariat for information purposes.

27. To foster transparency and accountability, the report will be published as unclassified. However, members will be given one month after the presentation of the report to the DAC to signal to the Secretariat if any sensitive information needs to be removed.

2.4.4. Possible second opinion and guidance by the DAC

28. Should a member not agree with the Secretariat's analysis of the ODA-eligibility of its PSI vehicle, a second opinion may be sought through a peer review in the context of the WP-STAT, involving at least one other member. Upon request and supported by the Secretariat, the peer reviewer will follow the assessment methodology outlined in this document and present the conclusions to the WP-STAT.

29. Should the member still disagree with the outcomes of the peer review, guidance will be sought from the DAC.

2.5. Implementation

30. The strengthened assessment procedure, using the streamlined and simplified template would be implemented in 2024 alongside members' reporting on 2023 ODA.

[30] See paragraphs 11 and 13 for the assessment frequency.

3. Template for the ODA-eligibility assessment

Basic identification details

Question	Question type	Max. score
1. Please provide the full official name of the institution, its abbreviation and year of establishment.	Info	n/a

A. Disbursement breakdown

Question	Question type	Max. score
2. Please indicate the ODA coefficient applied to the most recent capital increase of the PSI vehicle, if any (irrespective of the reporting approach used). How was it calculated?	Info	n/a
3. Using Table 1 below, please indicate the sum of annual disbursements for the last three years[31] which have been: a. Allocated to countries and territories on the DAC List of ODA Recipients;[32] and b. Administered with the promotion of economic development and welfare of developing countries as their main objective;[33] and c. Additional financially and/or in value, together with their development additionality.	Assessment	n/a
4. For the disbursements allocated to countries and territories on the DAC List of ODA Recipients (3.b), does the PSI vehicle maintain any mechanism(s) to ensure that finance allocated to multiple countries or to regions only targets ODA Recipients? If so, describe the mechanism(s). a. For newly established or restructured PSI vehicles, are there any safeguards put in place to ensure these ex-ante estimations are implemented de facto?	Assessment	n/a
5. If relevant, please describe the nature of finance provided by the PSI vehicle to official sector entities.	Info	n/a
6. If relevant, please describe the nature of finance provided in support of non ODA-eligible activities.	Info	n/a

[31] For newly established or restructured PSI vehicles, please provide ex-ante estimation of these disbursement totals based on relevant documents outlining the vehicle strategy, mandate and objectives.

[32] In specific cases, this may also include activities extended through intermediaries in donor or third countries, provided the main objective of the financing is the promotion of economic development and welfare of ODA Recipients, and relevant due diligence has been carried out by the PSI vehicle.

[33] See chapter 2.II. of these Directives for specific rules on the ODA-eligibility of certain items.

Table 3. Breakdown of annual disbursements of the PSI vehicles

	Administered with the promotion of economic development and welfare of developing countries as their main objective, and additional financially and/or in value, together with their development additionality	Other
Allocated to countries and territories on the DAC List of ODA Recipients		
Other		

B. Mandate, mission and ownership (max score: 5)

Question	Question type	Max. score
7. Do the PSI vehicles' statutes, mandate or mission statement clearly set the development purpose of the vehicle? If so, please explain how.	Assessment	1
a. Does the national government play a key role in setting up such development purpose of the PSI vehicle? If so, please explain how.	Assessment	1
b. Do the statutes, mandate or mission statement address the additionality and non-market distortive nature of the private sector instruments provided by the PSI vehicle, as well as its financial self-sustainability? If so, please explain how.	Assessment	1
8. Does the PSI vehicle maintain any mechanism(s) to ensure that the development objectives are pursued in effect? If so, please describe the main features of such mechanism(s).	Assessment	1
9. Is the PSI vehicle accountable for its development strategy to the government? If so, please describe how and to which government entities.	Assessment	1
10. Please describe the shareholding structure of the PSI vehicle, including capital shares per shareholders. If applicable, what is the rationale for diversified shareholding of the PSI vehicle?	Info	n/a
11. Does the PSI vehicle extend dividends? If so, please explain how these dividends are used by the donor shareholder.	Info	n/a

C. Development focus, impact and due diligence (max score: 5)

Question	Question type	Max. score
12. Does the investment strategy of the PSI vehicle promote the economic development and welfare of developing countries as the main objective at the level of individual activities? If so, please explain how.	Assessment	1
13. Does the PSI vehicle maintain any mechanism(s) to ensure that individual investments are aligned with the specific needs of individual recipient countries? If so, please describe the main features of such mechanism(s).	Assessment	1
14. Does the PSI vehicle maintain any mechanism(s) to actively promote the development impact of individual activities of the PSI vehicle? If so, please describe the main features of such mechanism(s).	Assessment	1

15. Is the development impact framework reviewed and kept up to date? If so, please explain how.	Assessment	1
16. Is the development impact of individual investments assessed ex-ante? Please describe the development impact assessment process.	Assessment	1
17. Please explain the rationale, modalities and scope of collaboration of the PSI vehicle with companies residing in donor or third countries.	Info	n/a
18. If relevant, what is the rationale behind channeling investments by the PSI vehicle through intermediaries in donor or third countries?	Info	n/a
19. What mechanisms are put in place to promote a de facto untied nature of the investment activities of the PSI vehicle?	Info	n/a

D. Additionality mechanisms (max score: 5)

Question	Question type	Max. score
20. Does the PSI vehicle maintain any mechanism(s) to ensure its activities are additional? If so, please describe the main features of such mechanism(s). Please also describe the methods in place to assess the financial and value additionality of individual investments.	Assessment	1
21. More specifically, does the additionality mechanism address potential market distortions? If so, please explain how.	Assessment	1
22. Does the PSI vehicle assess the commercial sustainability of its activities (and the viability of its investees)? If so, please describe the main features of such an assessment.	Assessment	1
23. Is the additionality framework reviewed and kept up to date? If so, please explain the main features of the review.	Assessment	1
25. Is the additionality of individual investments assessed ex-ante? Please describe the additionality assessment process over the investment lifetime.	Assessment	1
26. Please explain the rationale, modalities and scope of collaboration by the PSI vehicle with national and other export credit agencies.	Info	n/a

Annex 25: Treatment of individual private sector instruments

1. Loans to the private sector

1.1. 2016 HLM Principles

1. The general principle xii. of the 2016 HLM Communiqué states that

> Loans are counted on a grant equivalent basis. The discount rate for the grant element calculation will be differentiated by income group as in the 2014 DAC HLM agreement, in principle with an additional risk premium (see principle v) reflecting the fact that lending to private sector entities is generally more risky than lending to the official sector. HLM follow-up: elaborate i) a proposal for the risk premium (the additional risk premium could vary by income group) and ii) a recommendation on whether loans to the private sector should be exempted from a threshold or whether a technical threshold should be set (see principle v).

1.2. Eligibility

2. In the spirit of the HLM Communiqué and members' discussions to date as well as the general principles underpinning the DAC statistics, for loans to the private sector to be ODA-eligible, they need to be

a. Allocated to countries or territories on the DAC List of ODA Recipients;[34]

b. Administered with the promotion of economic development and welfare of developing countries as their main objective;

c. Additional financially, in value or both, combined with their development additionality (see Annex 23);

d. Of a maturity of more than one year.

1.3. Parameters and method

3. Donor effort in extending loans to the private sector is measured on a grant equivalent basis. Related grant elements are based on a mathematical assessment of the loan concessionality, comparing the loan nominal value (face value) and the sum of the discounted future debt-service payments (net present value) by the debtor to the creditor.

[34] In specific cases, this may also include loans channelled through private sector intermediaries in donor and third countries, provided the investments are clearly earmarked for activities in the countries and territories on the DAC List of ODA Recipients, and relevant due diligence has been carried out. See also section 1.6 for relevant safeguards.

4. The calculation of grant elements/equivalents of loans to the private sector is built upon that for sovereign loans, including the composition of the discount rates (see Table 4):

a. A base factor of 5% (IMF unified discount rate), representing the loan funding cost;

b. A risk-adjustment factor differentiated by DAC income group (4% for LDCs and other LICs, 2% for LMICs and 1% for UMICs), representing the country risk; and

c. A private sector surcharge differentiated by DAC income group (1% for LDCs and other LICs, 0.5% for LMICs and 0.1% for UMICs), representing the risk associated with providing loans to the private sector.

Table 4. Discount rate architecture for loans to the private sector

	LDCs and other LICs	LMICs	UMICs
Base factor	5%	5%	5%
Risk-adjustment factor	4%	2%	1%
Private sector surcharge	1%	0.5%	0.1%
Discount rate	**10%**	**7.5%**	**6.1%**

5. The technical grant element threshold for loans to the private sector is set to 0% as a means of acknowledging the limited relevance of a concessionality threshold for PSI and avoiding incentivising unnecessary subsidisation (see 2016 HLM principle v). It is also expected to help keep members' data reporting manageable.

6. The point of measurement for the donor effort in extending loans to the private sector is each individual loan disbursement, in line with members' ODA reporting for sovereign loans.

1.4. Reporting requirements

7. In the interest of transparency and comparability, reporting requirements and data disclosure rules for loans to the private sector are identical under both the instrument and institutional approach. In particular, the grant equivalent of individual PSI loans is also reportable, for memorandum, by members applying the institutional approach. This is required for comparing ODA figures across members following different reporting approaches (see HLM principle xiii).

8. Reporting requirements on loans to the private sector are identical to those on sovereign loans. Reporting on the additionality of individual loans is required too.

9. See chapter 5.III. of these Directives and section 6.1 of this Annex for comprehensive instructions for CRS++ item-level reporting.

1.5. Rules for data disclosure

10. In response to growing transparency needs, yet keeping in mind commercial sensitivities and potential legal restrictions related to engaging with the private sector, there is no restriction to data disclosure, under either reporting approach, with the exception of:

a. Interest rate, grace period (first repayment date) and arrears – these data items are not to be disclosed.

b. Received loan principal and interest per annum – these data are to be disclosed aggregated by donor, donor agency, type of finance and recipient.

11. For commitments and gross disbursements, channels of delivery as well as loan maturities (commitment and last repayment dates), repayment schedules (including number of repayments per annum), grant elements and grant equivalents are to be disclosed at activity level.

12. See chapter 5.I. of these Directives and section 6.1 of this Annex for more details on the data disclosure of private sector instruments.

1.6. Safeguards

13. The name of debtor institution is reported through the CRS field for channel of delivery.

14. For loans channelled through private intermediaries in donor or third countries, the country of residence of such channels is clearly stated in the description field of members' activity-level CRS reporting. A comprehensive explanation for the choice of such channels is provided through the CRS fields on development objective and additionality.

15. To address concerns expressed by some consulted stakeholder groups about blurring the lines between export credits and development loans to the private sector, the DAC and ECG Secretariats will carry out a joint analysis of relevant data biennially,[35] principally consisting of:

a. A comparison of the terms and conditions of development loans to the private sector and direct export credits in areas where such concerns are believed the most relevant, e.g. in the energy, transport and other infrastructure sectors;

b. An analysis of the additionality of relevant loans to the private sector and possibly other aspects.

16. In parallel, to address members' concerns about the ODA effectiveness in the context of PSI, the DAC Secretariat will carry out biennially a thorough analysis of the geographic, recipient income group, sectoral and thematic characteristics of all PSI, including loans to the private sector, reported in ODA under both the instrument and institutional approaches.

17. Findings from both analyses will be presented to the DAC as well as ECG in a dedicated report for information. Potential competition or other issues identified through this exercise will be addressed as part of subsequent DAC discussions.

