

Aid under threat

The shadowy business of private sector instruments

By Nerea Craviotto • November 2023

The background of the lower half of the page is a dark, blue-tinted image of Euro banknotes. The notes are arranged in a perspective that creates a strong sense of depth, with lines converging towards the horizon. The text "PRIVATE SECTOR INSTRUMENTS" is superimposed in large, bold, white capital letters across the middle of this image.

PRIVATE SECTOR INSTRUMENTS

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Executive summary

For the first time in over three decades, the Human Development Index (2021/2022) – which measures each country's social and economic development – has fallen globally, clearly indicating the huge setbacks that nations across the global south are facing in terms of health, education and living standards. Official development assistance (ODA or aid) remains the best financial support many countries receive because it supports the budgets that deliver public services, especially in least developed and low-income countries. Despite this, the way that aid is channelled to the countries most in need has changed tremendously in the past decade – public sector investment has been decreasing, while private-sector oriented operations have increased.

Back in 2016 members of the OECD Development Assistance Committee (DAC) – a group of donor countries that monitor and report on their own aid commitments – decided to relax long standing rules and allow the counting of finance to leverage private investment as ODA. For the first time the principle that aid must be concessional (i.e. more generous than market rates) would no longer be the only criteria to make a financial flow eligible. Following this, DAC members agreed temporary rules on how to report the use of private sector instruments (PSIs) in ODA, in 2018.

In late October 2023, DAC members finally agreed to permanent rules and the expansion of the existing measures to instruments such as guarantees and mezzanines. This new agreement will likely mean channelling more ODA through private sector-oriented projects, raising concerns about whether this is the best use of scarce ODA resources. Civil society organisations (CSOs) around the world have consistently questioned the ability of these opaque instruments to reach those most in need, thus diverting scarce resources from where they have most impact.

This report provides a fresh analysis of the most recent data available on private sector instruments reported as ODA for the period 2018 to 2021. The analysis sheds light on the current transparency and accountability gaps in the information reported by DAC members to the OECD. It shows they are failing to report the information required by the 2018 PSI reporting rules that they agreed to, notably on additionality (the added value of using aid to attract private investment to a particular sector or country) – the primary criterion for private sector instruments to be ODA-eligible. These gaps are particularly problematic as they leave the development community, and the broader public, without the necessary information to assess whether ODA is effectively allocated according to where it is most needed and to hold wealthy countries accountable for the activities supported with aid resources. Thus, this report includes a strong call to DAC members to increase the level of transparency and accountability of their aid resources, as a way to ensure that they deliver the greatest development impact.

In addition, this report pays special attention to ODA channelled by the development finance institutions (DFIs) of four major DAC members. These are the United Kingdom's BII, the European Union's European Investment Bank (EIB), Germany's DEG and KfW and France's Proparco. Between 2018 and 2021, DFIs have been the main implementers of PSI ODA with an average of 85 per cent channelled through them. These four DFIs alone have implemented a total of US\$ 15 billion (equivalent to 73 per cent of the total ODA reported between 2018 and 2021). The analysis shows that they are largely responsible for the important gaps and inconsistencies in the data reported to the OECD.

This report closes with a set of recommendations to DAC members, who will be responsible for implementing the new rules for reporting private sector instruments from 2023. It also offers recommendations for those CSOs monitoring the quality and quantity of ODA and encourages additional and renewed civil society advocacy and engagement on this topic.

The analysis of the PSI ODA between 2018 and 2021 finds that:

- Since 2018, the levels of ODA channelled through private sector instruments have been stable – an average of 3.03 per cent of total ODA levels. However, while this has been the overall trend, a closer look reveals that some major donors have significantly increased the use of PSIs to channel ODA. Among these, four DAC members stand out:
 - Japan, which increased PSI ODA by 440 per cent;
 - France, which increased by 124 per cent;
 - Germany, which increased by 97.5 per cent; and
 - Sweden, which increased by 55 per cent.

- Aid channelled through PSIs is mostly directed to countries and regions that offer profits and that have a low-risk profile. This is in line with the profit-seeking nature of private sector operations. As this report shows, between 2018 and 2021, the vast majority of PSI ODA went to upper middle-income countries (59 per cent), followed by lower middle-income countries (37 per cent). Only an average of four per cent of PSI ODA was channelled to least developed countries. This shows that aid channelled through private sector instruments diverts scarce resources from where they are most needed.
- While PSI ODA has been reported as untied from firms based in wealthy countries, the Untying Recommendation applies to only the very minimal four per cent of aid channelled through private sector instruments targeting LDCs. Currently, the Recommendation leaves out ODA channelled to UMICs or LMICs, where most PSI operations are taking place.

PSIs will likely increase in the years to come based on the trends outlined above. The new rules are also bound to incentivise further engagement with the private sector.

There are some actions DAC members must urgently take to both strengthen transparency surrounding the use of ODA resources, and increase accountability in relation to its impact:

1. **Prioritise delivering aid as grants** so recipient countries are able to promote publicly financed and delivered services and strengthen those sectors that are proven to best tackle inequality, such as public health, education or social protection.
2. **Members failing to fulfil the agreed PSI reporting requirements**, notably on additionality and the financial details related to the grant equivalents calculations, **should not report these funds as ODA**.
3. **Meet the standards they have set for the ODA reported as private sector instruments immediately** – any delay on this will only continue to perpetuate a problematic lack of transparency.
4. **Improve the flow of ODA information with DFIs**: DAC members are responsible for the information provided by their DFIs. An enhanced information exchange between DAC members and their DFIs is needed to meet the PSI requirements set.
5. When information is gathered and reported on PSI activities, **ensure that information is in line with the agreed OECD–UNDP Impact Standards for Financing Sustainable Development**. These Impact Standards are an assessment tool that looks at the extent to which private sector oriented operations help achieve the Sustainable Development Goals (SDGs). Integrating this could strengthen the level of information reported to the OECD on PSI operations.
6. **Update the scope of the current Recommendation on Untying to counter the risks of increasing levels of tied aid** in the context of private sector instruments, which only considers the poorest countries. Considering the nature of PSIs that target lower-middle income countries and upper-middle income countries, DAC members should expand the scope of the Recommendation to these country groups.
7. **Commission an independent and external review of the whole ODA modernisation process and its impact on the quantity and quality of ODA**, notably the overall aid levels reaching the global south. Such a review should look into the expansion of the ODA concept, its definition and related reporting rules, including the departure from concessionality for PSI operations. In the meantime, **freeze the ODA modernisation process**.

In addition, CSOs have a critical role to play in terms of monitoring the impact of the new PSI rules into the quality and integrity of ODA. They can:

1. **Maintain the spotlight on the continued need for non-PSI ODA and hold DAC members to account for their longstanding commitment to provide 0.7 per cent of GNI as ODA, on concessional terms.**
2. **Demand evidence to justify the inclusion of PSIs in ODA:** Spending ODA on PSIs has an opportunity cost – the ODA resources invested cannot be used elsewhere, yet there is no evidence that rich countries have a robust process in place to support their choice of PSIs over alternative uses of ODA. Furthermore, where DAC donors do not comply with the agreed reporting requirements – including the additionality fields – it is key to advocate for the non-inclusion of these flows as ODA.
3. **Defend the integrity of ODA:** CSOs could closely monitor PSI operations, and the role of DFIs within, notably in terms of evidence of achieved development results, the risks for increased levels of tied aid, their alignment with the development effectiveness principles, and the country allocation implications arising from the inclusion of PSI in ODA.
4. **Monitor the inflation of ODA figures:** It is important to pay attention to the inflation of ODA figures by tracking the profits generated by PSI operations. The new PSI reporting rules allow DAC members to reinvest the profits generated by the PSI operations and report them as ODA, questioning the whole concept of “donor (budgetary) effort”. This is a very concerning trend that will likely lead up to inflated ODA figures in the mid-term.
5. **Continue to develop evidence and analysis** that contributes to more informed discussions on the impact of PSIs, and their support for various types of private sector actors in the global south, towards eradicating poverty and inequalities, contributing to environmental and development sustainability and ‘leaving no one behind’.
6. **Call for a definitive end of the ODA modernisation process.** This process has been responsible for broadening the scope of ODA to report activities that do not belong to it.

With the deadline for achieving the SDGs rapidly approaching, DAC members have no time to lose to make sure ODA is channelled through the best possible instruments and deliver the highest impacts, to ensure that the progress of the poorest and most marginalised people remains at the heart of ODA allocations.

Introduction

The world is at a critical juncture. In 2021 and 2022, and for the first time in over three decades, the Human Development Index has fallen globally, clearly indicating the huge setbacks that countries across the global south are confronting in terms of health, education and living standards.¹ Hunger and violent conflict are also on the increase. Official development assistance (ODA), or aid, remains the best financial support many countries receive, and is especially needed in the least developed and low-income countries.² Despite this, the way that aid is channelled to the countries most in need has changed tremendously in the last decade.

The prolonged effects of the 2008 economic crisis meant ODA stagnated between 2010 to 2014. On top of this, there was increasing pressure to optimise the limited ODA budgets available, by, for example, using them to catalyse private finance (i.e. through risk-mitigating instruments) with the aim of generating higher volumes of resources for development. In 2012, the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) started reforming its statistical system (titled the ODA modernisation process), for several reasons, including the desire to incentivise even further these trends.³ The adoption of the Sustainable Development Goals (SDGs), backed by the Addis Ababa Action Agenda (AAAA), in 2015, again placed partnering with the private sector and private finance at the centre of their implementation.

