

Joint CSO letter on Private Finance related issues

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With this letter, the undersigned 29 organisations wish to react ahead of the next DAC Committee on 26th March 2020, to the recent release of ODA data reported as Private Sector Instruments (PSI), as well as to the Terms of Reference for a Community of Practice on Private Finance for Sustainable Development.

1. ODA reported as Private Sector Instruments

CSOs welcome the release of PSI data within the context of the Secretariat's release of the final 2018 data on official development assistance (ODA). While PSI represent 2.7% of total (gross) bilateral ODA, we expect this type of funding to increase in line with [donors' stated ambition](#) to allocate additional resources to PSI in the future.

What does our analysis of available PSI data show?

In 2018, DAC donors reported a total of US\$ 4.6 billion in gross ODA spent through PSIs — or US\$ 2.9 billion in net terms. Almost one-third was reported under the institutional approach, the remaining amount was reported under the instrument approach.

Where detail on recipient countries is available — mostly for the data reported under the instrument approach — 59% of PSI ODA was allocated to upper-middle-income countries — mainly Turkey, Serbia, and Brazil — compared to 7% for the least developed countries. Similarly, in terms of sectors, the vast majority — US\$ 4 billion — was invested in productive sectors (i.e. energy, finance, infrastructure). These trends are not surprising, given the business case required to mobilise such substantial private sector partnerships. The fact, however, that only a small proportion of PSI ODA went to LDCs and investment in social sectors cannot be seen as intrinsically 'good' or 'bad' given the paucity of in-depth evidence questions the effectiveness of PSI ODA in poverty relief and addressing inequalities.

Little information, however, has been provided regarding additionality. Only a handful of donors reported on the additionality in their PSI investments, covering just 5.5% of PSI ODA.

Based on the initial analysis of available PSI data, CSOs are reiterating a number of concerns raised during the DAC negotiations for PSI rules in 2017 - 2018:

- The diversion of concessional resources away from their core mandate of eradicating poverty and reducing inequalities, as well as from the essential importance of strengthening and growing public sector investment for these purposes. This interferes with the fulfilment of donor-agreed international commitments, including the commitment to 'leave no-one behind'.
- Insufficient information on the added-value of PSI vehicles (both in terms of financial and development additionality).
- Potential increase in aid tying.
- Lack of evidence in terms of development effectiveness, poverty reduction, addressing inequalities and impact on recipient populations.

These concerns and risks are further exacerbated by the fact that the [provisional reporting arrangements](#) for PSI fail to live up to the DAC commitment to develop 'implementation details' of the PSI principles agreed at the 2016 HLM ([HLM 2016 Communiqué](#), para 6), such as the discount rates to be used when calculating the grant-equivalent of PSI investments, for example loans to private sector or equity investments.

The inclusion of PSI in ODA without agreed implementation details is highly problematic. It risks undermining the quality of ODA¹ and its impact on poverty reduction and addressing inequalities, as well as the credibility of OECD data. We reiterate our view that, in the absence of clarity on PSI implementation rules, safeguards and incentives, there is a strong case for counting donor investments in PSI as Other Official Flows, rather than ODA.

While awaiting the resuming of negotiations, we also wish to draw DAC delegates' attention to the following areas:

1. Institutional approach: This approach is problematic in terms of transparency and allows for inflation of ODA through the inclusion of activities that may not meet the relevant eligibility criteria. Considering that risk, our position is that the institutional approach should not be allowed.
2. Concessionality is a defining feature of [ODA](#): upholding it is necessary to maintain a clear distinction between ODA and commercial transactions. To qualify as ODA, the terms of the PSI must be better than those provided by the market (i.e. concessional) – [yet the interim reporting requirements allow for non-concessional flows to be included as ODA](#). Furthermore, additionality, while important, should never be used as a substitute for concessionality in determining ODA eligibility.
3. Financial and developmental additionality are essential features of PSI, yet there is no proper methodology in place to assess this. Ahead of reporting data for 2019, it is important DAC members work towards strengthening the reporting and evaluation requirements on additionality:
 - Setting clear criteria for assessing financial and development additionality, which should be established for each project (as per OECD DAC Blended Finance Principle 5). Criteria for development additionality should specify which development objectives are the focus for the PSI and how the investment aligns to the SDG pledge to 'leave no-one behind' as well as the free, informed and prior consent of those affected (given the emphasis on infrastructure and energy investment with PSIs).
 - Prior to an investment decision, expected additionality (financial and/or developmental) should be assessed and publicly disclosed, including through the Creditor Reporting System (CRS).
 - Assessments of additionality at the donor level should be carried out by parties, who are independent of the donor that is reporting PSI as ODA. They should also strengthen the capacities of the DAC to assess the additionality's relevance to ODA and development effectiveness principles. At the DAC level, this should be an integral part of the biennial institutional assessment, not just a supplemental consideration used solely to create a good understanding of the institution's functioning and operations.
4. PSI reporting should be consistent with the DAC's long standing commitments on untying ODA. In this regard, we call on the DAC to take urgent steps in 2020 to fully assess and address the risks of informal tying or other questions regarding partner country ownership associated with delivering ODA through PSIs. PSI vehicles should be reported according to their real tying status.
5. Until permanent and more ambitious rules are agreed, DAC members must ensure the requirements of the 2018 PSI agreement are either met or exceeded in their reporting — including taking full advantage of the additionality fields provided in the CRS – for the 2019 ODA data