18. The WP-STAT will use the outcomes of this analysis to review and, if agreed, revise relevant aspects of the directives on the treatment of loans to the private sector.

19. See Annex 23 for more details on monitoring and the biennial reporting in particular (section 4) and the review mechanism (section 5). See also section 3.2 of Annex 23 for ODA-integrity safeguard related to essential data on PSI.

1.7. Clarification on the choice of discount rates for multi-country agreements

20. For loans to intermediaries active in multiple ODA recipients or in cases where the exact allocation and beneficiaries is not specified at the time of commitment (e.g. credit lines and loans to collective investment vehicles), donor effort is measured using the discount rate of the DAC income group to which all, or a majority of targeted countries belong. For loans to regionally active intermediaries without further specification on individual recipient countries and/or territories, the prevalent income group within the region is used to determine the discount rate. It is further clarified that the country of residence of the intermediary channels has no bearing on the discount rates used for calculating donor effort.

[35] The contribution of the ECG Secretariat is subject to the finalisation of a working arrangement, including financing, between DAC and ECG Secretariats on future monitoring of PSI.

1.8. Other considerations

21. See section 4 of this Annex for the treatment of subordinated loans and section 5 for the treatment of loan-type of reimbursable grants.

22. The treatment of bonds and convertible debt will be discussed in the future upon finalisation of the review of the provisional reporting methods for private sector instruments. Pending the outcomes of this discussion, bonds and convertible debt will be considered on a case-by-case basis.

23. The discount rate architecture applicable to loans to the private sector has no bearing whatsoever on agreed principles, parameters and other aspects of the treatment of sovereign loans or any other instruments.

24. Comparability is a key feature of the DAC statistics. See section 4 of Annex 23 for mechanisms for monitoring the comparability of the instrument and institutional approaches.

1.9. Implementation

25. Reporting on the donor effort in extending loans to the private sector on a grant equivalent basis will be implemented as from members' 2024 reporting on flows in 2023. Members that are unable to implement these reporting methods in 2024 may use a transition period of one year during which the provisional reporting methods will continue to apply as regards ODA accounting and data disclosure.[36]

26. Upon request, data on loans to the private sector committed prior to the first implementation year (see paragraph 25) will be made available in line with the rules for data disclosure of provisional reporting methods for private sector instruments.

2. Guarantees

2.1. 2016 HLM Principles

27. The general principle xii. of the 2016 HLM Communiqué states that

> *Guarantees are counted on a grant equivalent basis, applying differentiated discount rates and, when appropriate, an additional risk premium for the private sector (see principle v). As guarantees are non-funded instruments, the discount rates will only take into account operating costs and risk adjustment factors (not the funding cost). HLM follow-up: work with DFIs to establish the relevant discount rates and the risk premia for the private sector. Also formalise the grant equivalent methodology to be applied on public guarantees, and on guarantees other than credit guarantees.*

2.2. Eligibility

28. In line with the spirit of the HLM Communiqué and members' discussions to date as well as the general principles underpinning the DAC statistics, for guarantees to be ODA-eligible, they need to be

a. Allocated to countries or territories on the DAC List of ODA Recipients;

b. Administered with the promotion of economic development and welfare of developing countries as their main objective (export credit guarantees are excluded from ODA);

[36] Paragraph 9B of the provisional reporting methods [see DCD/DAC/STAT(2023)9/ADD3/FINAL] states that "loans committed or disbursed in 2018 would be reported as ODA on a cash-flow basis (provided they had at least 25% concessionality (=threshold) calculated using a discount rate of 10%)." Moreover, "reflows from previous years' PSI would count as negative ODA (provided that the underlying transactions had initially been counted as ODA)".

c. Additional financially, in value or both, combined with their development additionality (see section 1 of Annex 23);

d. Of a maturity of more than one year.

2.3. Parameters and method

29. Donor effort in issuing guarantees is measured on a grant equivalent basis. Related grant elements are based on a mathematical assessment of the concessionality of the guarantee fee taking into account specific terms and conditions of the guarantee, such as maturity and exposure reduction.[37]

30. The method for calculating grant equivalents of guarantees uses that for loans as a basis and adapts it to the specificities of the guarantee instrument. The elements needed for the calculation comprise the guaranteed amount, guarantee maturity, guarantee exposure reduction schedule, guarantee fee rate and fee payment schedule, including payment frequency, and the guaranteed financial instrument.

31. In line with the HLM principles, the discount rate for guarantees is composed of the following factors (see Table 5):

a. A base factor representing the guarantor's operating cost (1%), including provisions;

b. A risk-adjustment factor differentiated by DAC income group (4% for LDCs and other LICs, 2% for LMICs and 1% for UMICs), representing the country risk; and

c. A surcharge representing the risk associated with issuing guarantees, differentiated by DAC income group and the guaranteed financial instrument as follows:[38]

   i. For guarantees on loans to the private sector (credit guarantees): 1% for LDCs and other LICs, 0.5% for LMICs and 0.1% for UMICs,

   ii. For guarantees on mezzanine finance instruments: 2.5% for LDCs and other LICs, 2% for LMICs and 1.6% for UMICs.

   iii. For guarantees on equity investments: 4% for LDCs and other LICs, 3.5% for LMICs and 3.1% for UMICs,

32. The technical grant element threshold for credit guarantees is set to 0% as a means of acknowledging the limited relevance of concessionality thresholds for PSI and avoiding incentivising unnecessary subsidisation (see 2016 HLM principle v). It is also expected to help keep members' data reporting manageable.

33. Donor effort in issuing guarantees is measured at their issuance stage.

34. The above method for calculating grant equivalents of guarantees concerns guarantees on loans and other instruments extended by private sector entities or local public institutions. Guarantees on loans extended by donors and multilateral organisations are not considered here (see also section 2.4).

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[37] Guarantee fee subsidies transferred to a dedicated reserve fund within the donor government structure are reportable in the ODA grant equivalent measure as capital contributions to PSI vehicles, following rules for the institutional approach.

[38] The surcharge for guarantees on loans to the private sector is aligned with that for loans to the private sector (see section 1 of this Annex). The surcharge for guarantees on equity investments is consistent with the equity surcharge (see section 3) and the surcharge for guarantees on mezzanine finance follows the surcharge for mezzanine finance instruments (see section 4). There is no surcharge for guarantees on loans to the official sector.

Table 5. Discount rate architecture for guarantees

		LDCs and other LICs	LMICs	UMICs
Base factor:		1%	1%	1%
Risk-adjustment factor:		4%	2%	1%
Surcharge:	Loans to the private sector	1%	0.5%	0.1%
	Mezzanine finance instruments	2.5%	2%	1.6%
	Equities	4%	3.5%	3.1%
Discount rate:	**Loans to the private sector**	**6%**	**3.5%**	**2.1%**
	Mezzanine finance instruments	**7.5%**	**5%**	**3.6%**
	Equities	**9%**	**6.5%**	**5.1%**

Note: It is further clarified that no surcharge is applicable to guarantees on loans to the official sector of developing countries.

2.4. Related methodological provisions

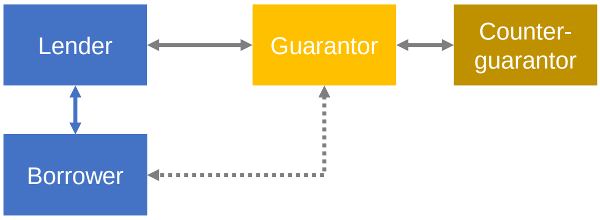
35. To avoid double counting of effort and risk, and to keep members' reporting simple to the extent possible, the following items are not reportable in ODA:

a. Effort in providing callable capital and other similar contingent liabilities supporting the core resources of multilateral development banks (MDBs) and other multilateral organisations. Pay-outs on called capital of multilateral organisations continue being treated according to existing directives on multilateral grants and capital subscriptions.

b. Effort in issuing counter-guarantees and reinsurance[39] on guarantees provided by other official providers. The official guarantor closest to the final beneficiary reports the donor effort in ODA (see also Figure 5).

c. Effort in issuing guarantees on donors' own loans. Donor effort of such loans is measured after the application of the guarantee (based on the terms and conditions of the loan after the application of the guarantee).[40]

Figure 5. Illustration of a counter-guarantee scheme



36. Effort in providing guarantees on loans extended by MDBs and other multilateral organisations is not reported as ODA when such guarantees are issued. When called, pay-outs to multilateral organisations on such guarantees continue being treated according to existing directives on multilateral grants and

[39] In the context of this methodology, counter-guarantees and reinsurance include arrangements where a guarantor passes part of the risk to another guarantor (see Figure 5).

[40] This treatment is similar to that of interest subsidies, see chapter 3.V. of these Directives.

capital subscriptions.[41] Members shall discuss the treatment of these types of guarantees in the future upon finalisation of their review of the provisional reporting methods for PSI.

37. Effort in issuing guarantees on loans extended by other donors will be discussed in the future.

2.5. Reporting requirements

38. In the interest of transparency and comparability, reporting requirements and data disclosure rules on credit guarantees are identical under both the instrument and institutional approach. In particular, the grant equivalents of individual PSI are also reportable, for memorandum, by members applying the institutional approach. This is required for comparing ODA figures across members following different reporting approaches (see principle xiii).

39. To be able to calculate grant equivalents of guarantees using the method outlined above, the following data are required in members' CRS reporting:

a. Guaranteed amount,

b. Guarantee issuance date,

c. Exposure reduction starting date (when the guaranteed amount starts decreasing, e.g. through repayment of the guaranteed asset),

d. Guarantee maturity date (when the guarantee service ceases to exist),

e. Guarantee fee rate, fee payment schedule and number of fee payments per annum.

40. Moreover, the guarantees financial instrument is communicated through the CRS field on type of finance.

41. Received guarantee fees is reportable for transparency purposes. All these data items will be integrated in the CRS reporting template, making use of existing data fields to the extent possible. Reporting on additionality is required too (see section 1 of Annex 23).

42. For monitoring of PSI on a cash-flow basis and in the interest of transparency, reporting on flows resulting from guarantee calls is required too. Grant equivalent of such flows are not calculated (see HLM principle i).

43. See chapter 5.III. of these Directives and section 6.1 of this Annex for comprehensive instructions for CRS++ item-level reporting.

2.6. Rules for data disclosure

44. In response to growing transparency needs, yet keeping in mind commercial sensitivities and potential legal restrictions related to engaging with the private sector, there is no restriction to data disclosure, with the exception of guarantee fee rates, guarantee exposure reduction schedule and arrears, using either approach. Channel of delivery as well as guarantee maturities (issuance and last guarantee maturity dates), number of fee payments per annum, grant elements and grant equivalents will be disclosed at the activity level. Received guarantee fees per annum will be disclosed aggregated by donor, donor agency, type of finance and recipient.

45. As regards flows resulting from activated guarantees, there is no restriction to data disclosure, noting that their financial terms and conditions are not required.

[41] Such inflows to multilateral organisations are treated as core contributions to multilateral organisations to avoid double counting at the level of total flows.

46. See chapter 5.I. of these Directives and section 6.1 of this Annex for more details on the data disclosure of private sector instruments.

2.7. Safeguards

47. The name of guaranteed institution is reported through the CRS field for channel of delivery. The channel code field then captures further characteristics of the guaranteed investor (e.g. type of private sector institution).