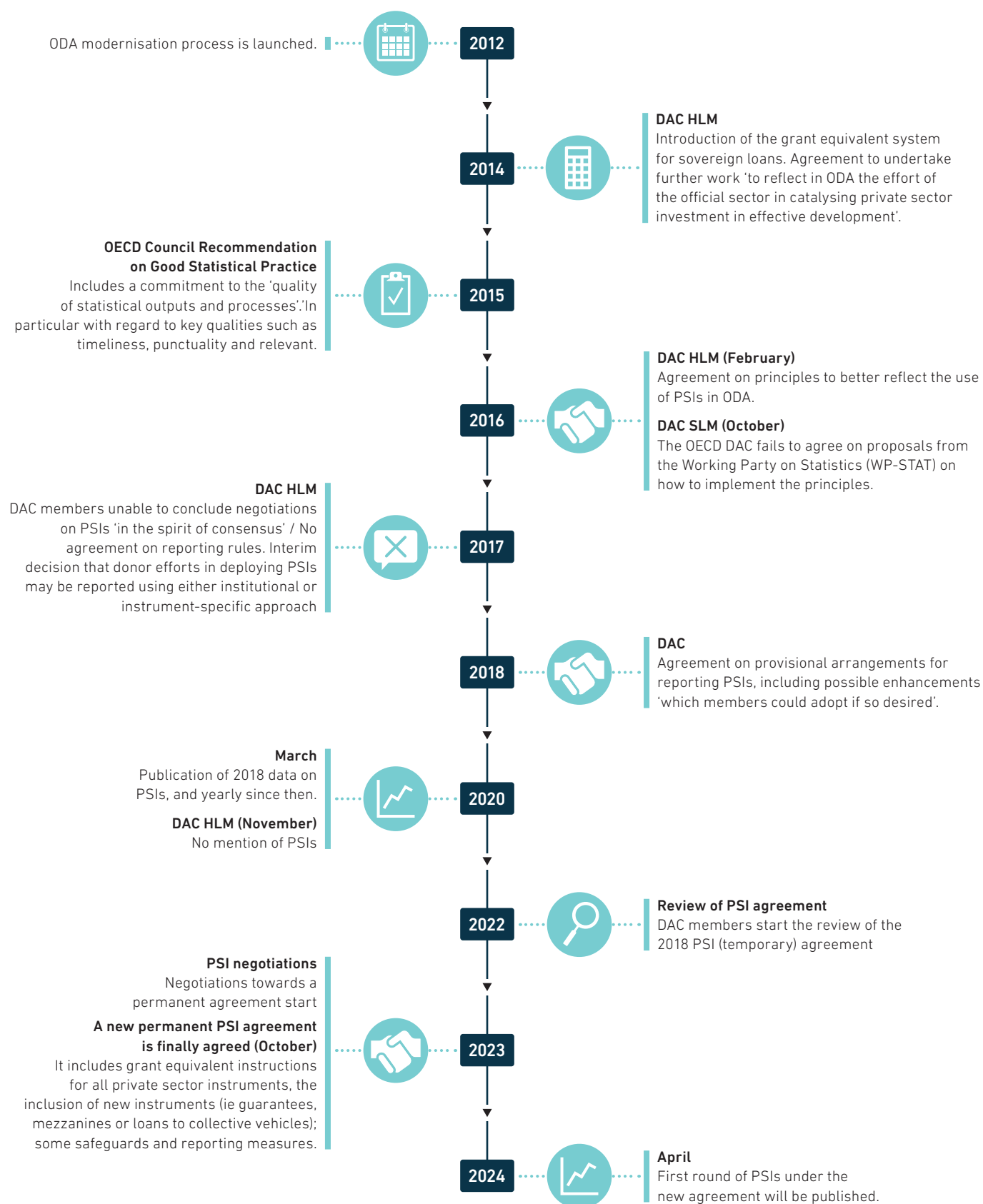
In line with this trend, in 2016 DAC members (at a DAC High Level Meeting (HLM)) decided to relax ODA rules to allow the counting of finance to leverage private investment as ODA. For the first time in ODA history concessionality⁴ would no longer be the only criteria to make a financial flow ODA-eligible. In 2018, DAC members agreed temporary rules on how to report the use of private sector instruments (PSIs) in ODA, which were criticised by many civil society organisations (CSOs). Figure 1 summarises the milestones of this agreement within the ODA modernisation process.

CSOs have always been critical of the inclusion of private sector instruments in the reporting of aid, questioning the ability of these instruments to reach those most in need, while diverting scarce ODA resources from where they have most impact. We and our partners have also raised concerns over the lack of transparency on how ODA resources are used once allocated to the related PSI vehicle, such as a Development Finance Institution (DFI), notably the potential for an unrealistic inflation of ODA with the inclusion of activities that fail to meet the ODA objectives. Last but not least, there is no evidence that DAC members have a robust process in place that allows them to identify the comparative advantage of choosing to support PSI strategies over other alternative uses.

In 2023, DAC members were negotiating the expansion of the existing measures to include, among others, guarantees, mezzanines and other private sector instruments, and reached an agreement at the end of October. This new agreement will likely mean channelling more ODA through private sector-oriented projects, which raises concerns on whether this is the best use of scarce ODA resources. Nevertheless, the new rules for the reporting of private sector instruments shall be better than the existing ones, as they shall strengthen transparency – on all the related operations, monitoring and review mechanisms – as well as reinforcing the quality of the information reported on the additionality of the operations carried out through private sector instruments. At least then both CSOs and the public will have the information they need to hold the DAC and DFIs to account and raise arising concerns about the development effectiveness of these operations.

In the midst of these changes, the role of DFIs has also been growing (see Figure 1). DFIs are expected to play a critical role in leveraging finance from the private sector in key SDG-related sectors, including infrastructure and social sectors. As a result, DFIs (such as the British International Investment (BII) or Proparco) have been receiving increasing amounts of public resources from their governments.⁵ At the same time new bilateral DFIs such as the Canadian FinDev (2018) or the US International Development Finance Corporation (USDFC) (2019) have been created.

Figure 1: OECD DAC ODA modernisation milestones related to private sector instruments



Source: Author through a combination of sources.

Acronyms: OECD: Organisation for Economic Co-operation and Development; DAC: Development Assistance Committee; ODA: Official Development Assistance; PSI: Private Sector Instruments; HLM: High Level Meeting; SLM: Senior Level Meeting; WP-STAT: Working Party on Development Finance Statistics.

Box 1: What are Development Finance Institutions?

DFIs are a sub-set of public development banks. They are specialised institutions set up to support public policy objectives, mainly through private sector activities in developing countries.

They are usually majority-owned by governments and benefit from public guarantees and resources, while some source their capital from national development budgets reported as Official Development Assistance (ODA). Bilateral DFIs are commonly in countries in the global north, such as the Norwegian Nordfund or the French Proparco, or part of a larger bilateral development bank, such as the German DEG – all three are among the largest in the world. The US Development Finance Corporation, also among the largest DFIs, was established in 2018 after a merger of the independent Overseas Private Investment Corporation and several other funds and agencies. In Europe, 15 bilateral DFIs are members of the Association of European Development Finance Institutions, which was founded in 1992.

There are many other vehicles that also extend finance to the private sector, with similar governance models, which are, however, not labelled as DFIs. This is the case with the Dutch Climate and Development Fund, the British UK Climate Investments and the Spanish Fonprode.

Multilateral DFIs are the private sector arms of multilateral and regional development banks, such as the International Finance Corporation (IFC) of the World Bank Group (WBG) (the largest multilateral DFI), the Inter-American Development Bank (IDB) Group's IDB Invest, and EIB Global under the European Investment Bank (EIB). Most DFIs are largely dominated by governments in the global north, who play a leading role in their boards of directors. Developing countries are minority shareholders or not represented at all, like in the case of EIB Global, even though they are receiving the funds.

CSOs have criticised the growing role that DFIs play in the field of development cooperation. Evidence highlights a lack of development impact, as well as a lack of alignment with effectiveness principles, including poor accountability and transparency. Furthermore, given the extensive use of financial intermediaries by DFIs, there are risks of increasing both formal and informal tied aid; increased debt burdens; and/or a contribution to unfair tax practices.⁶ This report builds on these critical appraisals and seeks to contribute to the discussions on whether DFIs are appropriate players in the field of development cooperation.

With new reporting rules for private sector instruments agreed, this report offers an analysis of the aid channelled through private sector instruments between 2018 and 2021 (the most recent data available). Special attention is given to the PSI ODA channelled through the DFIs of four selected DAC members – the United Kingdom (UK), the European Union, Germany and France – with the aim to expose to what extent they are delivering on their commitments to transparency and accountability of aid. To do that, we focus on the information related to private sector instruments reported to the OECD, and compiled in the Creditor Reporting System (CRS) – the main global data source of ODA. Lastly, this report offers policy recommendations to encourage additional and renewed engagement on this topic, anticipating already the need for monitoring the implications of the new PSI agreement for the quality and quantity of ODA. Overall, **it raises a strong call to DAC members to increase the level of transparency and accountability of their aid resources, as a way of ensuring that they deliver the highest development impact.**

This report is organised in three sections:

- Section 1 analyses ODA reported as PSI between 2018 and 2021. The analysis sheds light on the scale of PSI ODA, the type of instruments used to channel it, the geographic and sectoral priorities and the gaps observed in the reporting of additionality.
- Section 2 looks specifically at four DAC members, with special attention to their DFIs: the UK's British International Investment (BII) (formerly CDC), the EU's European Investment Bank (EIB), Germany's Investment and Development Company (DEG) and KfW and France's Proparco. This section sheds light on the limited information reported to the OECD that could allow an external assessment of the added value of using limited ODA resources through private sector instruments versus other types of ODA modalities (i.e. budget support⁷).
- Section 3 concludes and proposes policy recommendations to hold DAC members to account in relation to their aid channelled through private sector instruments.

In a context of uncertainty about ODA increases, paired with the ambition to mobilise additional private finance for development purposes and the role that DFIs shall play in it, a question remains – are they the right channel to use the limited ODA resources?

1. Private sector instrument operations reported as ODA: do they contribute to development?

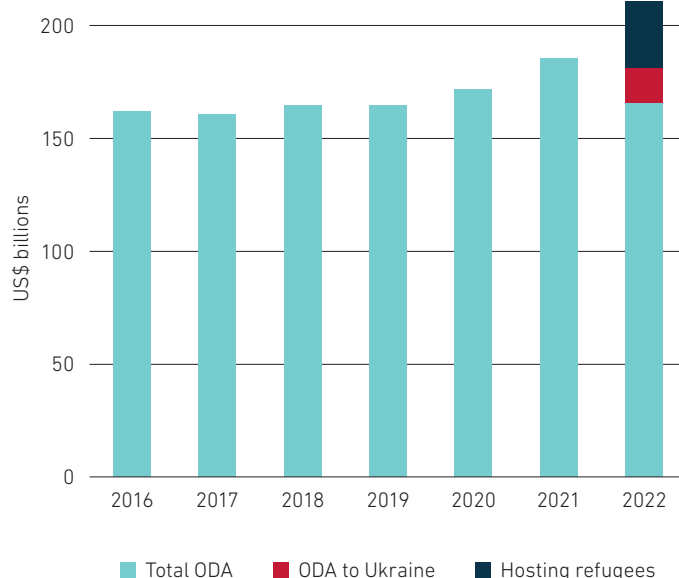
This section presents the main quantitative trends observed from the analysis of the available PSI ODA data, covering the 2018 to 2021 period. The analysis shows the volumes of ODA channelled through PSI throughout the period, the type of instruments used, and the geographic and sector priorities and assesses whether the additionality requirements of PSI ODA have been fulfilled. It also shows the limited information provided by DAC members and their failure to fulfil the reporting requirements they set in the 2018 PSI agreement. This raises concerns about the transparency and accountability related with this type of operation.