¹ As a statistical measure to assess donor performance on key commitments on international development cooperation.

gathering and release. One of the primary arguments put forward to support the inclusion of PSI data and reform was that it would improve the quality of ODA data. A complete data picture is essential for meaningful public scrutiny of how ODA for PSIs is being spent. Furthermore, the self-assessments for member's PSI vehicles and their demonstrated ODA-eligibility should be made available to the public.

6. Requiring disclosures, that are consistent with full PSI transparency, outside the scope of the CRS database. As such, it is urgent that:

- Development finance institutions (DFIs) work towards full public transparency with respect to their portfolios, to ensure proper accountability. This includes publicly disclosing contracts involving ODA and making their current and future standards easily accessible to all citizens, in both the global north and global south.

Last but not least, given the current data gaps around PSI and the far-reaching implications of the (incoherent) new rules, it will be essential to closely monitor what practical impact the rules are having. Recent independent studies confirm that current PSI rules are potentially [disincentivizing aid channelled through the public sector](#), which in many contexts — particularly those affecting the most vulnerable — remains vital to fulfil rights-based social services, achieve the SDGs and leave no one behind.

Thus, action on the part of the DAC and its members is vital. Ultimately, these concerns can only be resolved by DAC members returning to the negotiating table with raised ambitions on PSIs. We therefore urge DAC members to agree to concluding a substantive review of the rules by 2021, based on the data reported in 2018 and 2019. With the deadline for achieving the Sustainable Development Goals rapidly approaching, taking stock of the implications of PSI rules' impact at the earliest opportunity should be of top-priority.

2. Community of Practice – Private Finance for Sustainable Development

The DAC-CSO Reference Group welcomes the establishment of the Private Finance for Sustainable Development (PFSD) Community of Practice (CoP) which offers a space to discuss critical issues on private finance in development cooperation. We also welcome the opportunity for CSOs to contribute on an *ad hoc* basis to this Community of Practice's discussions. However, in the context and spirit of the DAC-approved Framework for Dialogue between the DAC and Civil Society Organisations ([DCD/DAC\(2018\)28/FINAL](#)), we would like to ask DAC members to consider including a representative of the DAC CSO Reference Group as part of the core members' group.

CSOs can bring policy analysis and evidence to the CoP forum that can substantially enrich discussions around blended finance, impact investment and beyond. Furthermore, we believe the PFSD CoP offers a unique space to build synergies across different OECD processes dealing with private finance related issues (e.g. PSI, Blended Finance at the DAC, Private Sector Engagement at the GPEDC, etc.). Members of the DAC-CSO Reference Group also have substantial experience in constructively contributing to multi-stakeholder dialogues on private finance related issues, such as the implications of development effectiveness principles in engagement with private finance in development cooperation (e.g. the [Kampala Principles](#), launched in 2019). Members of the DAC-CSO Reference Group, notably, those from the Global South, can also provide evidence on the impact of private finance on the ground.

We appreciate the attention to these issues in your forthcoming meeting and look forward to the outcomes of your deliberations.

With best wishes,

1. ActionAid
2. Africa Development Interchange Network (ADIN)
3. Aid Watch Canada
4. Alliance Sud
5. Austrian Platform for Development and Humanitarian Aid
6. Bond – The International Development Network
7. Canadian Council for International Co-operation (CCIC)
8. Centre for Human Rights and Development (CHRD)
9. Centre national de coopération au développement (CNCD-11.11.11)
10. Centro Estudio e Investigación Mujeres (CEIM)
11. Coastal Development Partnership (CDP)
12. Coordinadora de la Mujer – Bolivia
13. Coordinadora de ONGD España
14. Coordination Office of the Austrian Bishop’s Conference for International Development and Mission (KOO)
15. Ekvilib Institut
16. European Network on Debt and Development (Eurodad)
17. European NGO Confederation for Relief and Development (CONCORD)
18. Fundación SES
19. Global Health Advocates (GHA)
20. Global Focus
21. Global Policy Forum (GPF)
22. Investment Watch (I-Watch)
23. ONE
24. Oxfam International
25. Portuguese NGDO Platform (ONGD)
26. Slovenian NGO platform for development (SLOGA)
27. Society for International Development
28. S.O.S. CEDIA
29. Wemos