48. Moreover, to foster transparency and in the interest of ODA integrity, members are requested to use the CRS description fields (e.g. project title and description) to provide the following qualitative details:

a. Names of all the parties involved (e.g. as applicable and to the extent possible, names of guaranteed investor, investee, final beneficiaries etc.) and their country/territory of residence;

b. Type of agent covered by the guarantee (e.g. sovereign from a developing country, local private sector, foreign country private sector etc.);

c. Type of issued guarantees (e.g. individual loan guarantees, loan portfolio guarantees and counter-guarantees extended to private creditors).

d. Detail on the type of guarantee is also provided through the financial instrument (see Annex 10b).

49. To address concerns expressed by some consulted stakeholder groups about blurring the lines between export credit and development guarantees, the DAC and ECG Secretariats will carry out a joint analysis of relevant data biennially,[42] principally consisting of:

a. A comparison of the terms and conditions of development and export credit guarantees in areas where such concerns are believed to be the most present, e.g. in the energy, transport and other infrastructure sectors;

b. An analysis of the additionality of relevant credit guarantees and possibly other aspects.

50. In parallel, to address members' concerns about the ODA integrity and ODA effectiveness in the context of PSI, the DAC Secretariat will carry out biennially a thorough analysis of the geographic, recipient income group, sectoral and thematic characteristics of all PSI, including guarantees, reported in ODA under both the instrument and institutional approaches.

51. Findings from both analyses will be presented to the DAC as well as the ECG in a dedicated report for information. Potential competition or other issues identified through this exercise will be addressed as part of subsequent DAC discussions.

52. The WP-STAT will use the outcomes of this analysis to review and, if agreed, revise relevant aspects of the directives on the treatment of guarantees.

53. See section 4 of Annex 23 for more details on the monitoring mechanism and the biennial report in particular. See also section 3.2 of Annex 23 for ODA-integrity safeguard related to essential data on PSI.

[42] The contribution of the ECG Secretariat is subject to the finalisation of a working arrangement, including financing, between DAC and ECG Secretariats on future monitoring of PSI.

2.8. Clarification on the treatment of portfolio guarantees

54. Donor effort in issuing portfolio guarantees is measured using the same method as for credit guarantees.

55. The calculation of grant elements of portfolio guarantees involves the following two steps:

a. First, the grant element of a fully used portfolio guarantee is established (i.e. assuming no filling period and stable guarantee exposure from date of issuance to date of maturity).

b. Second, a coefficient reflecting the expected use of the portfolio guarantee is established and applied to the grant element obtained in step a.[43] The coefficient value is reported through a dedicated CRS field (new). This CRS item will be disclosed.

56. Discount rates are based on the geographic allocation of the guaranteed portfolio and the type of guaranteed assets (e.g. loans to the private sector, equities or mezzanine finance instruments). For mixed portfolios, it is recommended to use a rate of discount that is the most conservative.

57. Technical threshold used for portfolio guarantees is the same as for credit guarantees.

58. See section 6.3 for an illustrative example of a loan portfolio guarantee.

2.9. Clarification on the choice of discount rates for multi-country agreements

59. For guarantees covering assets allocated to multiple ODA recipients or in cases where the exact allocation and beneficiaries are not specified at the time of the guarantee issuance, donor effort is measured using the discount rate of the DAC income group to which all, or a majority of targeted countries belong. It is further clarified that the country of residence of the obligors has no bearing on the discount rates used for calculating donor effort.

2.10. Other considerations

60. The discount rate architecture applicable to guarantees has no bearing whatsoever on agreed principles, parameters and other aspects of the treatment of sovereign loans or any other instruments.

61. Comparability is a key feature of the DAC statistics. See section 4 of Annex 23 for mechanisms for monitoring the comparability of the instrument and institutional approaches.

2.11. Implementation

62. Reporting on the donor effort in issuing guarantees on a grant equivalent basis will be implemented as from members' 2024 reporting on flows in 2023. Members that are unable to implement these reporting methods in 2024 may use a transition period of one year during which the provisional reporting methods will continue to apply as regards ODA accounting[44] and data disclosure.

[43] The coefficient is calculated based on evidence on portfolio guarantees issued during ten years prior to the year of reporting on new portfolio guarantees. Should information to estimate the expected use of portfolio guarantees be unavailable, the Secretariat will provide, upon request, a coefficient calculated based on available data. In this context, if needed, the Secretariat will request relevant inputs for such a calculation from members that issue portfolio guarantees as part of their development finance. The coefficients used in members' reporting will be subject to the Secretariat's monitoring (see section 4 of Annex 23).

[44] Paragraph 9D of the provisional reporting methods [see DCD/DAC/STAT(2023)9/ADD3/FINAL] states that "due to the lack of agreement on the details of accounting for ODA eligibility of mezzanine finance and guarantees, such

3. Equities

3.1. 2016 HLM Principles

63. The general principle xii of the 2016 HLM Communiqué states that

> *Equity investments by DFIs or other vehicles in private sector entities in developing countries are counted on a grant equivalent basis ex post, i.e. they are initially counted at face value and their reflows discounted ex post, upon exit. The reflows will be discounted using differentiated discount rates by income group, applying a cap on reflows corresponding to the original investment. In specific cases and where enough information is available to estimate the reflows and risk undertaken, measurement will be on a grant equivalent basis calculated ex ante, adjusted ex post. HLM follow-up: work with DFIs to determine the appropriate discount rates for this calculation.*

64. Moreover, the general principle iv and the fourth paragraph of the principle xii consider equity investment in DFIs or other PSI vehicles.[45] These have been addressed in the context of the ODA-eligibility assessment of members' PSI vehicles (see Annex 24) and are therefore not covered by the treatment of equities presented here.

3.2. Scope

65. This methodology covers common equity, including investments in junior shares of enterprises, and shares/units in collective investment vehicles.[46]

66. See chapter 1.I. of these Directives for more details on the scope of resource flows covered in DAC statistics.

3.3. Eligibility

67. In the spirit of the HLM Communiqué and members' discussions to date as well as the general principles underpinning the DAC statistics, for equities to be ODA-eligible, they need to be:

a. Allocated to countries or territories on the DAC List of ODA Recipients;[47]

b. Administered with the promotion of economic development and welfare of developing countries as their main objective;

c. Additional financially, in value or both, combined with their development additionality (see section 1 of Annex 23).

3.4. Parameters and method

68. The 2016 HLM Communiqué puts forward two methods for measuring donor effort in equities: ex ante and ex post.

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instruments would not be included in ODA, except to the extent that guarantees are called and payments made in which case existing processes specify these payments are measured on a cash flow basis."

[45] "(…) equity investment in a DFI or other vehicle is treated as a sunk cost, initially counted in ODA at face value (applying an ODA coefficient if need be – see principle x), with reflows, if any, counted as negative ODA."

[46] The treatment of preferred equity is addressed in section 4 of this Annex. Reflow-based reimbursable grants are considered in section 5.

[47] This may also include equities invested in intermediaries, including collective investment vehicles, in donor and third countries, provided the main objective of the financing is the promotion of economic development and welfare of ODA Recipients, and relevant due diligence has been carried out by the PSI vehicle.

69. To promote consistency with the measurement of donor effort in other types of PSI and maximum comparability across PSI vehicles, members strive to measure their donor effort in extending equities on an ex-ante basis. In specific cases, ex-post method may be used (see also paragraph 114).

3.4.1. Members' key considerations

70. The key challenge in estimating donor effort in extending equities is the uncertainty in relation to their maturity and returns. In this context, and learning from data reporting to date, members' discussions have provided some additional methodological orientations for measuring donor effort in equities. Notably, the method for treating equities should:

a. Be practical and realistic in terms of data reporting requirements.

b. Provide incentives for deploying equity for development. While the method should recognise the risky nature of equity relative to mezzanine finance and loans, it should be agnostic about performance of individual investments ex post.

c. Be consistent with methods for the treatment of other private sector instruments. The calculation should be aligned with that for loans and it should recognise that donor effort in extending equities is higher than that in loans to the private sector due to higher risk.

d. Take into account restrictions related to commercially sensitive information at the level of individual investments (e.g. dividends and sales).

e. Promote predictability and facilitate members' planning of future ODA budgets, while overcoming the challenges posed by the highly fluctuating nature of equity returns.

f. Foster ODA integrity and effectiveness. The methods should incentivise resource flows to the countries that need them the most and local private sector development. Discount rates should be realistic without inflating ODA figures.

3.4.2. Ex-ante method

71. Based on the 2016 HLM Principles and in response to members' key considerations presented in section 3.4.1 above, this method is designed, among other things, to:

a. Reward the risk taken by donors in extending equities in developing countries, and

b. Overcome commercial sensitivities by working with portfolio-level averages (as opposed to investment-specific details, e.g. on returns, sales, dividends and maturities).

72. Donor effort in extending equity investments is measured on a grant equivalent basis (see also paragraph 64). Related grant elements are based on a comparison of an equity nominal value (face value) and the sum of discounted returns (sale and dividends) as expected at the commitment stage.

73. The grant element is calculated using the formula for loans with a lump-sum repayment (both principal and interest), based on

a. Expected maturity i.e. interval between equity commitment and expected exit;

b. Expected return per annum expressed as a percentage of initial investment, including both equity sales and dividends.[48]

74. Both variables are estimated at the level of equity portfolios of individual PSI vehicles and, as illustrated in section 6.4, are:

a. Based on the maturities of and realised return from exited equity investments during ten years prior to the year of reporting on new equities;[49]

b. Calculated as averages weighted on disbursements of individual equities.

75. In the interest of accuracy, members strive to develop these estimates at the level of sub-portfolios, differentiating between various types of equity investments or geographies. In specific cases, this can also translate into measurement of donor effort using investment-specific variables.

76. See section 6.4 for an illustrative example of the use of the ex-ante method.

Potential adjustment of grant equivalents calculated using the ex-ante method

77. As part of their monitoring of PSI ODA, members and the Secretariat will compare grant equivalents of equities

a. Calculated using the ex-ante method (reporting based on variables estimated at the portfolio-level, see section 3.4.2 above) and

b. Calculated upon exit ex post (using maturities and realised return of all exited equities during last ten years).

78. Should this analysis reveal significant differences in the sum of grant equivalents calculated ex ante and the sum of grant equivalents calculated ex post (whether upwards or downwards), the Secretariat will notify the concerned member of the need to make an ex-post adjustment. If the difference is more than 10% or USD 10 million, the adjustment will be required.

79. Members can request such an adjustment based on their own monitoring, irrespective of the size of the difference. Such a request needs to be supported by necessary evidence and shared with the Secretariat.

80. The adjustment will be recorded as a positive or negative entry in the grant equivalent field of the CRS questionnaire, as an aggregate concerning all equities exited in the reporting year.

3.4.3. Ex-post method

81. For members that cannot use the ex-ante method outlined in section 3.4.2, ex-post method is used.

82. Commitments and subsequent disbursements of equities are reported in ODA at face value at the time they occur. Upon exit, a negative entry is introduced in the grant equivalent field, corresponding to the cumulative reflows (sum of sales and dividends over the equity lifetime), counted with a discount factor for the year of exit.

[48] For example, annual return is 10% for equities with reflows (sale and cumulative dividends) amounting to 200% of the initial investment (= 100% return) over 10 years.

[49] For PSI vehicles that are unable to establish these variables based on past equity investments, other estimates are used. Such estimates should be based on most up-to-date internal information on returns and expected maturities concerning active investments. Should such internal information not be available, the Secretariat will provide, upon request, variables for members' reporting ex ante estimated based on data reported by other DAC members.