1.1 Recent ODA trends

Aid flows have been stagnating in recent years, with the exception of the last three years in which ODA levels increased. Initially, this happened in response to the immediate effects of the Covid-19 pandemic and, in 2022, to the refugee crisis generated by the war in Ukraine (see Figure 2). However, in the last decade, ODA levels as a share of DAC countries' Gross National Income (GNI) have been stuck at an average of 0.34 per cent – not yet halfway to the longstanding United Nations (UN) target of 0.7 per cent (see Figure 3). Worryingly, according to Oxfam calculations, up to 2021, countries in the global south lost out on US\$6.5 trillion in aid, after 50 years of unmet commitments by rich countries.⁸

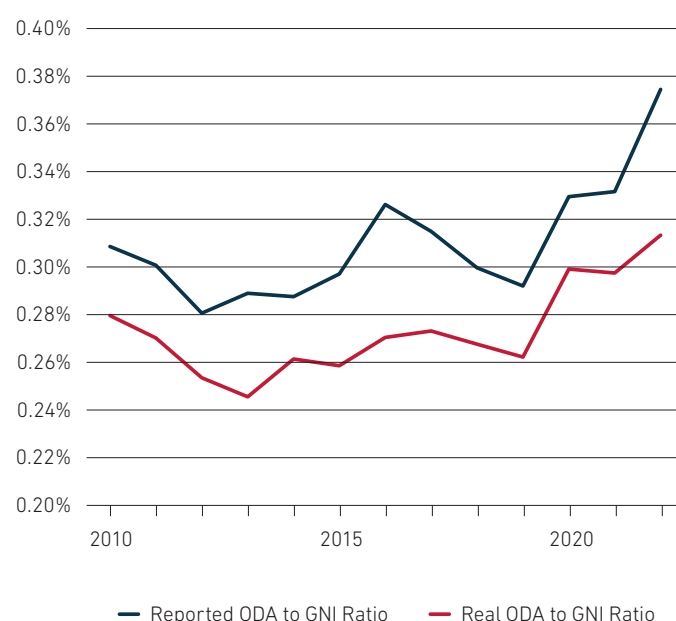
Furthermore, ODA headline figures are just a part of a broader picture. The 2018 reporting rules allow DAC donors to report: an estimate of their expenditure on refugees for their first year in the provider country; imputed student costs in the provider country; debt relief granted to creditors; and, since 2021, recycled Covid-19 vaccine doses donated to ODA-eligible developing countries and related costs. Yet, none of these areas represent a transfer of funds to developing countries, but rather a diversion of funds from where they are most needed. For example, in 2021,⁹ the reporting of these costs, including recycled vaccine donations, has allowed DAC providers to inflate their ODA figures by US\$12.1 billion (or almost 7 per cent of total ODA). Figure 3 suggests (under the label of real ODA¹⁰) what the ODA/GNI trends for the period of 2010–2021 would have been without including these costs. CSOs, including Eurodad, have been arguing for years against the reporting of these costs as ODA.

Figure 2: ODA levels since 2016



Source: OECD DAC Table 1 data extracted on August 2023 (constant prices 2018).
Notes: Data shows 'Official Development Assistance, grant equivalent measure' for DAC Countries and EU Institutions. Data for 2022 is still preliminary.

Figure 3: Reported ODA/GNI vs 'real ODA/GNI', 2010–2022



Source: Analysis from B. Tomlinson (Aid Watch Canada), based on OECD DAC Table 1 and 2 (constant prices).
Note: Data for 2010 to 2021 is reported on a cash-flow basis, for consistency reasons. Data is for DAC countries only.

1.2 PSIs trends – an overview on the ODA reported between 2018 and 2021¹¹

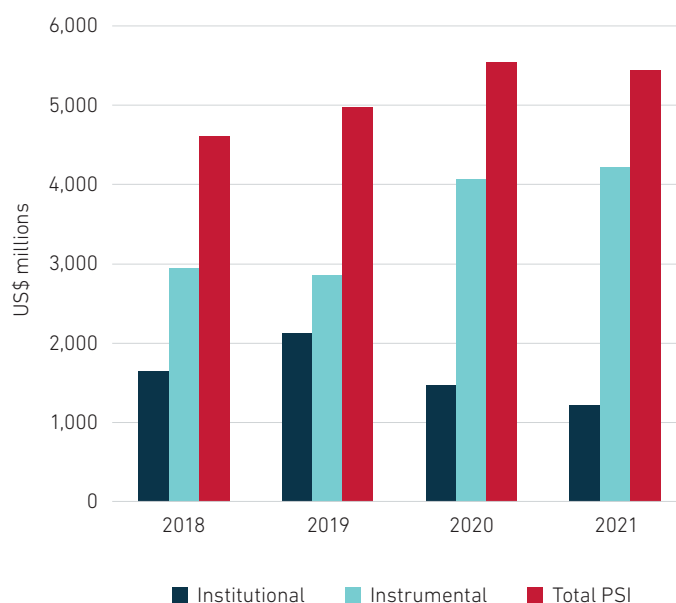
This section looks at the levels of PSI ODA channelled throughout the period of 2018-2021, the type of private sector instruments used, the related geographic and sectoral priorities and the additionality of the reported projects.

Between 2018 and 2021, the amount of ODA (gross) reported as private sector instruments has been mostly growing (see Figure 4) – from US\$4.6 billion to US\$5.4 billion, which accounts for an 18 per cent increase. For the four years under review a total of US\$20.6 billion were reported as PSI ODA, equivalent to 3.03 per cent of total ODA for the four years. This percentage rises to 3.3 per cent of total ‘real ODA’¹² for the four years under review. Although aggregate PSI levels reported as ODA may seem small, it can be expected that they will further increase in the years to come – notably following the expansion of the PSI agreement into new instruments and operations (by 2023).¹³

It is important to highlight that during the 2018-2021 period, aid channelled through private sector instruments significantly exceeded the support that DAC members provided to developing countries’ governments to implement their national development plans. For example, the average of US\$5.1 billion of PSI ODA represents almost three times more than the average amount of ODA spent on general budget support (US\$1.8 billion) – an important development cooperation instrument that strengthens the role of the state.¹⁴

Out of the US\$20.6 billion reported as PSI ODA, at least 85 per cent is channelled through DFIs – namely the Austrian OeEB, the Belgian BIO, the Canadian FinDev, the Danish IFU, the EU’s EIB, the Finish Finnfund, the French Proparco, the German KfW and DEG, the Norwegian Norfund, the Portuguese SOFID, the Swedish Swedfund, the Swiss SIFEM and the British BII (formerly, CDC). As the amount of PSI ODA was growing throughout the four years, so was the role of DFIs within the field of development cooperation.

Figure 4: Data on PSI ODA 2018-2021



Source: OECD-DAC Creditor Reporting System (extracted January 2023).
Note: Data is for DAC countries and EU Institutions. Value is US\$ gross extended (deflated), 2021 prices.

Who are the main DAC members using private sector instruments to deliver their aid?

Between 2018 and 2021, 15 DAC members (out of 32), plus the EU institutions, reported PSI ODA. They are: Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Japan, Norway, Portugal, Spain, Sweden, Switzerland and the UK. As Table 1 shows, the four main DAC members reporting PSI ODA are: the UK (22.1 per cent of the total PSI ODA reported for the period), the EU institutions (20.7 per cent), Germany (19.1 per cent) and France (17.9 per cent). These four donors alone made up almost 80 per cent of total PSI ODA reported for the four years under review. Importantly, the DFIs of these four donors, namely BII (formerly CDC), EIB, KfW, DEG, and Proparco, channelled 91 per cent of the total private sector instruments reported as ODA by the related DAC donors (see further down Figures 10 and 11). Therefore, their relevance in the field of aid and the need to better understand their activities and reporting practices (see Section 3 below) through the second part of this report.

Table 1: PSI ODA reported by DAC countries and EU institutions, ordered by amount reported, and share in relation to total PSI ODA reported to the OECD (2018-2021)

Country	2018	2019	2020	2021	TOTAL	% TOTAL PSI ODA 2018-2021
United Kingdom	1,137.1	1,562.5	960.9	883.3	4,543.8	22.1%
EU Institutions	1,525.4	584.9	1,266.0	874.3	4,250.6	20.7%
Germany	593.1	1,018.9	1,144.4	1,171.3	3,927.7	19.1%
France	605.2	827.8	890.4	1,356.2	3,679.6	17.9%
Japan	115.7	288.7	569.1	627.1	1,600.6	7.8%
Norway	222.9	267.6	256.1	199.1	945.7	4.6%
Sweden	75.4	73.5	96.1	116.6	361.6	1.8%
Belgium	75.4	95.1	68.2	52.6	291.3	1.4%
Canada	88.1	86.9	86.2		261.2	1.3%
Finland	55.9	60.8	90.0	50.6	257.3	1.3%
Switzerland	32.9	32.9	45.6	32.8	144.2	0.7%
Austria	17.7	14.5	37.9	54.9	125.0	0.6%
Denmark	37.9	41.8			79.7	0.4%
Spain	13.8	19.5	26.3	20.0	79.6	0.4%
Portugal	9.8				9.8	0.0%
Czech Republic		2.5	2.4	2.3	7.2	0.0%

Source: OECD Creditor Reporting System (CRS) for 2018 to 2021. Values are US\$ gross extended (deflated), in millions, constant prices (2021). Note: Data is for DAC countries and EU Institutions.