3.4.4. Potential adjustment of grant equivalents calculated using the ex-post method

83. To ensure that donor effort in equity investments remains positive or neutral over time (≥ 0), a calculation is made each year at a portfolio level[50] to compare

a. Sum of discounted reflows (sales and dividends) for all exited equities in a given reporting year and

b. Sum of initial investments (gross disbursements) on these very equities.

84. If 83.a exceeds 83.b, an adjustment can be recorded in members' reporting to bring the sum of grant equivalents on these equities over time to zero. If applicable, this adjustment is reported through the grant equivalent field of the CRS questionnaire.

85. See section 6.5 for an illustrative example of the use of the ex-post method.

3.4.5. Mechanism for changing the method

86. To keep members' measurement of donor effort in PSI coherent and transparent, only one measurement method may be used at a time per PSI vehicle.

87. Concerning members who will report using the ex-post method and move to the ex-ante method at a later stage, the following guidance is provided, with the understanding that this shall be a one-off swap:[51]

a. Members first notify the Secretariat prior to the submission of their annual Advance Questionnaire for the year of the switch.

b. From the year of the switch onwards, reflows on equities committed prior to that year will no longer be counted as negative ODA, given the profound change in the accounting method, including point of measurement of donor effort. In this context, members will communicate to the Secretariat, as part of their Advance Questionnaire, an aggregate figure concerning equities that will no longer be counted in ODA due to the methodological change. In the interest of transparency, this information will be included in the ODA press release on the year of the switch.[52]

3.4.6. Discount rate architecture

88. Discount rates for equities are composed of

a. A base rate of 5% (IMF discount rate), representing the equity funding cost;

b. A risk-adjustment factor differentiated by DAC income group (4% for LDCs and other LICs, 2% for LMICs and 1% for UMICs), representing the country risk; and

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[50] Compared to a cap on reflows of individual equity investments provided for in the provisional reporting methods for PSI, the impact of the portfolio-level cap is expected to be smaller as it absorbs profits from and losses of multiple investments. For this very reason, it is also expected to be applied less often. See also an illustrative example in section 6.5

[51] A change from ex-ante to ex-post method is not foreseen. Should there be a need for such a change, a specific mechanism would need to be developed and discussed at the WP-STAT.

[52] This is in line with the implementation of the measurement of donor effort on a grant equivalent basis for sovereign loans.

c. A surcharge for equities, differentiated by DAC income group (4% for LDCs and other LICs, 3.5% for LMICs and 3.1% for UMICs). These values compare to the values of private sector surcharge for loans to the private sector plus an extra premium of 3% (see Table 6).

Table 6. Discount rate architecture for equities

	LDCs and other LICs	LMICs	UMICs
Base factor	5%	5%	5%
Risk-adjustment factor	4%	2%	1%
Equity surcharge	4%	3.5%	3.1%
Discount rate	**13%**	**10.5%**	**9.1%**

3.5. Reporting requirements

89. In the interest of transparency and comparability, reporting requirements and data disclosure rules on equities are identical under both the instrument and institutional approach. In particular, the grant equivalents of individual equities are also reportable, for memorandum, by members applying the institutional approach (see principle xiii). In their case, the grant equivalent calculation is required to maintain the possibility of comparing ODA figures across members following different reporting approaches.

90. To allow for the verification of the grant equivalent calculation under the ex-ante method by the Secretariat, members provide information on portfolio-level expected maturities and returns, as described in paragraphs 73 and 74. These data items will be integrated in the CRS reporting template, making use of existing data fields to the extent possible. These data items are optional under the ex-post method.

91. To allow for the monitoring of donor effort in extending equity investments under the ex-ante method (see section 3.4.2), and to be able to measure donor effort in equities using the ex-post method (see section 3.4.3), members provide the following data items through their regular data reporting at the activity level:

a. Dividends received per annum,

b. Full amount of equity sale, and

c. Equity disbursed and still held.[53]

92. Moreover, each equity investment must be reported with a single CRS Id number and donor project number over its entire lifetime. Due attention must be paid to reporting correct commitment dates too.

93. Reporting on additionality is required to demonstrate the ODA eligibility and development motive of individual equity investments.

94. See chapter 5.III. of these Directives and section 6.1 of this Annex for more comprehensive instructions for CRS++ item-level reporting.

3.6. Data disclosure

95. In response to growing transparency needs yet keeping in mind commercial sensitivities and potential legal restrictions related to engaging with the private sector, there would be no restriction to data

[53] These data are needed to understand whether an equity sale concerns a full exit or a partial sale. If possible, equity disbursed and still held should reflect the actual value of held equity during a given reporting year, i.e. adjusted on appreciation or depreciation over time.

disclosure with the exception of the data on expected maturity and expected return per annum, whether using the instrument or institutional approach. Neither data item will be disclosed. Moreover, data on sales and received dividends will only be disclosed aggregated by donor, agency, type of finance, recipient and year for which these data are reported.

96. Channels of delivery (investees), disbursements, grant elements and grant equivalents will be disclosed at the level of individual activities.

97. See chapter 5.I. of these Directives and section 6.1 of this Annex for more details on the data disclosure of private sector instruments.

3.7. Safeguards

98. The name of investee (e.g. enterprise or collective investment vehicle) is reported through the CRS field for channel of delivery.

99. For equities invested in intermediaries, including collective investment vehicles, in donor or third countries, the country of residence of such intermediaries will be reported in the description field of members' activity-level CRS reporting. A comprehensive explanation of the choice of such channels will be provided through the CRS fields on development objective and additionality.

100. For regionally allocated equities, a list of countries and/or territories targeted by such investments should be indicated in the CRS description field for the sake of transparency and to allow quality controls on the calculation of the grant equivalent.

101. See also section 3.2 of Annex 23 for ODA-integrity safeguard related to essential data on PSI.

3.8. Biennial report

102. To address members' concerns about the ODA integrity and effectiveness in the context of PSI, the Secretariat will carry out biennially a thorough analysis of the geographic, recipient income group, sectoral and thematic characteristics as well as additionality of all PSI, including equities, reported in ODA under both the instrument and institutional approaches. It will also analyse the quality of the grant equivalent reporting by individual members, monitor the volumes involved and compare these values across the methods and approaches used. A particular attention will be paid to the share of donor effort in PSI in individual members' total ODA.

103. Findings from this analysis will be presented to the DAC in a dedicated report for information. Potential issues identified through this exercise will be addressed as part of members' subsequent discussions.

104. The biennial report will also present the Secretariat's assessment of the comparability of the ex-ante and ex-post methods. The frequency of this assessment is specified in paragraph 108.

105. The WP-STAT will use the findings presented in the biennial report to review and, if agreed, revise relevant aspects of the directives on the treatment of equities.

106. See also section 4 of Annex 23 for more details on the monitoring mechanism and the biennial report in particular.

3.9. Review mechanism

107. Members will duly review the methods for the treatment of equities in 2030. Building upon the biennial reports (see section 3.8) and supported by the Secretariat's analysis of the collected data on equities, the review will consider in particular the accuracy and comparability of the ex-ante and ex-post methods (see paragraph 108). Outcomes of the review will be shared with members. Depending on the

outcomes of the review, revisions to relevant parts of the methodology will be proposed for members' consideration. Should the review outcomes unveil limited comparability of the ex-ante and ex-post methods and/or artificial inflation of ODA, revisions will be proposed to enhance consistency in the measurement of donor effort in equities.

108. The assessment of the comparability of the ex-ante and ex-post reporting methods will be based on robust evidence. This includes an assessment of the cap on discounted reflows under the ex-post method, where members reporting under this method would also be required to share to the Secretariat the reflows beyond the cap. The first assessment will feed into the 2030 review (see paragraph 107). Subsequent assessments will be carried out once every four to six years with outcomes presented in biennial reports (see paragraph 104).

109. Given the volatile nature of capital markets, including investment returns and dividend yields, the Secretariat will review the equity surcharge component of the discount rates and, if needed, propose adjustments for consideration by members. This review will be carried out once every four to six years.

110. See also section 5 of Annex 23 for more details on the review mechanism.

3.10. Clarification on the choice of discount rates for multi-country agreements

111. For equities with a multi-country or regional focus (e.g. shares/units in collective investment vehicles, grant equivalents are calculated using a discount rate corresponding to the income group to which all, or a majority of targeted ODA recipients belong. For regionally allocated investments without further specification on individual recipient countries and/or territories, the prevalent income group within the region is used to determine the discount rate. It is further clarified that the country of residence of channels has no bearing on the choice of discount rates used for calculating donor effort.

3.11. Other considerations

112. Comparability is a key feature of the DAC statistics. See section 4 of Annex 23 for details on mechanisms for monitoring the comparability of the instrument and institutional approaches.

3.12. Implementation

113. Reporting on the donor effort in extending equities on a grant equivalent basis will be implemented as from members' 2024 reporting on flows in 2023. Members that are unable to implement these reporting methods in 2024 may use a transition period of one to two years.[54]

114. To promote consistency with the measurement of donor effort in other types of PSI and maximum comparability across PSI vehicles, members strive to measure their donor effort in extending equities on an ex-ante basis. In specific cases, ex-post method may be used.

115. Until the implementation of the grant equivalent accounting using the methods outlined in section 3.4, the provisional reporting methods will continue to apply as regards ODA accounting and data disclosure.[55]

[54] Members will notify the Secretariat should they need a longer transition period.

[55] Paragraph 9C of provisional reporting methods [see DCD/DAC/STAT(2023)9/ADD3/FINAL] states that "individual equity investments to private sector entities in developing countries will continue to be reported on a cash-flow basis:

- Positive ODA would be recorded at the time of investment and the proceeds of sales would be reportable as negative ODA applying a cap on reflows corresponding to the original investment. To be ODA-eligible, equities need to comply with the ODA definition i.e. have the economic development and welfare of developing countries as their primary purpose

116. Upon implementation i.e. the switch from cash flows to the grant equivalent measurement of donor effort:

a. Using the ex-ante method, reflows on equities committed prior to the year of the switch will no longer be counted as negative ODA, given the profound change in the accounting method, including point of measurement of donor effort. In this context, members will communicate to the Secretariat, as part of their Advance Questionnaire, an aggregate figure concerning equities that will no longer be counted in ODA due to the methodological change. In the interest of transparency, this information will be included in the ODA press release on the year of the switch.

b. Using the ex-post method, reflows on equities committed prior to the year of the switch will continue to be recorded as negative grant equivalents.[56] This is to avoid a second break in the series when eventually moving to the ex-ante method.

4. Mezzanine finance instruments

4.1. Scope

117. The Addendum 1 defines mezzanine finance as "instruments relating to the layer of financing between a company's senior debt and equity, with features of both debt and equity". They further specify that claims of mezzanine finance providers are subordinate to those by senior lenders but with benefits compared to those of junior equity investors. There are two main types of mezzanine finance instruments: junior loans and preferred equity.[57]

a. Examples of junior loans include loans with voting rights or other benefits, shareholder loans and subordinated loans (these terms are not mutually exclusive). In general, junior loans have subordinate access to liquidity in the case of default compared to senior lenders.

b. Preferred equity includes investments which, in the event of default, give the investors access to liquidity that is subordinate to lenders but preferred to junior equity investors. Preferred equity holders have usually preferred access to dividends compared to junior equity holders.

118. See chapter 1.I. of these Directives for more details on the scope of resource flows covered by DAC statistics.

4.2. 2016 HLM Principles

119. The 2016 HLM principles do not explicitly mention mezzanine finance. However, the provisional reporting methods and members' past discussions recognise them as private sector instruments. Given the proximity of junior loans to (senior) loans to the private sector and preferred equity to (junior) equity,

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and be in line with Reporting Directives [see in particular paragraph 135 of DCD/DAC/STAT(2023)9/FINAL].

- Contributions to investment funds may be ODA-eligible if in accordance with the existing Directives [see in particular paragraph 136 of DCD/DAC/STAT(2023)9/FINAL]."

[56] Reflows on equities committed in the past that cannot be discounted would be reported according to the provisional reporting methods [see DCD/DAC/STAT(2023)9/ADD3/FINAL].

[57] See Annex 10b.

this methodology considers the 2016 HLM principles as providing sufficient orientations for members' discussions on the treatment of mezzanine finance instruments.

120. In this context, principle xii of the 2016 HLM Communiqué states that

> *Loans are counted on a grant equivalent basis. The discount rate for the grant element calculation will be differentiated by income group as in the 2014 DAC HLM agreement, in principle with an additional risk premium (see principle v) reflecting the fact that lending to private sector entities is generally more risky than lending to the official sector. HLM follow-up: elaborate i) a proposal for the risk premium (the additional risk premium could vary by income group) and ii) a recommendation on whether loans to the private sector should be exempted from a threshold or whether a technical threshold should be set (see principle v).*
>
> *Equity investments by DFIs or other vehicles in private sector entities in developing countries are counted on a grant equivalent basis ex post, i.e. they are initially counted at face value and their reflows discounted ex post, upon exit. The reflows will be discounted using differentiated discount rates by income group, applying a cap on reflows corresponding to the original investment. In specific cases and where enough information is available to estimate the reflows and risk undertaken, measurement will be on a grant equivalent basis calculated ex ante, adjusted ex post. HLM follow-up: work with DFIs to determine the appropriate discount rates for this calculation.*

4.3. Eligibility

121. In line with the spirit of the HLM Communiqué and members' discussions to date as well as the general principles underpinning the DAC statistics, for mezzanine finance instruments to be ODA-eligible, they need to be

a. Allocated to countries or territories on the DAC List of ODA Recipients;[58]

b. Administered with the promotion of economic development and welfare of developing countries as their main objective;

c. Additional financially, in value or both, combined with their development additionality.

4.4. Parameters and methods

122. Donor effort in extending mezzanine finance instruments is measured on a grant equivalent basis.

123. As regards the underlying calculation, junior loans are treated the same way as loans to the private sector (see section 1) and preferred equity the same way as equity (see section 3).

124. The discount rate architecture is composed of

a. A base factor of 5% (IMF unified discount rate) representing the funding cost,

b. A risk-adjustment factor differentiated by DAC income group (4% for LDCs and other LICs, 2% for LMICs and 1% for UMICs) representing country risk, and

[58] This may also include mezzanine finance instruments invested in intermediaries, including collective investment vehicles, in donor and third countries, provided the main objective of the financing is the promotion of economic development and welfare of ODA Recipients, and relevant due diligence has been carried out by the PSI vehicle.

c. A surcharge for mezzanine finance instruments differentiated by DAC income group (2.5% for LDCs and other LICs, 2% for LMICs and 1.6% for UMICs).[59]

125. For junior loans, the technical grant element threshold is set to 0%, in line with the treatment of loans to the private sector (see section 1).

Table 7. Discount rate architecture for mezzanine finance instruments

	LDCs and other LICs	LMICs	UMICs
Base factor	5%	5%	5%
Risk-adjustment factor	4%	2%	1%
Mezzanine finance surcharge	2.5%	2%	1.6%
Discount rate	**11.5%**	**9%**	**7.6%**

4.5. Reporting requirements, data disclosure, safeguards and other provisions

126. For junior loans, reporting requirements, rules for data disclosure, safeguards and related provisions are identical to those for loans to the private sector. For preferred equity, they are identical to those for equities.

4.6. Implementation

127. The implementation of reporting donor effort in extending mezzanine finance instruments on a grant equivalent basis follows that for loans to the private sector or equities, as relevant.

5. Reimbursable grants

5.1. Scope

128. The Addendum 1 defines reimbursable grants as contributions “to a recipient institution for investment purposes, with the expectation of long-term reflows at conditions specified in the financing agreement. The provider assumes the risk of total or partial failure of the investment; it can also decide if and when to reclaim its investment”.[60]

129. Further consultations with members have suggested two distinct types of reimbursable grants used in the context of development finance: loan-type reimbursable grants and reflow-based reimbursable grants.

a. For loan-type reimbursable grants, details on repayments are agreed ex ante upon the conclusion of the financing agreement. Such reimbursable grants involve exposure to risk that is comparable to loans.

b. For reflow-based reimbursable grants, details on reflows are unknown ex ante as they depend on the performance of the underlying investments. This type of

[59] The value of the private sector surcharge for mezzanine finance instruments is higher than that for loans to the private sector and lower than that for equities. It builds on the private sector surcharge for loans to the private sector plus an extra premium of 1.5%.

[60] See Annex 10b.

reimbursable grants typically involves exposure to risk that is comparable or greater to that of equities, irrespective of the channelling institution type.[61]

130. See chapter 1.I. of these Directives for more details on the scope of resource flows covered by DAC statistics.

5.2. 2016 HLM Principles

131. The general principle xii. of the 2016 HLM Communiqué states that

Reimbursable grants are hybrid debt instruments with different types of agreement and initial investment profiles. In cases where enough information is available to estimate the reflows and risk undertaken, measurement will be on a grant equivalent basis; in other cases, an ex-post calculation will be applied. HLM follow-up: elaborate a method for reporting on reimbursable grants, taking into account their hybrid nature.

5.3. Eligibility

132. In line with the spirit of the HLM Communiqué and members' discussions to date as well as the general principles underpinning the DAC statistics, for reimbursable grants to be ODA-eligible, they need to be

a. Allocated to countries or territories included on the DAC List of ODA Recipients;[62]

b. Administered with the promotion of economic development and welfare of developing countries as their main objective;

c. Additional financially, in value or both, combined with their development additionality (see section 1 of Annex 23).

5.4. Parameters, methods, reporting requirements, data disclosure, safeguards and other provisions

133. Donor effort in extending reimbursable grants is measured on a grant equivalent basis. Given the different levels of available information and different risk levels regarding reflows depending on the type of reimbursable grant, grant equivalents are calculated:

a. Using the same method, parameters and thresholds as for loans in cases where terms and conditions are set at the commitments stage (e.g. loan-type reimbursable grants);[63]

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[61] Reimbursable grants are typically provided when more concessional financing is required than what DFIs could offer. When reimbursable grants are administered by multilateral partners, donors do not benefit from the preferred creditor status and do not own shares in the fund; the level of risk is the same as in funds managed by private entities.

[62] This may also include reimbursable grants invested in financial intermediaries in donor and third countries, provided the main objective of the financing is the promotion of economic development and welfare of ODA Recipients, and relevant due diligence has been carried out by the extending PSI vehicle.

[63] Accordingly, loan-type reimbursable grants to multilateral organisations are treated like loans to multilateral organisations, including discount rates and the concessionality threshold of 10%. Accordingly, loan-type reimbursable grants that pass the threshold are reported and presented under the flow category "10=ODA flows" and those that do not pass the threshold under the category "21=Other official flows". See chapter 2 of these Directives for the treatment of ODA loans.

b. Using the same method and parameters as for equities (see section 3) in cases where reflows are subject to the performance of the underlying investment (e.g. reflow-based reimbursable grants).

134. Reporting requirements, data disclosure and safeguards on reimbursable grants are the same as those for loans to the private sector or equities, as relevant.

5.5. Clarification on the treatment of reflow-based reimbursable grants to multilateral organisations

135. Based on provisions in paragraph 133.b above, donor effort in reflow-based reimbursable grants to multilateral organisations is calculated using the methods, reporting requirements, rules for data disclosure and safeguards like for equities.[64]

136. The discount rates for calculating grant elements of reflow-based reimbursable grants to multilateral organisations are 8% in the case reimbursable grants to global institutions and multilateral development banks and 9% in the case other multilateral organisations, including sub-regional organisations. These rates are composed of:

a. The base factor (5%) since reimbursable grants are funded instruments.

b. Risk-adjustment factors of 0% for global institutions and multilateral development banks and 1% for other multilateral organisations, including sub-regional organisations. These risk adjustments take into account the unique set of capabilities that multilateral organisations possess to absorb, optimise and mitigate country and other risks.

c. Surcharge of 3% to recognise the risks associated with reflow-based reimbursable grants, in particular the uncertainty on reflows. The donor has little visibility on when and how much of the extended funds will be reimbursed and with what return, if any – similarly to equity investments.[65]

Table 8. Discount rate architecture for equities

	Global institutions and multilateral development banks	Other multilateral organisations, including sub-regional organisations
Base factor	5%	5%
Risk-adjustment factor	0%	1%
Equity surcharge	3%	3%
Discount rate	**8%**	**9%**

137. Like in the case of reflow-based reimbursable grants to the private sector (and equities), the concessionality threshold is not applicable to reflow-based reimbursable grants to multilateral organisations.

[64] Reflow-based reimbursable grants to multilateral organisations are reported and presented under the flow category “60=Private Sector Instruments”. Such activities are thus subject to PSI-specific requirements, safeguards, monitoring and other provisions, including reporting on additionality and PSI flag. See DCD/DAC/STAT(2024)8/REV1.

[65] The surcharge of 3% is derived from the instrument-specific surcharge for equities.

5.6. Implementation

138. The implementation of reporting donor effort in extending reimbursable grants on a grant equivalent basis follows that for loans to the private sector or equities, as relevant.

6. Appendices

Illustrations and reporting examples

6.1. CRS++ form: reporting requirements, data disclosure and examples

Table 9. CRS++ form: reporting requirements and data disclosure

	CRS++ item	CRS++ item name	Reporting requirements	Level of data disclosure
A. Identification data	1	Reporting year	Required	Activity-level
	2	Commitment date / issuance date	Required	Activity-level
	3	Reporting country / organisation	Required	Activity-level
	4	Extending agency	Required	Activity-level
	5	CRS Identification number	Required	Activity-level
	6	Donor project number	Required	Activity-level
	7	Nature of submission	Required	Activity-level
B. Basic data	8	Recipient code	Required	Activity-level
	9	Channel of delivery name / country	Required	Activity-level
	10	Channel code	Required	Activity-level
	11	Bi/multi	Required	Activity-level
	12	Type of flow (Main DAC1 category)	Required	Activity-level
	13	Type of finance	Required	Activity-level
	14	Co-operation modality	Required	Activity-level
	15	Short description / Project title	Required	Activity-level
	16	Sector / Purpose code and corresponding shares	Required	Activity-level
C. Supplementary data	17	Geographic target area	Required	Activity-level
	18	Regional aid to LDCs	Voluntary	Activity-level
	19	Expected starting date	Required	Activity-level
	20	Expected completion date	Required	Activity-level
	21	Description	Required	Activity-level
	22	SDG focus	Voluntary	Activity-level
	23	Keywords	Voluntary	Activity-level
	24	Gender equality	Required	Activity-level
	25	Aid to environment	Required	Activity-level
	26	Democratic and inclusive governance (DIG)	Required	Activity-level
	27	RMNCH	Required	Activity-level
	28	Disaster risk reduction (DRR)	Required	Activity-level
	29	Nutrition	Voluntary	Activity-level
	30	Inclusion and empowerment of persons with disabilities	Voluntary	Activity-level
	31	FTC	Required	Activity-level
	32	PBA	Required	Activity-level
	33	Investment	Required	Activity-level
	34	Type of blended finance	Required	Activity-level
	35	Biodiversity	Required	Activity-level
	36	Climate change - mitigation	Required	Activity-level
	37	Climate change - adaptation	Required	Activity-level
	38	Desertification	Required	Activity-level