What does PSI ODA consist of?

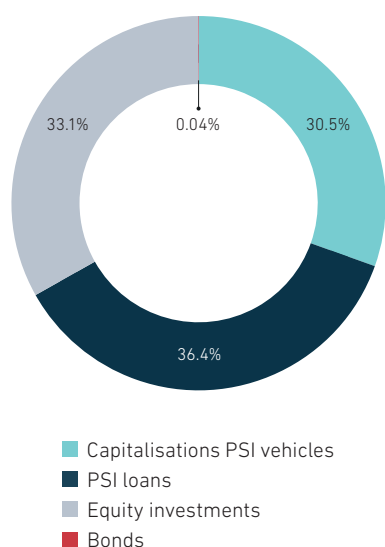
Under the 2018 reporting rules, aid channelled through private sector instruments can be reported following the instrument approach or the institutional approach. The instrument approach measures the ODA channelled between the PSI vehicle (such as a DFI, investment fund or other special purpose vehicle like a climate fund) and the private sector entity receiving the funds, whereas the institutional approach measures the transfer towards the PSI vehicle. Between 2018 and 2021, the majority of PSI ODA (an average of 69 per cent) was reported according to the instrument approach.¹⁵ Under the instrument approach, only concessional loans (i.e. with a 25 per cent concessionality threshold, using a 10 per cent discount rate) and equities can be reported as ODA. The remaining 31 per cent was reported under the institutional approach. This represents a change from Eurodad's previous analysis (covering the period

2018-2019) which showed a different trend with most PSI ODA reported under the institutional approach (an average of 60 per cent).¹⁶ In contrast to the instrument approach, the institutional approach carries no concessionality or instrument restrictions, which calls for some vigilance around the operations carried out. Furthermore, under the 2018 rules, the operations reported under the institutional approach are more difficult to track as the DAC member only reports the transfer of ODA funds to the PSI vehicle in an aggregated manner, with very soft additional requirements attached (for example, providing information on the recipient countries or regions). This should change with the new PSI rules agreed.

The PSI ODA reported for the capitalisation of PSI vehicles (mostly DFIs) – institutional approach – has been decreasing over the four years under review – from 36 per cent in 2018 to 18 per cent in 2021.

Figure 5 shows that between 2018 and 2021 an average of 30.5 per cent of the ODA reported under private sector instruments was related to the capitalisation of PSI vehicles – mostly DFIs, 91 per cent, including the British BII (formerly CDC), the Belgian BIO, the Canadian FinDev, the Danish IFU and the Norwegian Norfund. Otherwise, ODA reported under private sector instruments has been channelled through concessional loans to the private sector (36.4 per cent) and equity investments (33.1 per cent). Equity investments are operations in which ODA resources are invested in a company or intermediaries, notably investment funds, operating in the global south by purchasing shares of that company. Interestingly, 0.04 per cent of ODA has been reported as bonds – purchases which are out of the scope of the 2018 and current reporting methods. Although this is a minor amount, it flags the need to further clarify the rules with DAC members and to implement stronger monitoring methods.

**Figure 5: PSI instruments used
(average 2018–2021), percentages**



Source: OECD-DAC Creditor Reporting System (extracted September 2023). Note: Data is for DAC countries and EU Institutions. Value is US\$ gross extended (deflated), 2021 prices.

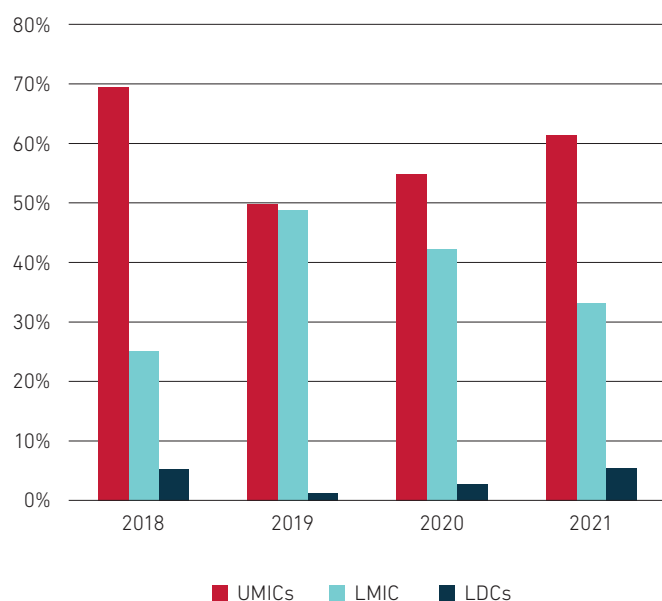
The new PSI agreement will bring some important changes. For example, it shall bring more comparability in the amount of information provided by DAC members around their PSI operations, independently of whether they use the institutional or the instrument approach. All DAC members will need to provide information about both the capital injections (and funds sent back to the government) of their PSI vehicles (i.e. DFIs) and the related individual operations (in grant equivalents). Furthermore, cash flows of the individual PSI operations will be recorded under 'other official flows'. Another change is that all ODA reported under private sector instruments will only need to be 'concessional in character' and, thus, mainly prove financial and/or value additionality. This step formalises the erosion of the concessionality criteria in the context of aid channelled through private sector instruments.

Which regions and countries is PSI ODA targeting?

Information on the income region allocation of private sector instruments reported as aid is scant. For the four years under review, more than half of ODA channelled through private sector instruments (60 per cent, equivalent to US\$12.3 billion) did not include information on the income group targeted. This is particularly the case with PSI ODA reported under the institutional approach, where 98 per cent of the reported ODA includes no information on the income group. Under the 2018 rules, the reporting requirements for DAC members reporting only the capitalisation of their PSI vehicles are lower. This information gap will improve with the new agreement as all DAC members will need to report on both the capitalisations of their PSI vehicles and the related individual activities, no matter whether they use the institutional or the instrument approach. This should bring more transparency on the regions and countries that PSI ODA is targeting.

Where detail is available (40 per cent of the PSI ODA reported for the four years), the analysis of the data finds that, between 2018 and 2021, the vast majority of PSI ODA went to upper-middle-income countries (UMICs) at an average of 59 per cent for the four years, followed by lower-middle-income countries (LMICs) with an average for the four years of 37 per cent (see Figure 6). Only an average of 4 per cent of PSI ODA was channelled to least developing countries (LDCs) and other low-income countries. These findings confirm other analysis¹⁷ pointing out that PSIs tend to favour middle-income countries over LDCs, showing a preference for those countries and regions where the risk in private sector investment is lower.

Figure 6: Allocation of PSI ODA by income groups (percentages)



Source: OECD-DAC Creditor Reporting System (extracted September 2023).
Note: Data is for DAC countries and EU Institutions. Value is US\$ gross extended (deflated), 2021 prices.

Where information on the region targeted is available (62 per cent of the PSI ODA reported between 2018 and 2021, equivalent to US\$12.8 billion), US\$4.5 billion, equivalent to 22 per cent, relates to projects and operations carried out in Africa or Sub-Sahara regions.

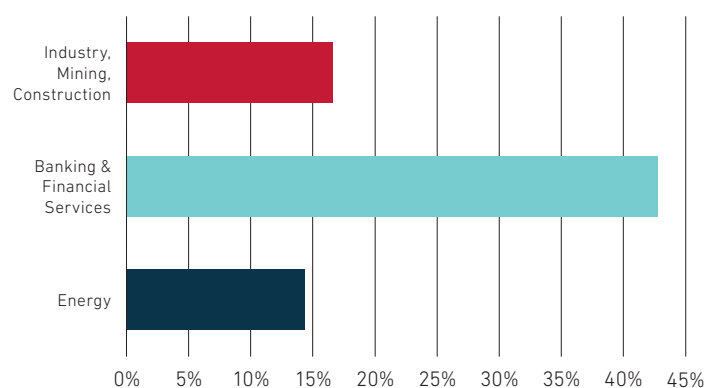
The analysis of the four-year period shows that the reporting of increasing levels of PSI ODA channelled under the instrument approach is not leading to increased levels of transparency in terms of income group or region. In 2018, most of the PSI ODA for which the income group of countries was not specified was reported under the institutional approach (64 per cent). However, by 2021 the situation inverted and most PSI ODA for which the income group of countries is not specified was reported under the instrument approach (64 per cent). The nature of PSI operations (i.e. equities in regional investment funds) may justify the lack of information on the income groups or regions targeted by these countries, but DAC members still have a responsibility to declare whether ODA is channelled where it is most needed.

This information gap, despite the requirements of the PSI agreement, creates difficulties for the general public in assessing to which income regions or countries the related PSI ODA has been allocated and assessing the opportunity cost compared to other types of concessional instruments. Furthermore, this situation does not seem to be improving as DAC members and their DFIs become more familiar with the reporting instructions and requirements. Although the new PSI reporting rules shall improve the level of information required from members, the level of compliance may deteriorate even further with the expansion of the new agreement to new instruments, as there will be more projects and operations to track.

What is PSI ODA spent on?

A key question on the use of private sector instruments reported as ODA is what kind of projects are supported with these resources. This is particularly relevant for resources that are expected to address poverty and inequalities and serve the ones most in need. As Figure 7 shows, between 2018 and 2021, an average of 42 per cent of PSI ODA was invested in projects targeting the banking and financial services sector, followed by the industry, mining and construction sector (with 16 per cent of PSI ODA) and the energy generation (renewable sources) sector (with 14 per cent of PSI ODA).

Figure 7: Average of PSI ODA 2018-2021 by sector (percentages)



Source: OECD-DAC Creditor Reporting System (extracted September 2023).
Note: Data is for DAC countries and EU Institutions. Value is US\$ gross extended (deflated), 2021 prices.