D. Volume data	39	Currency	Required	Activity-level
	40	Commitments	Required	Activity-level
	41	Capital expenditure %*	Voluntary	Activity-level
	42	Amounts extended	Required	Activity-level
	43	ODA grant equivalent	Required	Activity-level
	44	Amounts received (for loans: principal only)	Required	Aggregated by donor, agency, type of finance and recipient
	45	Amount tied	Required	Activity-level
	46	Amount partially untied	Required	Activity-level
	47	Amount untied	Required	Activity-level
	48	Amount of IRTC	Required	Activity-level
	49	If project type, amount of experts – commitment	Voluntary	Activity-level
	50	If project type, amount of experts – extended	Voluntary	Activity-level
	51	Amount of export credit in AF package	Required	Activity-level
	52	Leveraging mechanism and role/position	Required	See chapter 5.I. of these Directives
	53	Amount mobilised from the private sector	Required	
	54	Origin of the funds mobilised	Required	
E. For non-grant instruments	55	Type of repayment Type of fee payment	Required	Activity-level
	56	Number of repayments per annum Number of fee payments per annum	Required	Activity-level
	57	Interest rate Fee rate Expected return per annum	Required (Voluntary for equities, ex-post method)	Not disclosed
	58	Second interest rate	Required	Not disclosed
	59	First repayment date Exposure reduction starting date	Required	Not disclosed
	60	Final repayment date Guarantee maturity date	Required (Voluntary for equities, ex-post method)	Activity-level
		Date of expected maturity		Not disclosed
	61	Interest received Guarantee fee received Dividends received per annum	Required	Aggregated by donor, agency, type of finance and recipient
	62	Principal disbursed and still outstanding Equity disbursed and still held	Required	Not disclosed
	63	Arrears of principal (included in the item 62)	Required	Not disclosed
	64	Arrears if interest	Required	Not disclosed
	65	Guaranteed amount	Required	Activity-level
	66	Average use of portfolio guarantees %	Required	Activity-level
F. For PSI	67	PSI flag	Required	Activity-level
	68	Additionality type	Required	Activity-level
	69	Additionality description	Required	Activity-level
	70	Additionality – development objective	Required	Activity-level

Note: Required stands for required if applicable. For example, commitments are not applicable to guarantees and are thus not required.

Table 10. Examples of reporting on private sector instruments in CRS++

	CRS++ item	CRS++ item name	**Capital increase** of a PSI vehicle	**Decapita-lisation** of a PSI vehicle	**Loan to the private** sector, disburse-ment	**Individual credit guarantee**, issuance	**Loan portfolio guarantee**, issuance	**Equity** ex-ante method, disburse-ment	**Equity** ex-post method, exit	**Equity** ex-post adjustment
A. Identification data	1	Reporting year	2023	2023	2023	2023	2023	2023	2023	2023
	2	Commitment date / issuance date	31-12-2023	31-12-2023	15-06-2023	15-06-2023	15-06-2023	15-06-2023	01-10-2015	
	3	Reporting country / organisation	*123*	*123*	*123*	*123*	*123*	*123*	*123*	*123*
	4	Extending agency	1	2	2	2	2	2	2	2
	5	CRS Identification number								
	6	Donor project number								
	7	Nature of submission	1	1	1	1	1	1	3	1
B. basic data	8	Recipient code	998	998	431	248	1030	289	645	998
	9	Channel of delivery name / country	*text*	*text*	*text*	*text*	*text*	*text*	*text*	*text*
	10	Channel code	11004	11001	62002	62009	62002	62003	62009	62003
	11	Bi/multi	1	1	1	1	1	1	1	1
	12	Type of flow (Main DAC1 category)	60	60	60	60	60	60	60	60
	13	Type of finance	110	110	421	1101	1102	520	510	520
	14	Co-operation modality	B05	B05	C01	C01	C01	C01	C01	C01
	15	Short description / Project title	*text*	*text*	*text*	*text*	*text*	*text*	*text*	*text*
	16	Sector / Purpose code and corresponding shares	99810	99810	24030	31195	24030	24030	23230	99810
C. Supplementary data	17	Geographic target area	NULL	NULL	*text*	*text*	*text*	*text*	*text*	NULL
	18	Regional aid to LDCs	NULL	NULL						NULL
	19	Expected starting date	NULL	NULL	01-07-2023	01-07-2023	01-07-2023	01-07-2023	01-07-2023	NULL
	20	Expected completion date	NULL	NULL	31-12-2027	31-12-2027	31-12-2027	31-12-2027	31-12-2027	NULL
	21	Description	*text*	*text*	*text*	*text*	*text*	*text*	*text*	NULL
	22	SDG focus	NULL	NULL	5.1;8.10	2.4;8.10	8.10;10.2	8.5;10.1	7.1;13	NULL

	CRS++ item	CRS++ item name	**Capital increase** of a PSI vehicle	**Decapita-lisation** of a PSI vehicle	**Loan to the private** sector, disburse-ment	**Individual credit guarantee**, issuance	**Loan portfolio guarantee**, issuance	**Equity** ex-ante method, disburse-ment	**Equity** ex-post method, exit	**Equity** ex-post adjustment
	23	Keywords	NULL	NULL						NULL
	24	Gender equality	NULL	NULL	2	0	0	0	0	NULL
	25	Aid to environment	NULL	NULL	0	0	0	0	0	NULL
	26	Democratic and inclusive governance (DIG)	NULL	NULL	0	0	0	0	0	NULL
	27	RMNCH	NULL	NULL	0	0	0	0	0	NULL
	28	Disaster risk reduction (DRR)	NULL	NULL	0	1	0	0	0	NULL
	29	Nutrition	NULL	NULL	0	2	0	0	0	NULL
	30	Inclusion and empowerment of persons with disabilities	NULL	NULL	0	1	0	0	0	NULL
	31	FTC	NULL	NULL	NULL	NULL	NULL	NULL	NULL	NULL
	32	PBA	NULL	NULL	NULL	NULL	NULL	NULL	NULL	NULL
	33	Investment	NULL	NULL	1	1	1	1	1	NULL
	34	Type of blended finance	NULL	NULL	3	3	3	4	3	NULL
	35	Biodiversity	NULL	NULL	0	0	0	0	0	NULL
	36	Climate change - mitigation	NULL	NULL	0	0	0	0	2	NULL
	37	Climate change - adaptation	NULL	NULL	0	1	0	0	0	NULL
	38	Desertification	NULL	NULL	0	0	0	0	0	NULL
D. Volume data	39	Currency	*123*	*123*	*123*	*123*	*123*	*123*	*123*	*123*
	40	Commitments	NULL	NULL	20000	NULL	NULL	20000	NULL	NULL
	41	Capital expenditure %	NULL	NULL	100	NULL	NULL	100	NULL	NULL
	42	Amounts extended	NULL	NULL	15000	NULL	NULL	15000	0	NULL
	43	ODA grant equivalent	500000	-20217.2	1406.31	1015.125	2992.54	4318.53	-12505.74	-351.74
	44	Amounts received (for loans: principal only)	NULL	NULL	0	NULL	NULL	0	17096.241	NULL
	45	Amount tied	NULL	NULL					NULL	NULL
	46	Amount partially untied	NULL	NULL					NULL	NULL
	47	Amount untied	NULL	NULL					NULL	NULL

	CRS++ item	CRS++ item name	**Capital increase** of a PSI vehicle	**Decapita-lisation** of a PSI vehicle	**Loan to the private** sector, disburse-ment	**Individual credit guarantee**, issuance	**Loan portfolio guarantee**, issuance	**Equity** ex-ante method, disburse-ment	**Equity** ex-post method, exit	**Equity** ex-post adjustment
	48	Amount of IRTC	NULL	NULL					NULL	NULL
	49	If project type, amount of experts – commitment	NULL	NULL	NULL	NULL	NULL	NULL	NULL	NULL
	50	If project type, amount of experts – extended	NULL	NULL	NULL	NULL	NULL	NULL	NULL	NULL
	51	Amount of export credit in AF package	NULL	NULL	NULL	NULL	NULL	NULL	NULL	NULL
	52	Leveraging mechanism and role/position	NULL	NULL	9	6	6	4	NULL	NULL
	53	Amount mobilised from the private sector	NULL	NULL	10000	25000	40000	5468.142	NULL	NULL
	54	Origin of the funds mobilised	NULL	NULL	2	3	2	5	NULL	NULL
E. For non-grant instruments	55	Type of repayment Type of fee payment	NULL	NULL	2	1	1	NULL	NULL	NULL
	56	Number of repayments per annum Number of fee payments per annum	NULL	NULL	2	4	4	NULL	NULL	NULL
	57	Interest rate Fee rate Expected return per annum	NULL	NULL	SOFR6M	01500	01500	07500	NULL	NULL
	58	Second interest rate	NULL	NULL	03000	NULL	NULL	NULL	NULL	NULL
	59	First repayment date Exposure reduction starting date	NULL	NULL	15-12-2023	15-06-2024	31-12-2029	NULL	NULL	NULL
	60	Final repayment date Guarantee maturity date Date of expected maturity	NULL	NULL	31-12-2029	31-12-2029	31-12-2029	31-12-2029	NULL	NULL
	61	Interest received Guarantee fee received Dividends received per annum	NULL	NULL	0	0	0	247.14	923.1	NULL
	62	Principal disbursed and still outstanding Equity disbursed and still held	NULL	NULL	15000	NULL	NULL	15000	0	NULL
	63	Arrears of principal (included in the item 62)	NULL	NULL	0	NULL	NULL	NULL	NULL	NULL

	CRS++ item	CRS++ item name	**Capital increase** of a PSI vehicle	**Decapita-lisation** of a PSI vehicle	**Loan to the private** sector, disburse-ment	**Individual credit guarantee**, issuance	**Loan portfolio guarantee**, issuance	**Equity** ex-ante method, disburse-ment	**Equity** ex-post method, exit	**Equity** ex-post adjustment
	64	Arrears if interest	NULL	NULL	0	NULL	NULL	NULL	NULL	NULL
	65	Guaranteed amount	NULL	NULL	NULL	15000	15000	NULL	NULL	NULL
	66	Average use of portfolio guarantees %	NULL	NULL	NULL	NULL	85	NULL	NULL	NULL
F. For PSI	67	PSI flag	[10][50]	[10][50]	[20][40]	[20][40]	[20][40]	[21][41]	[22][42]	[21][41]
	68	Additionality type	NULL	NULL	15;23	11;23	12	12;13;22	12;13;22	NULL
	69	Additionality description	NULL	NULL	*text*	*text*	*text*	*text*	*text*	NULL
	70	Additionality – development objective	NULL	NULL	*text*	*text*	*text*	*text*	*text*	NULL

6.2. Example of a grant equivalent calculation of an equity guarantee

139. In 2023, a DFI issued a guarantee on a private equity investment of USD 10 million in an enterprise with activities in an LMIC. The guarantee was issued for five years with a fee of 5% per annum, paid biannually to the guarantor. The guarantee was agreed to cover up to 90% of the initial investment (USD 9 million).

140. The guarantee conveys a grant element of 5.90%, calculated with the following variables and parameters:

a. Type of fee payment is assimilated to equal principal payment (as the guarantee fee is paid regularly);

b. Number of fee payments per annum is set to 2 (as the guarantee fee is paid biannually);

c. Guarantee maturity is set to 5 years (as the guarantee is agreed to last 5 years);

d. Exposure non-reduction period[66] is set equal to the guarantee maturity (as the guaranteed amount is stable over the guarantee lifetime);

e. Guarantee fee rate is 5% (equal to the guarantee annual fee) and

f. Rate of discount is set to 6.5% (in line with values in Table 5).

141. Donor effort equals the grant element multiplied by the guaranteed amount, i.e. USD 0.53 million (=5.90% × USD 9 million). See Table 11 for more details on this calculation.

Table 11. Grant element calculation of a guarantee on an equity investment, USD million

	Period	Guaranteed amount	Exposure reduction	Fee	TOTAL	Six-month discount factor (discount rate = 6.5%)	Present value of future payments
	a	b	c	d	e=c+d	f=(1+6.5%)^a	g=e/f
Jan-23	0	9	0				
Jul-23	0.5	9	0	0.225	0.225	1.03	**0.22**
Jan-24	1	9	0	0.225	0.225	1.07	**0.21**
Jul-24	1.5	9	0	0.225	0.225	1.10	**0.20**
Jan-25	2	9	0	0.225	0.225	1.13	**0.20**
Jul-25	2.5	9	0	0.225	0.225	1.17	**0.19**
Jan-26	3	9	0	0.225	0.225	1.21	**0.19**
Jul-26	3.5	9	0	0.225	0.225	1.25	**0.18**
Jan-27	4	9	0	0.225	0.225	1.29	**0.17**
Jul-27	4.5	9	0	0.225	0.225	1.33	**0.17**
Jan-28	5	9	9	0.225	9.225	1.37	**6.73**
Sum of present value of future payments (PVFP) over the guarantee maturity							**8.47**
Grant element							**5.90%**
Grant equivalent of the equity guarantee							**0.53**

[66] Exposure non-reduction period is defined as the interval between the "guarantee issuance date" and the "guarantee reduction starting date". In this case, the latter is set equal to the "guarantee maturity date" as the guaranteed amount remains stable over the guarantee lifetime.

6.3. Example of a grant equivalent calculation of a portfolio guarantee

142. In 2023, a DFI issued a guarantee covering a loan portfolio of a local finance institution, predominantly allocated to LMICs. The guarantee has a maturity of 7 years with a fee of 2% per annum, paid annually to the guarantor. The maximum guaranteed amount is USD 25 million. Based on evidence available, the guarantee is expected to be used at 85% over its lifetime.

143. The portfolio guarantee conveys a grant element of 7.81%. It is calculated following two steps. First, it is assumed that the portfolio guarantee will be fully used. The grant element is 9.17%, calculated using the following parameters:

a. Type of fee payment is assimilated to equal principal payment (as the guarantee fee is paid regularly);

b. Number of fee payments per annum is set to 1 (as the guarantee fee is paid annually);

c. Guarantee maturity is set to 7 years (as the guarantee is agreed to last 7 years);

d. Exposure non-reduction period[67] is set equal to the guarantee maturity (as the guaranteed amount is assumed stable over the guarantee lifetime);

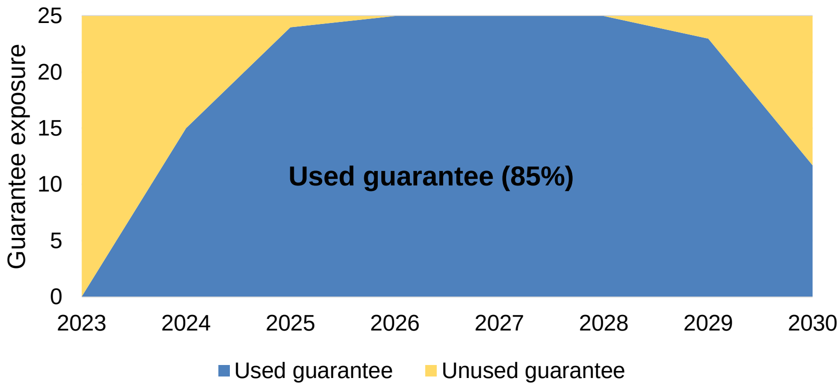
e. Guarantee fee rate is 2% (equal to the guarantee annual fee) and

f. Rate of discount is set to 3.5% (in line with the discount rate for credit guarantees allocated to LMICs, see Table 5).

144. In a second step, a coefficient reflecting the expected use of the portfolio guarantee (85%) is applied to the grant element of the fully used portfolio guarantee, resulting in a grant element of 7.81% (= 9.17% × 85%).

145. Donor effort equals the grant element multiplied by the guaranteed amount, i.e. USD 1.95 million (=7.81% × USD 25 million). See Table 12 for more details on this calculation.

Figure 6. Illustration of a portfolio guarantee



[67] Exposure non-reduction period is defined as the interval between the “guarantee issuance date” and the “guarantee reduction starting date”. In this case, the latter is set equal to the “guarantee maturity date” as the guaranteed amount remains stable over the guarantee lifetime.

Table 12. Grant element calculation of a portfolio guarantee

	Period	Guaranteed amount	Exposure reduction	Fee	TOTAL	Six-month discount factor (discount rate = 3.5%)	Present value of future payments
	a	b	C	d	e=c+d	f=(1+3.5%)^a	g=e/f
Jan-23	0	25	0				
Jan-24	1	25	0	0.5	0.5	1.04	**0.48**
Jan-25	2	25	0	0.5	0.5	1.07	**0.47**
Jan-26	3	25	0	0.5	0.5	1.11	**0.45**
Jan-27	4	25	0	0.5	0.5	1.15	**0.44**
Jan-28	5	25	0	0.5	0.5	1.19	**0.42**
Jan-29	6	25	0	0.5	0.5	1.23	**0.41**
Jan-30	7	25	25	0.5	25.5	1.27	**20.04**
Sum of present value of future payments (PVFP) over the guarantee maturity							22.71
Grant element of a perfectly filled portfolio guarantee							9.17%
Expected use of the portfolio guarantee							85%
Grant element treated with coefficient on expected use							**7.81%** = 9.17% × 85%
Grant equivalent of the portfolio guarantee							**1.95**

6.4. Example of a grant equivalent calculation of equities, ex-ante method

146. In 2020, a DFI made an equity investment of USD 20 million to a company in an LMIC. For the purpose of this demo, it is called Equity A.

6.4.1. Reporting according to the ex-ante method

147. An analysis of equities exited during 2011-20 indicated their weighted average maturity of 7 years and weighted average rate of return at 6% (see Table 13). Using these variables, the donor effort in extending the equity A is USD 5.88 million with a grant element of 29.41% (see Table 14).

Table 13. Calculation of expected maturities and return under the ex-ante method

Equity portfolio	Gross disbursement (USD million)	Exit year	Maturity	Realised return
Equity 1	20.7	2020	6.2	6.9%
Equity 2	12.3	2017	10.0	-8.0%
Equity 3	5.7	2016	3.5	33.0%
			7.0 = (6.2×20.7 + 10.0×12.3 + 3.5×5.7) / (20.7+12.3+5.7)	**6.0%** = (6.9%×20.7 - 8.0%×12.3 + 33.0%×5.7) / (20.7+12.3+5.7)

Table 14. Calculation of the grant element of Equity A using ex-ante method

Initial investment in 2020	Equity value upon exit (expected maturity of 7 years and expected return of 6%)	Discount factor (discount rate = 10.5%)	Present value of future payments	Grant element	Grant equivalent, USD million
20	28.4 = 20 + 7×6%×20	2.01	14.12	29.41%	**5.88**

6.4.2. Monitoring and adjustment ex post

148. In 2028, the DFI exited two companies and sold its stakes. One of the equities was the investment above (Equity A, exited one year later than expected). The other (Equity B) had been reported using the ex-ante method with a grant equivalent of USD 7.72 million. The sum of grant equivalents reported for these two equities is **USD 13.60 million**.

149. Equities exited during 2019-28 had weighted average maturity of 6 years and weighted average realised return of 4% (annualised). Accordingly, the donor effort calculated ex post is USD 6.38 million for Equity A and USD 6.87 million for Equity B. The sum of the grant equivalents calculated ex post is **USD 13.25 million**, i.e. USD 0.35 million less than reported applying the ex-ante method.

150. Accordingly, a downward adjustment of **USD -0.35 million** could be warranted. Given that its value differs by less than 10% of the initial grant equivalents and is less than USD 10 million, the adjustment is not mandatory. The adjustment would be recorded in the CRS field for grant equivalents in the reporting year 2028 as a new activity with unspecified geographic, sectoral or thematic details.

6.5. Example of a grant equivalent calculation of equities, ex-post method

151. In 2028, a DFI exits three equity investments: Equity A invested in 2020 with USD 20 million, Equity B invested in 2021 with USD 15 million and Equity C, invested in 2023 with USD 5 million. All three investments were made in LMICs.

6.5.1. Investment (gross disbursements)

152. Positive grant equivalents are reported in 2020 for Equity A, 2021 for Equity B and 2023 for Equity C, reflecting the face value of the investments, i.e. USD 20 million, USD 15 million and USD 5 million respectively.

6.5.2. Reflows (sales and dividends)

Scenario A: no need for ex-post adjustment

153. In 2028, all three equities were sold. Equity A for USD 45 million, Equity B for USD 8 million and Equity C for USD 10 million. The sum of dividends received during the lifetime of these equities are USD 5 million, USD 2 million and USD 1 million respectively. The discounted sum of sales and dividends upon exit amount to USD 22.19 million for Equity A, USD 4.97 million for Equity B and USD 6.68 million for Equity C. The sum of discounted reflows on these exited equities in 2028 is thus USD 34.14 million. This is lower than the face value of the initial investments (USD 40 million). There is thus no need for ex-post adjustment to bring the sum of grant equivalents on these equities to zero over time (see Table 15.A).

Table 15. Ex-post method

Grant equivalents, USD million

4.A No need for ex-post adjustment

	Equity A	Equity B	Equity C	Adjustment
2020	20			
2021		15		
2022				
2023			5	
(...)				
2028	-22.49*	-4.97	-6.68	NULL

* *Calculated as (45+5) / (1+0.105)^8*

4.B With an ex-post adjustment

	Equity A	Equity B	Equity C	Adjustment
2020	20			
2021		15		
2022				
2023			5	
(...)				
2028	-30.59*	-4.97	-6.68	+2.24

* *Calculated as (53+15) / (1+0.105)^8*

Scenario B: with an ex-post adjustment

154. In 2028, all three equities were sold. Equity A for USD 53 million, Equity B for USD 8 million and Equity C for USD 10 million. The sum of dividends received during the lifetime of these equities are USD 15 million, USD 2 million and USD 1 million respectively. The discounted sum of sales and dividends upon exit amount to USD 30.59 million for Equity A, USD 4.97 million for Equity B and USD 6.68 million for Equity C. The sum of discounted reflows on these exited equities in 2028 is thus USD 42.24 million. This is higher than the face value of the initial investments (USD 40 million). An ex-post adjustment of USD +2.24 million can be recorded in 2028 to bring the sum of grant equivalents on these equities to zero over time (see Table 15.B).

6.6. Principles of ODA modernisation on private sector instruments

[see DCD/DAC(2016)11]

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 Sustainable Development Goals (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.