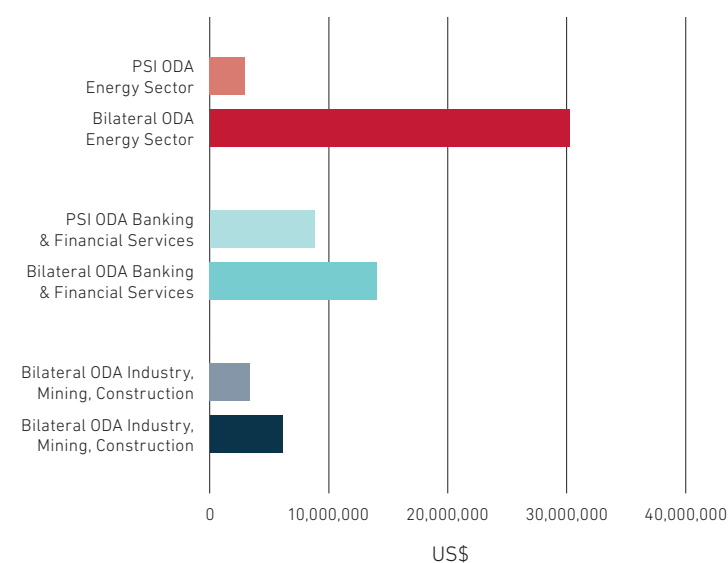
Between 2018 and 2021, most of the reported PSI ODA in the banking and financial services was implemented by the UK (33 per cent), followed by the EU institutions (27 per cent), Germany (24 per cent) and France (11 per cent) using concessional loans, equities to the private sector or shares in collective investment vehicles in UMICs (67 per cent of the reported PSI ODA for which information is available) and LMICs (30 per cent of the reported PSI ODA for which information is available). Where project descriptions are available much of the related PSI ODA aims to support or develop small and medium enterprises through financial intermediaries in countries such as Serbia, South Africa, Morocco, Brazil, Turkey, India or China.

Within the industry sector, between 2018 and 2021, most of the reported PSI ODA was implemented by the UK (36 per cent), Germany (21 per cent), France (20 per cent), the EU institutions (14 per cent) and Japan (6 per cent), using concessional loans, equities to the private sector or shares in collective investment vehicles in UMICs (52 per cent of the reported PSI ODA, for which information is available) and LMICs (45 per cent of the reported PSI ODA, for which information is available). Where further project information is available the ODA channelled through private sector instruments targeted countries such as Egypt, Kenya, Albania, India or Brazil. Within this sector, PSI ODA supported projects such as refinery in Egypt or support to financial intermediaries to support small and medium enterprises in Kenya.

Within the energy sector, between 2018 and 2021, most of the reported PSI ODA was implemented by the EU institutions (33 per cent), Finland (30 per cent), Japan (15 per cent), Germany (9 per cent) and the UK (8 per cent), using concessional loans, equities to the private sector or shares in collective investment vehicles in UMICs (57 per cent of the reported PSI ODA for which information is available) and LMICs (38 per cent of the reported PSI ODA for which information is available). These projects and operations support interventions related to renewable energy generation in Cameroon, Jamaica and India, among others. Japan, for example, supports projects related to the diversification of power sources or strengthening power supply, among others, in Jordan and Vietnam. For the UK, there is limited information on the income groups or countries targeted but where information is available PSI ODA seems to be mostly targeting India and South Africa. Germany supports projects aiming at energy inclusion in Africa and elsewhere.

As Figure 8 shows, it is relevant to highlight that PSIs are an important instrument to channel ODA into specific sectors. For example, for the four years under review, PSI ODA represents 63 per cent of total ODA targeting the banking and financial sector and 56 per cent of total ODA targeting the industry sector. Thus, for these two sectors, private sector instruments seem to be the preferred channel for injecting ODA. This is less the case for PSI ODA targeting the energy sector, which represents 10 per cent of the total ODA targeting this sector. That said, this share may change in the years to come and increase, in the context of mobilising additional funding for climate change adaptation and mitigation.

Figure 8: PSI ODA ratio per sector



Source: OECD-DAC Creditor Reporting System (extracted September 2023) and OECD statistics, table 'Aid (ODA) by sector and donor [DAC5]' (extracted September 2023). Note: Data is for DAC countries and EU Institutions. Value of PSI data is US\$ gross extended (deflated) in millions, 2021 prices.

How additional is PSI ODA?

The PSI agreement reached in 2018 (see Introduction) set reporting requirements for DAC members using private sector instruments to channel ODA.¹⁸ Additionality has been the foremost criterion for the inclusion of projects and operations carried out through private sector instruments as ODA-eligible – considering the mobilised financing would not need to be concessional anymore, it should convey then a clear additionality (financial or value) and bring development additionality. The 2018 PSI reporting rules include several fields related to additionality, yet, these additionality fields are still poorly used by DAC donors.

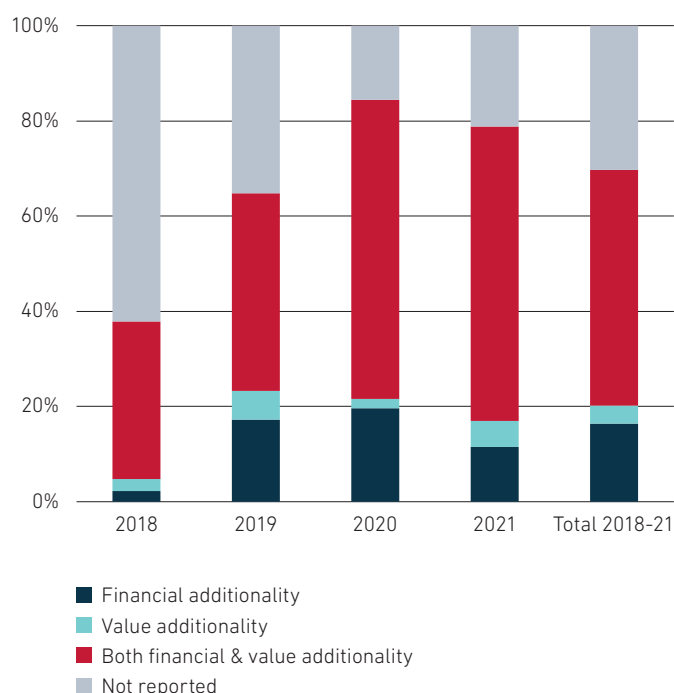
“The additionality of each PSI activity will be assessed and reported at the activity level in the CRS through three new fields [...] Any member reporting on PSI in ODA, whether under the institutional or instrument-specific approach, will be requested to compile these fields [...] All three fields are mandatory.”

Reporting Methods for Private Sector Instruments (DCD/ DAC(2018)47/FINAL)

Reporting on additionality is key to ensure that DAC donors are effectively allocating limited ODA resources where the evidence points it is needed the most and can have the greatest impact. Failing to report on additionality presumes rather than demonstrates the value and positive contributions of PSI projects and operations.

For the four years under review, only five (out of 15) DAC members provided information on the type of additionality pursued through their PSI activity for the totality of the PSI ODA they reported, those being Canada, Finland, Japan, Portugal and Spain. The following DAC members reported it for almost all the reported PSI ODA (as per the percentages stated): the UK (92 per cent), Austria (88 per cent), Sweden (84 per cent), Norway (83 per cent) and Switzerland (82 per cent). Although there was improvement over the four years under review, the EU institutions (64 per cent), Denmark (58 per cent) and Germany (55 per cent) did not provide adequate levels of information on the type of additionality provided by their PSI operations and, of the total PSI ODA reported between 2018 and 2021, 30 per cent did not include any information on the type of additionality pursued (see Figure 9).

Figure 9: PSI ODA type of additionality reported



Source: OECD-DAC Creditor Reporting System (extracted September 2023).
Note: Data is for DAC countries and EU Institutions. Value is US\$ gross extended (deflated), 2021 prices

The reporting methods approved also included a requirement to provide information that could bring understanding about and justification for the type of additionality pursued. Surprisingly, PSI ODA reported under the institutional approach provides more information on the additionality pursued than that reported under the instrument approach. Thus, for the four years under review, (approx.) 74 per cent of the PSI ODA reported under the institutional approach, equivalent to (approx.) US\$4.8 billion, provides some level of explanation on the type of additionality pursued, with Canada and Portugal providing additional information for the totality of the PSI ODA reported. The opposite is the case for PSI ODA reported under the instrument approach (where actually more information on the individual activities is required); for the four years under review, 73 per cent of the reported PSI ODA, equivalent to US\$10.4 billion, does not include any additional information on the type of additionality pursued. For example, Germany, Spain and Switzerland did not report any additional information on the additionality pursued by their PSI projects and operations, for the four years under review, while France provided hardly any additional information for the same period. Thus, of the total PSI ODA reported between 2018 and 2021, only around 50 per cent included some explanation on the additionality pursued. However, even where this information exists, in most cases it is limited and lacks sufficient detail to be able to really clarify the grounds on which development additionality is claimed.

DAC members are also required to provide information on the expected development additionality of PSIs in a related text field in the CRS. DAC members reporting under the institutional approach tend to provide some level of information on the development impact of the PSI projects and operations carried out through ODA. Thus, for the four years under review, (approx.) 83 per cent of the PSI ODA reported under the institutional approach, equivalent to US\$8.6 billion, includes some information on the development additionality expected. This is the opposite of DAC members reporting under the instrument approach, where only 23 per cent of the reported PSI ODA includes some level of information on the development additionality expected from the projects and operations supported, with the EU institutions, Germany, Spain and Switzerland reporting no information at all and France providing explanations of the objectives pursued for only 29 per cent of the PSI ODA reported for the four years. Of the total PSI ODA reported between 2018 to 2021, only around 53 per cent included some explanation on the expected development additionality and this information is, in most cases, rather vague.

Considering the new PSI agreement formalises additionality as a defining characteristic for PSI ODA, replacing concessionality, it is highly concerning how poorly some DAC members are reporting on these three mandatory fields. The new PSI agreement should strengthen significantly the reporting on additionality.¹⁹ Yet the last step will remain with DAC members and their willingness to meet the requirements. The lack of evidence on the reasons why spending ODA through PSIs is a good use of ODA resources makes it hard to hold DAC members to account on the impact and results of these projects and operations. Furthermore, the lack of information could be hiding a potential diversion of scarce ODA resources from where they are most needed.