But in order for the development assistance community to engage the private sector in the 2030 agenda, donors need to be able to continue to reach them, to interact with them, and to work with them on a greater scale than before. For this reason, many DAC members have established special public sector vehicles[68] which have similar objectives and working methods to those of private sector operators. These vehicles 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 the efforts to support private sector development. Vehicles dedicated to private sector will continue to play a major role in this regard.

Over the past two years, the DAC has undertaken work to modernise its statistical system to better capture in ODA the costs of risks undertaken by the development assistance community in deploying private sector instruments.[69] One of the main objectives of this work has been to remove the disincentives for using these instruments and define 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. The work also aims to maintain a clear distinction between ODA and commercially-motivated flows. Any adjustments to the statistical methods will take into account the need to avoid artificial increases and volatility in ODA volumes.

It is expected that the modernised system would create incentives for increasing the use of these instruments – and by extension boost efforts to scale up engagement by the private sector in development finance. The text below summarises general principles in this regard, outlines associated ODA eligibility and measuring arrangements and specifies relevant transparency and monitoring provisions.[70]

A. General principles

i. The effort of the official sector in providing PSI will be counted as ODA, while the financial flows themselves will be tracked in the broader measures on flows for sustainable development (TOSSD). Pending the exact definition of these broader measures – a key element of the modernised DAC statistical framework – PSI will be reported in the existing statistical category of other official flows (OOF) or, in the case of guarantees, the recently created category of amounts mobilised through official sector interventions.[71]

ii. The effort may be measured either at the point of transfer of funds to a vehicle providing PSI to developing countries or for each PSI transaction between the vehicle and the private enterprise or institution in the partner country. The two methods of calculation are referred to as institutional and instrument-specific approaches respectively. Members may choose to apply in their ODA reporting one approach or the other but need to explicitly indicate for each vehicle the approach chosen. Members may change the approach chosen, but this is subject to a prior notification and verification by the Secretariat that ODA will not be double-counted. In addition, a lock-in period during which the approach may not be changed will be defined. The purpose of the lock-in period is to preserve the credibility of ODA and comparability of members' reporting over time (see principle xiii). The two approaches are implemented with the joint understanding that they should generate, over time, comparable ODA figures for comparable donor efforts and not inflate ODA. HLM follow-up: elaborate a proposal for the lock-in period.

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[68] The term "vehicle" covers DFIs, investment funds and other special-purpose programmes that members have established to extend financing to private sector entities in developing countries.

[69] Such instruments may also be extended to public or public-private entities.

[70] Treatment of contributions to international organisations extending PSI remains unchanged.

[71] These methodologies are work in progress and will be duly reviewed by the WP-STAT.

iii. Reporting on PSI as ODA will be subject to a specific procedure consisting of i) an assessment of the mandate and objectives of the vehicle providing PSI, in particular the extent to which it has the economic development and welfare of developing countries as the main and primary objective of its operations (developmental criterion of ODA) and provides finance which is additional[72] (characteristic of operations for PSI to be in line with the concessional in character criterion of ODA[73]); ii) provision of flow data in the CRS at the activity level; and iii) publication of data on PSI under agreed transparency provisions and rules on data disclosure. All members' reporting will be subject to the procedure detailed in principles ix and xiv.

iv. The measurement of donor effort will be based, whenever possible, on the grant equivalent method. However, equity investment in a DFI or other vehicle is treated as a sunk cost, initially counted in ODA at face value (applying an ODA coefficient if need be – see principle x), with reflows, if any, counted as negative ODA.

v. Under the instrument-specific approach, the measurement of donor effort will be based on the system of risk-adjusted grant equivalents. However, the system will be adjusted for the fact that i) PSI are non-concessional in nature and that application of the concessionality thresholds agreed in the sovereign loan context in December 2014 could incentivise unnecessary subsidisation of finance; and ii) financing the private sector is generally riskier than the official sector, in principle necessitating a risk premium in the discount rate additional to the already agreed sovereign risk premia, based on evidence and with due consideration to not inflate ODA. Moreover, in the case of PSI, the ODA characteristic is conveyed by – besides the primary development objective – the "additionality" of the finance provided. This suggests there should either be no threshold or a purely technical threshold (to filter out PSI with very small ODA shares). At the same time, there is a need to avoid blurring the lines between developmental and commercially-motivated operations (trade and investment) with the private sector, hence a need for safeguards (see principle xv). HLM follow-up: elaborate recommendations on what would be the appropriate technical threshold and the differentiated risk premia (which could vary by country income group) for the private sector.

vi. Under the institutional approach, donor effort involved in extending PSI to developing countries is measured at the point of placement of funds in the DFI or other vehicle in the donor country. The ODA eligibility assessment of the vehicle (see principle x) determines the share of the funds that can be counted as ODA.

vii. Under both approaches, any dividends or profits on PSI paid back to the government will count as negative ODA. Profits reinvested by the vehicle are not counted as negative ODA, but are reportable in the CRS at aggregate level for transparency purposes (see principle xiv). This principle only applies in cases where the capitalisation of the vehicle has been originally reported as ODA.

viii. The two approaches are implemented with the joint understanding that they should generate, over time, comparable ODA figures for comparable donor efforts and not inflate ODA. The DAC will fully review the system on the basis of first two years of implementation and consider whether any adjustments to this agreement are required.

B. ODA eligibility assessment

ix. The ODA-eligibility assessment will be carried out for all bilateral DFIs and, upon request, for other vehicles, using a common template. The Secretariat will undertake the necessary analysis and present a recommendation on ODA eligibility for consideration by the DAC or a body designated by the DAC. HLM follow-up: elaborate a proposal for the template.

x. The assessment will be based on an examination of the DFI's mandate, project portfolio, investment strategy and due diligence mechanisms. It will consider the extent to which the institution allocates its finance to ODA-eligible countries, promoting the economic development and welfare of developing countries as its main objective. If necessary, i.e. if the institution is active also in non ODA-eligible countries and/or activity areas, the share of ODA-eligible activities in the institution's total portfolio will be estimated, to establish a coefficient for ODA reporting. Information on the institution's investment strategy and due diligence mechanisms will serve to assess additionality of the finance. HLM follow-up: develop a proposal for the assessment criteria.

xi. In their ODA reporting on PSI all members will provide, in addition to the standard CRS data items, information on the developmental objectives and additionality at the activity level in the CRS. The compliance of data reported with the principles hereby agreed, regardless of whether a member reports under the institutional or instrument-specific approach, will be assessed by the DAC through peer reviews and the regular (biennial) report on PSI. This will secure

[72] I.e. extends finance to companies in countries and regions where the private sector would not invest in developmental projects without official support.

[73] The Reporting Directives will be updated to take into account the fact that the "concessional in character" criterion is not appropriate for assessing the ODA characteristics of PSI.

transparency and allow for peer learning among members (see principles xiv and xv). HLM follow-up: work on a definition of additionality; elaborate a drop-down menu to report on additionality in the CRS.

C. Method for calculating ODA

xii. The ODA calculation varies depending on the financial instrument used as follows:

- Grant contributions are counted at their face value.
- Reimbursable grants are hybrid debt instruments with different types of agreement and initial investment profiles. In cases where enough information is available to estimate the reflows and risk undertaken, measurement will be on a grant equivalent basis; in other cases an ex-post calculation will be applied. HLM follow-up: elaborate a method for reporting on reimbursable grants, taking into account their hybrid nature.
- Loans are counted on a grant equivalent basis. The discount rate for the grant element calculation will be differentiated by income group as in the 2014 DAC HLM agreement, in principle with an additional risk premium (see principle v) reflecting the fact that lending to private sector entities is generally more risky than lending to the official sector. HLM follow-up: elaborate i) a proposal for the risk premium (the additional risk premium could vary by income group) and ii) a recommendation on whether loans to the private sector should be exempted from a threshold or whether a technical threshold should be set (see principle v).
- Equity investment in a DFI or other vehicle is treated as a sunk cost, initially counted in ODA at face value (applying an ODA coefficient if need be – see principle x), with reflows, if any, counted as negative ODA.
- Equity investments by DFIs or other vehicles in private sector entities in developing countries are counted on a grant equivalent basis ex post, i.e. they are initially counted at face value and their reflows discounted ex post, upon exit. The reflows will be discounted using differentiated discount rates by income group, applying a cap on reflows corresponding to the original investment. In specific cases and where enough information is available to estimate the reflows and risk undertaken, measurement will be on a grant equivalent basis calculated ex ante, adjusted ex post. HLM follow-up: work with DFIs to determine the appropriate discount rates for this calculation.
- Guarantees are counted on a grant equivalent basis, applying differentiated discount rates and, when appropriate, an additional risk premium for the private sector (see principle v). As guarantees are non-funded instruments, the discount rates will only take into account operating costs and risk adjustment factors (not the funding cost). HLM follow-up: work with DFIs to establish the relevant discount rates and the risk premia for the private sector. Also formalise the grant equivalent methodology to be applied on public guarantees, and on guarantees other than credit guarantees.

xiii. To maintain the possibility of comparing ODA figures across members – key feature of DAC statistics – the donor effort involved in each individual PSI will also be reportable, for memorandum, by members applying the institutional approach. This will allow the estimation of the time span over which the two approaches result in equal ODA amounts, and thereby defining the length of the lock-in period to ensure the credibility of the system. In this context, the background of each vehicle (e.g. maturity, capitalisation) should be taken into account.[74]

[74] Given that only the donor effort is included in ODA, and not the flows, the impact of using different approaches is expected to be statistically insignificant for cross country comparisons (e.g. ODA/GNI ratios).

D. Transparency provisions and rules on data disclosure

xiv. ODA reporting on PSI is subject to specific transparency provisions and rules on data disclosure. It follows the key principles listed in the table below:

Reporting requirements	Data disclosure
Data should be reported as much as possible on the same basis by all donor countries. This means that regardless of the approach followed to measure the donor effort (i.e. institutional vs. instrument-specific approach), all members report on their PSI in the same format. • Reporting on PSI flows is requested in the CRS at the activity level including on financial terms regardless of the approach and whether the activity is ODA-eligible or not. • Data on inflows to DFIs are collected from all members. These elements will only be for the Secretariat's analysis for countries choosing the instrument approach. o Reporting on capital returns and dividends is requested at aggregate level.	Apply the same data rules on the information disclosed at activity level regardless of the approach followed to measure the donor effort (i.e. institutional vs. instrument-specific approach). • Present PSI flows at the activity level, but in compliance with confidentiality obligations with respect to clients (e.g. name of client, financial terms). • When the instrument-based approach is chosen, data on capital flows to and from DFIs are not shown in regular DAC statistical presentations, but will be collected by the Secretariat for analytical purposes and will be part of the biennial Secretariat report on PSI, for all members.

HLM follow-up: specify rules on reporting requirement and data disclosure jointly with DFIs.

E. Monitoring, safeguards and disciplines

xv. To ensure the credibility of ODA reporting on PSI, it will be subject to safeguards and regular monitoring by the DAC. The Secretariat will undertake and present for consideration by the DAC or a body designated by the DAC a regular (biennial) report on PSI covering both quantitative and qualitative aspects. The report will analyse the additionality of DFI financing and seek evidence that PSI have not led to crowding out private investors. Questions such as DFIs' evaluation and reporting structures and corporate governance standards will also be addressed. Based on the first report, the DAC will consider whether minimum standards and disciplines for PSI will be developed. HLM follow-up: develop a proposal on safeguards and disciplines required for the purpose of monitoring PSI.