It is highly concerning how poorly some DAC members are reporting on the additionality of their PSI operations

2. A review of four key DFIs: transparency and accountability must be improved²⁰

By the end of 2021, the total portfolio of multilateral and bilateral DFIs stood at more than US\$84 billion.²¹ Among the fastest-growing DFIs of the past decade²² are the BII (formerly CDC), from a portfolio of US\$4.2 billion in 2012 to US\$8.3 billion in 2021 – an increase of almost 98 per cent; the French Proparco, which grew significantly from a portfolio of US\$4.7 billion in 2012 to US\$8.5 billion in 2021 – an increase of almost 81 per cent; and the Development Bank of Austria, which recorded the biggest percentage increase in total portfolio, from US\$755.3 million in 2012 to US\$1.8 billion in 2021 – an increase of 134.9 per cent.²³ As research shows, DFI activity will likely continue to increase in the years to come.²⁴

With the growing role of DFIs, DAC members have been fostering a series of multi-stakeholder dialogues aimed at promoting accountability among the many organisations involved in financing sustainable development – including DFIs and asset managers. These concluded in an OECD–UNDP (United Nations Development Programme) set of Impact Standards for Financing Sustainable Development (IS-FSD),²⁵ approved by the OECD DAC in March 2021 (see Table 2), along with a set of four guidance notes (one per standard), aimed at supporting organisations in the process of revising their strategy, management approach, governance systems and transparency policies – and making them fit for achieving development impact. Although the approval of these standards is a step in the right direction, as they pursue a positive impact in sustainable development and more transparency around development results, their application remains voluntary. In the future, DAC members should consider turning this set of voluntary standards into a DAC recommendation, which could strengthen the implementation of these standards in the long term.

Furthermore, many obstacles to transparency remain because of the confidentiality issues attached to the projects and operations carried out by DFIs – for example about the

clients involved or the terms and conditions of the related operations. Yet, when ODA is involved, they are subjected to higher standards of transparency and accountability so these obstacles need to be overcome. The above standards are a step in the right direction to strengthen key development principles such as development results, transparency and accountability.

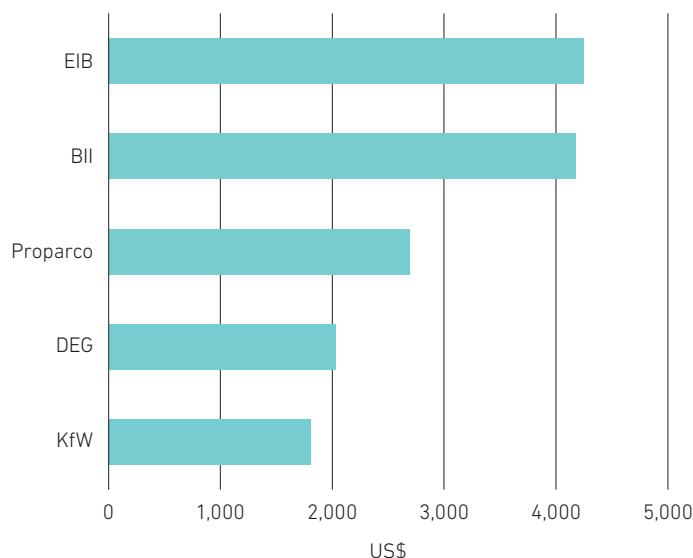
Within this section we present an analysis of the four major DAC donors in providing PSI ODA (see Table 1, page 9), with special attention to their DFIs since they are the main vehicles that channel the reported PSI ODA (see Figure 10), namely: the UK – BII (formerly CDC), the European Institutions – the EIB, Germany – DEG and KfW, and France – Proparco. Together these five DFIs channelled 91 per cent of the PSI ODA reported by these four donors for the five years under review (see Figure 11). The analysis looks at specific reporting requirements included in the 2018 PSI agreement, namely:

- the type of instruments used
- the geographic and sector priorities
- the additionality of the PSI ODA
- the tying status
- whether a proper description of the project has been provided

Table 2: The OECD–UNDP IS-FSD

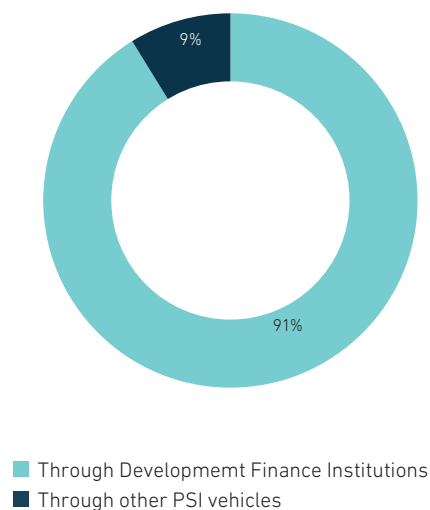
THE FOUR MAIN STANDARDS			
STANDARD 1 Impact strategy The partner sets development objectives, framed in terms of the SDGs with particular attention to the overarching commitment to 'leave no one behind'. Objectives are aligned with donor and partner country priorities and are embedded in the impact-centred investment strategy.	STANDARD 2 Impact management approach The partner adopts an impact management approach that integrates development impact, human rights safeguards, the SDGs, and Environmental, Social and Governance (ESG) into the design and management of its operations.	STANDARD 3 Transparency and accountability The partner discloses towards donors and beneficiaries how it manages and measures the development impact and contribution to the SDGs of the private sector operations deploying public resources, as well as how development impact is integrated in its management approach and governance practices.	STANDARD 4 Governance The partner's commitment to contributing positively to the SDGs is reflected in its governance practices and arrangements.

Figure 10: Amount of 2018-2021 PSI ODA implemented by EIB, BII, Proparco, DEG and KfW



Source: OECD-DAC Creditor Reporting System (extracted September 2023).
Note: Data is for DAC countries and EU Institutions. Data is extracted as US\$ gross disbursements (deflated), in millions, 2021 prices.

Figure 11: Share of 2018-2021 PSI ODA from the EU institutions, Germany, France and the UK, implemented by DFIs versus other PSI vehicles



Source: OECD-DAC Creditor Reporting System (extracted September 2023).
Note: Data is for DAC countries and EU Institutions. Data is extracted as US\$ gross disbursements (deflated), in millions, 2021 prices.

The four DAC members and their DFIs will be assessed – through a traffic light colour code – according to the level of information provided to the OECD for operations carried out through private sector instruments following the methodology presented in Annex I. The analysis of these aspects allows this report to flag issues that CSOs have been consistently raising since the PSI agreement in 2018, namely issues related to:

- the fundamental nature and role of ODA to address the eradication of poverty and inequalities and whether ODA is effectively allocated according to where it is most needed and can have the greatest impact
- transparency and accountability, related to the availability of data that allows the assessment of PSI transactions and the evidence of the expected impact

The analysis illustrates the weaknesses already observed in Section 1, that is the gaps in reporting according to the requirements set by the 2018 PSI agreement. Considering the BII, the EIB, DEG, KfW and Proparco alone implement 91 per cent of the PSI ODA reported by the UK, the European Union, Germany and France, they have an important role in improving these reporting gaps in the years to come.

Before moving forward, it is important to remember that the ODA eligibility of PSI vehicles (e.g. DFIs) and their activities is under the 2018 rules based on self-assessments, following a template that includes questions relating to the mandate of the vehicle, its shareholder structure, project portfolio, development focus, additionality, due diligence mechanisms and compliance with internationally accepted minimum standards and mechanisms to prevent tax evasion. These self-assessments include crucial information to assess the added value of these vehicles compared to other types of interventions and are shared with the OECD Secretariat. However, these self-assessments have no public disclosure requirements, which compromises the transparency and accountability standards adopted by DAC donors in, for example, the Paris Principles (2005), the Accra Agenda for Action (2008)²⁶ and the Busan Partnership for Effective Development Cooperation (2011).²⁷ And it raises questions about the extent to which the above-mentioned requirements are fulfilled. The new PSI agreement moves the assessment of the PSI vehicles to the OECD Secretariat, which is a step in the right direction in terms of ensuring transparency (these assessments shall be made public) and coherence across DAC members.

To complement the information available through the CRS, the websites of the BII, EIB, DEG, KfW and Proparco have been consulted, as has the International Aid Transparency Initiative (IATI) platform.²⁸ Yet, this exercise has not necessarily improved the information gaps identified in the reports to the OECD. A recent study from Publish What You Fund highlighted that the current state of DFI transparency makes it difficult to see, among other things, what DFIs are doing or what impact their investments are having.²⁹

2.1 The UK

The UK is the largest DAC donor in providing ODA through private sector instruments. Between 2018 and 2021 the UK reported a total of US\$4.5 billion PSI ODA (see Figure 5 for the detailed amounts per year), which was 5.6 per cent of their total ODA for the four years.³⁰ Of this reported PSI ODA, 90 per cent (US\$3.8 billion) is related to capital injections granted to CDC/BII – the British DFI – and so has been reported under the institutional approach.

Contrasting the information gaps in the OECD reporting system for ODA, both the BII website and the IATI platform provide relevant information that could complement the information reported by the UK to the OECD. For instance, they provide more detailed descriptions of the operations, objectives, countries targeted and resources committed. However, in the case of the BII website, the lack of homogeneity with the OECD reporting system (the CRS) – on project codes, required fields, etc. – makes the tracking of PSI ODA resources through the CDC/BII's website extremely difficult.

Some additional information on the PSI operations supported by CDC/BII is available on the IATI platform – using the programme code available in the OECD reporting system. The UK is the only DAC donor, among the four under review here, reporting to this platform. The additional information available in the CDC/BII website or the IATI platform could have been reported to the OECD reporting system for ODA and thus strengthened the data available. See the UK's assessment in Table 3.

2.2 The EU institutions

The EU institutions are the second largest DAC donor providing ODA through private sector instruments. All of it is channelled through the EIB. In 2017, the EU adopted the External Investment Plan (EIP) to support investments primarily in the EU neighbourhood and Africa. The EIP aims to support partner countries by mobilising finance through the European Fund for Sustainable Development (EFSD), providing technical assistance, and developing a favourable investment climate and business environment.³¹ This signalled the EU's interest in increasing its support to private sector operations in developing countries. Within the 2021-27 EU budget, the EU adopted the Neighbourhood, Development and International Cooperation Instrument – Global Europe (NDICI Global Europe), which scaled up the EIP by establishing a new instrument with an expanded version of the EFSD, the European Fund for Sustainable Development Plus (EFSD+).

The EFSD+ comprises both a single worldwide blending facility and a new External Action Guarantee. The EFSD+ is implemented through several DFIs, including the EIB.

Between 2018 and 2021 the EU institutions reported a total of US\$4.2 billion PSI ODA (see Figure 5 for the detailed amounts per year), which was 5.7 per cent of their total ODA for the four years.³² This PSI ODA was fully channelled through the EIB and reported under the instrument approach. Most of these funds were used to extend ODA concessional loans to private sector entities – 81 per cent (US\$3.4 billion) – and the rest – 19 per cent (US\$0.8 billion) – were equity investments.

The EIB website provides information about the projects financed by the EIB, including date the project was signed off, title, country, sector and the resources involved in the operation, as well as a description of the financed projects, objectives and related financing actors. However, the lack of homogeneity between the information collected by the OECD (CRS) and that in the EIB website makes it extremely difficult to track the PSI ODA involved. No additional information is available in the IATI platform that could allow a better understanding of the PSI ODA reported by the EIB (through the EU).

Lastly, it is interesting to note that throughout the four reported years (2018-2021), the EIB received back in loan repayments a total of almost US\$5 billion – these repayments under the 2018 PSI rules are reported as negative PSI ODA. The amount reflected in Figure 10 refers to gross disbursements (thus, it does not consider the reflows). However, if the reflows obtained by EU institutions throughout the four years were included, the PSI ODA balance for the EU institutions would have been negative by almost US\$1 billion. Under the new PSI agreement (2023, tbc) DAC donors will use grant equivalents³³ when reporting PSI ODA. Reflows will only be deducted from ODA when they are sent back to the government if at the outset the related vehicles (i.e. DFIs, climate funds) were capitalised with ODA funds. This raises concerns in terms of ODA inflation, as profits generated by the PSI vehicles could end up being reported as ODA. See the EU Institutions' assessment in Table 4.

Table 3: Assessment of the PSI ODA reported by the UK according to selected PSI agreement requirements (2018-21)

UK	CRS database
Geographic information	<p>67 per cent (equivalent to approx. US\$4.3 billion) of the reported PSI ODA included information on the income group of countries or countries where the PSI ODA was targeted. The remaining PSI ODA, thus 33 per cent (equivalent to approx. US\$1.5 billion), did not include information about the income group.</p> <p>Most PSI ODA from the UK targets LMIC (69 per cent, equivalent to US\$3 billion), followed far behind by LDCs (19 per cent, equivalent to US\$0.8 billion) and UMICs (12 per cent, equivalent to US\$0.5 billion).</p> <p>A fair share of the reported PSI ODA includes information about the recipient country (67 per cent).</p>
Sector information	<p>The totality of the reported PSI ODA includes information on the sector targeted.</p> <p>Projects carried out by CDC/BII mostly targeted the banking and financial services sector (approx. US\$2.9 billion) and the industry sector (approx. US\$1.2 billion).</p>
Project description	<p>Most of the reported PSI ODA includes a description of the project – 71 per cent, equivalent to approx. US\$3.1 billion. However, most of the descriptions do not provide sufficient background as they either just name a project, fund or initiative, or provide a general sentence on the intention of the project.</p>
Additionality	
Type of additionality	<p>92 per cent of the reported PSI ODA (equivalent to approx. US\$4.2 billion) provides information on the type of additionality expected out of the invested ODA. Most of the reported PSI ODA, 67 per cent, states that the related projects / operations add both financial⁴² and value⁴³ additionality, followed by 17 per cent adding only financial additionality and 9 per cent value additionality.</p>
Additionality assessment	<p>The level of information on the additionality pursued is insufficient. Only 43 per cent of the reported PSI ODA includes some background information that helps to explain or justify the additionality pursued with the related PSI operations.</p> <p>Where the information is available, the explanations provided are inconsistent across the reported PSI ODA: for some operations the information is sufficient but for others it is too limited to understand the added value of the operation.</p>
Additionality & development objectives	<p>Most of the reported PSI ODA (92 per cent) in capitalisations of the CDC/BII includes information on the expected development objectives. The information provided refers to addressing access to finance for basic infrastructure, strengthening trade flows, creating jobs and strengthening access to energy as an indication of development additionality. However, no detail is provided on key aspects, such as who is set to benefit from the investment (who may not have otherwise been able to) and how.</p> <p>Although the UK provided higher levels of information to respond to the agreed additionality requirements than did the EU institutions, Germany or France, the details provided are not sufficient to fully distinguish why the reported operations should be considered ODA-eligible.</p>
Untying status	<p>Only 33 per cent of the UK's total PSI ODA (commitments) reported for the four-year period (2018-2021) (equivalent to US\$1.4 billion) is qualified as untied; the rest (equivalent to US\$2.8 billion) has no information on its tying status.</p> <p>Worryingly, most of the reported PSI ODA (where information is available) targets LMICs (69 per cent), which are out of the scope of the Untying Recommendation. Combined with the fact that no information is available regarding the income region or countries targeted for 33 per cent of the reported PSI ODA, it is difficult to assess whether formal or informal tied aid could be occurring.</p> <p>US\$3.3 billion (equivalent to 73 per cent) was channelled through the UK DFI – CDC/BII (a public corporation in the provider country); the rest was mostly operated by the Department for Business, Energy & Industrial Strategy and other funds, with 3 per cent channelled through Public-Private Partnerships (equivalent to US\$154 million). Since there is no further information on the channels used by CDC/BII or the Department for Business, Energy & Industrial Strategy and other funds, it is not possible to assess the threats to aid tying.</p>

Table 4: Assessment of the PSI ODA reported by EU institutions according to selected PSI agreement requirements (2018-21)

EU institutions	CRS database
Geographic information	<p>74 per cent of the reported PSI ODA (equivalent to US\$3.1 billion) includes information on the income region.</p> <p>Over half of EIB investments go to UMICs (receiving 51 per cent of reported PSI ODA, equivalent to US\$2.2 billion), followed by LMICs or LDCs (receiving 22 per cent and less than 1 per cent, equivalent to US\$0.9 billion and US\$0.02 million, respectively).</p> <p>Most of the EIB reported projects include information about the recipient country (74 per cent). Where country information is not available, at least the target region is mentioned. Most EIB reported projects have targeted the European neighbouring countries (i.e. Albania, Turkey, Serbia, Bosnia and Herzegovina), followed by North Africa (i.e. Morocco, Egypt, Tunis) and South America (i.e. Brazil, Peru) with Brazil (US\$467 million), Turkey (US\$421 million), Serbia (US\$412 million) and Morocco (US\$371 million) among the countries receiving the largest amounts of PSI ODA for the four years.</p>
Sector information	<p>All of the reported PSI ODA includes information on the sector targeted.</p> <p>More than half of the total reported PSI ODA (equivalent to US\$2.4 billion) went to projects related to the banking and financial services sector – with Morocco, South African and Jordan receiving the largest amounts – followed by the energy generation / renewable sources sector (23 per cent, equivalent to US\$1 billion) – with Brazil, Turkey and India receiving the largest amounts – and the industry sector (11 per cent, equivalent to US\$0.5 billion) – with Albania, Egypt and Morocco receiving the largest amounts.</p>
Project description	At least 64 per cent of the reported PSI ODA includes no description, just a general sentence mentioning 'PSI investment loan' or 'PSI equity'. The rest includes some more information, but it is still rather vague.
Additionality	
Type of additionality	<p>Only 36 per cent of the reported PSI ODA for the four years – equivalent to US\$1.5 billion – has some general information regarding the financial and/or value additionality of their PSI projects. The rest – 64 per cent, equivalent to US\$2.7 billion – does not include any information at all.</p> <p>Where information is available, most of the PSI ODA has been reported as providing both financial and value additionality (68 per cent).</p>
Additionality assessment	For most of the reported PSI ODA (64 per cent, equivalent to US\$2.7 billion), there is no additional evidence or information that could bring a better understanding and/or justification about the type of additionality pursued. Where additional evidence is available, the description is rather too vague to show the added value of the PSI operations.
Additionality & development objectives	<p>No information is provided on which development objectives these projects address.</p> <p>The information provided is not sufficient to distinguish why the reported operations should be considered ODA-eligible.</p>
Untying status	<p>All PSI ODA is reported as untied. However, given that most of the PSI ODA reported (where information is available) targets UMICs and LMICs, these are out of the scope of the Untying Recommendation. This, combined with the fact that no information is available regarding the income region or countries targeted for 26 per cent of the PSI ODA, it is difficult to assess whether formal or informal tied aid could be occurring.</p> <p>US\$2.9 billion (equivalent to 69 per cent) was channelled through private sector actors in recipient countries, US\$0.9 billion (equivalent to 22 per cent) through private sector actors in a third country (with mostly limited information on the origin of the actors involved) and US\$324 million (equivalent to 8 per cent) through private sector actors in the provider country (with mostly limited information on the actors involved in the related projects), thus showing risks for aid tying.</p>

2.3 Germany

Germany is the third largest DAC donor in providing ODA through private sector instruments. Between 2018 and 2021, Germany reported a total of US\$3.9 billion PSI ODA (see Figure 5 for the detailed amounts per year), which was 3.5 per cent of their total ODA. The PSI ODA reported for the four years was mainly channelled through the DEG (US\$2 billion, equivalent to 52 per cent of the total reported PSI ODA), while the Federal Ministry for Economic Cooperation and Development (US\$1.8 billion, equivalent to 46 per cent) and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (US\$84 million, equivalent to 2 per cent) both provided financing to KfW.³⁴ The totality of these funds was channelled through equity investment operations and reported under the instrument approach. Germany also reported PSI ODA repayments of US\$0.9 billion.

The DEG's website provides more consistent information on the projects / operations carried out by DEG that could complement the reporting of PSI ODA to the OECD (CRS). However, the lack of homogeneity between DEG's online database and that of the OECD (CRS) makes the tracking of PSI ODA resources through the DEG's online database extremely difficult. The website of KfW does not include a database of projects / operations carried out. Yet, KfW operates approximately 48 per cent of the total PSI ODA reported by Germany. See Germany's assessment in Table 5.

2.4 France

France is the fourth largest DAC donor in providing ODA through private sector instruments. Between 2018 and 2021 France reported a total of US\$3.7 billion PSI ODA (see Figure 5 for the detailed amounts per year), which was 6.4 per cent of their total ODA for the four years. This PSI ODA was mainly channelled through Proparco (France's DFI) (US\$2.7 billion, equivalent to 73 per cent of the total reported PSI ODA), the French Development Agency (US\$0.8 billion, equivalent to 21 per cent of the total reported PSI ODA) and STOA – an impact-invest agency (US\$109 million, equivalent to 3 per cent of the total reported PSI ODA). These funds were channelled through ODA concessional loans to the private sector (US\$2.8 billion), equity investment operations (US\$0.9 billion) and bonds (US\$8 million) – although bonds are not ODA-eligible, not even under the PSI umbrella. All the PSI ODA was reported under the instrument approach. France also reported PSI ODA repayments of a total of US\$0.7 billion (mostly from ODA concessional loans).

For the four-year period under review, additional information is available in Proparco's website, providing project details, impacts expected and other relevant information. Proparco's website and the OECD database (CRS) use the same project number, which allows the related projects to be tracked on both sides. This is a step in the right direction, as it facilitates an assessment of whether Proparco projects and operations are generating positive development results, mobilising private finance, and managing ESG risks. However, this level of information is not available for the PSI ODA projects implemented by the French Development Agency – which still implemented 21 per cent of the total PSI ODA reported by France for the four years under review, which is not minor. See France's assessment in Table 6.

Table 5: Assessment of the PSI ODA reported by Germany according to selected PSI agreement requirements (2018-21)

Germany	CRS database
Geographic information	<p>Most of the PSI ODA reported by Germany (73 per cent, equivalent to US\$2.9 billion) for the four years does not provide information on the country income group targeted by these projects and/or operations.</p> <p>Where information is available, 14 per cent (equivalent to US\$0.6 billion) of Germany's PSI operations target LMICs, followed by 11 per cent (equivalent to US\$0.4 billion) to UMICs and only 1.5 per cent (equivalent to less 59 million) to LDCs.</p> <p>More information is available regarding the recipient regions or countries, with Africa (region) receiving 41 per cent of PSI ODA (equivalent to US\$1.6 billion), followed by Asia 8 per cent (equivalent to US\$0.3 billion), Latin America 7 per cent (equivalent to US\$0.3 billion), Europe with 4 per cent (equivalent to US\$0.1 billion) and the Middle East with 1 per cent (equivalent to US\$0.04 billion). 12 per cent of the total reported PSI ODA does not specify the region or the country targeted by the PSI operation. The remaining PSI ODA (27 per cent, equivalent to US\$1 billion) is distributed across different ODA-eligible countries with India and China receiving the highest amounts of PSI ODA, US\$262 million and US\$164 million respectively.</p>
Sector information	<p>All of the reported PSI ODA includes information on the sector targeted.</p> <p>More than half of the total reported PSI ODA (equivalent to almost US\$2.1 billion) for the four years (2018-2021) went to operations related to the banking and financial services sector, followed by the industry sector (18 per cent, equivalent to US\$0.7 billion), other multisector (7 per cent, equivalent to US\$0.3 billion) and energy sector (6 per cent, equivalent to US\$0.2 billion). DEG led the operations in the banking and financial sector (implementing an equivalent of US\$1.2 PSI ODA).</p>
Long project description	<p>All the reported PSI ODA includes a general description of the project / operation. In some cases, it just mentions the type of intervention (i.e. equity investment, contribution to a fund – including the name of the fund). In others, the description includes a few words on what is expected out of the operation or mentions some of the related partners – Africa Go Green Fund, the African Agriculture and Trade Investment Fund, Blue Orchard, the Climate Finance Partnership Fund, the European African Fund or the Investment Fund Africa Grow. However, the information provided in the description does not provide sufficient background to understand the operation.</p>
Additionality	
Type of additionality	<p>Only 45 per cent (equivalent to US\$1.8 billion) of the reported PSI ODA for the four years (2018-2021) provides information on the type of additionality pursued – where information is available, 40 per cent of the reported PSI ODA provided financial additionality, 22 per cent value additionality and 38 per cent both financial and value additionality. For the rest, equivalent to US\$2.1 billion, there is no information on the type of additionality expected.</p>
Additionality assessment	<p>No further explanations to justify the type of additionality pursued or the development objectives aimed at these operations is provided for any of the reported PSI ODA. Although in some cases the project description includes some language that could inform these fields, the language included is rather limited.</p>
Additionality & development objectives	<p>No information is provided on which development objectives these projects address.</p> <p>The information provided is not sufficient to distinguish why the reported operations should be considered ODA-eligible.</p>
Untying status	<p>All PSI ODA reported for the four years is reported as untied. However, given that most of the PSI ODA reported (where information is available) targets LMICs, these are out of the scope of the Untying Recommendation. Still considering that 73 per cent of the PSI ODA reported by Germany does not include information on the income region, plus insufficient information on the countries targeted, it is difficult to assess whether formal or informal tied aid could be occurring.</p> <p>US\$2.2 billion (equivalent to 57 per cent) were channelled through private sector actors in recipient countries, US\$1.1 billion (equivalent to 28 per cent) through central governments in a recipient country, and US\$329 million (equivalent to 8 per cent) through Public-Private Partnerships (mostly in the agriculture and environmental protection sectors). Thus, in principle, there seem to be no important threats to aid tying.</p>

Table 6: Assessment of the PSI ODA reported by France according to selected PSI agreement requirements (2018-2021)

France	CRS database
Geographic information	<p>For the four years under review, 70 per cent of the reported PSI ODA (equivalent to US\$2.6 billion) includes information on the income region. The remaining 30 per cent, though, has mostly no information on the region or the countries targeted and corresponds to the activities carried out by Proparco.</p> <p>Where information is available, the country income groups receiving the highest levels of PSI ODA are UMICs, with US\$1.5 billion of PSI ODA, and LMICs, with US\$0.9 billion of PSI ODA. The three countries that received the highest amounts were Brazil (US\$404 million), Turkey (US\$212) and South Africa (US\$172 million).</p>
Sector information	<p>All of the reported PSI ODA includes information on the sectors targeted.</p> <p>The most popular sectors in which French PSI ODA was channelled were the banking and financial services sector (27 per cent, equivalent to US\$1 billion), followed by the industry sector (24 per cent, equivalent to US\$0.9 billion) and the energy generation and renewable sources sector (18 per cent, equivalent to US\$0.7 billion).</p> <p>Proparco clearly leads the projects related to banking and financial services and industry (operating an equivalent of US\$1.5 billion of PSI ODA for four years).</p>
Project description	<p>All the reported PSI ODA includes a general description of the project / operation. In some cases, it just mentions who is being supported (i.e. private sector company – bus company, banks, funds, etc.). In others, the description includes a few words on what is expected out of the operation or mentions some of the related partners – notably Engie (a French energy company) subsidiaries.</p>
Additionality	
Type of additionality	<p>The PSI ODA reported by France provides a fair level of information on the type of additionality pursued by its PSI projects – 64 per cent of the total PSI ODA reported, equivalent to US\$2.3 billion. Where the information is available the majority of the reported PSI ODA (95 per cent) is expected to provide financial and value additionality.</p> <p>Still, 38 per cent of the reported PSI ODA, which is not minor, does not include any information on the type of additionality expected, with Proparco sharing 26 per cent of this gap in information.</p>
Additionality assessment	<p>Little information is provided to justify how the type of additionality pursued by the PSI operations is carried out – only 3 per cent of the reported PSI ODA includes some level of information.</p>
Additionality & development objectives	<p>Although more information is available regarding the development objective pursued through the reported PSI ODA (for 29 per cent of the total PSI ODA reported), it is still insufficient considering the requirements of the 2018 PSI agreement.</p> <p>The information is not sufficient to distinguish why the reported operations should be considered ODA-eligible.</p>
Untying status	<p>All reported PSI ODA has been reported as untied. However, most of the PSI ODA reported by France (where information is available) targets UMICs and LMICs, which are out of the scope of the Untying Recommendation. This, combined with the fact that no information is available regarding the income region or countries targeted for 30 per cent of the reported PSI ODA by France means, it is difficult to assess whether formal or informal tied aid could be occurring.</p> <p>US\$1.2 billion (equivalent to 33 per cent) was channelled through banks in recipient countries, US\$1 billion (equivalent to 29 per cent) by investment banks and other collective institutions in recipient countries, and US\$0.4 billion (equivalent to 10 per cent) by the private sector in recipient countries. 19 per cent (equivalent to US\$0.7 billion) of the total PSI ODA reported has been mostly channelled through other financial corporations within recipient countries. Thus, in principle, there seem to be no threats to aid untying.</p>

2.5 What does the assessment of the four OECD DAC members show?

The global narrative stressing the need to fill the SDG funding gap with private sector resources is likely to encourage a greater use of ODA to de-risk private sector investments. The expansion of the private sector instruments agreement into new ones, such as guarantees or mezzanine finance, is a definite step in this direction. Consequently, PSIs are likely to increase – some DAC members having already stated their ambition to allocate additional resources to PSIs – and with them the role of DFIs within the field of development cooperation.³⁵

The analysis of the four major PSI ODA donors and their DFIs – the UK and CDC/BII, the EU institutions and the EIB, Germany and DEG and KfW, and France and Proparco – confirms important gaps in reporting according to the requirements set by DAC members with the 2018 PSI agreement. This is shown by the orange colour coding for the four of them, meaning they all need to improve the quantity and quality of data provided to the OECD reporting system for ODA. Otherwise, it is not possible to assess the added value and development impact of the reported PSI operations.

The information gaps are particularly important regarding the additionality of PSI operations – which is fundamental information in the PSI context. As explained above, the new PSI agreement moves further away from the logic that aid should be offered at much better terms than commercial credit and, thus, be concessional. Indeed, **40 per cent (equivalent to approx. US\$6.6 billion) of the reported PSI ODA between 2018 and 2021 did not include any information regarding the type of additionality the PSI project offered.** Where information on the type of additionality is available, the information describing the related PSI projects and how they bring financial or value (or both) additionality is rather limited and non-conclusive – notably in the case of Germany and France, for whom most of the reported PSI ODA does not include such information. In some cases, DFIs' websites (notably those of BII and Proparco) provide additional information that complements the information available through the OECD CRS. But it still does not fully cover the requirements under the 2018 PSI agreement and does not allow a perfect tracking of all the PSI ODA reported for the four years.

Another growing concern is that PSI operations could be hiding rising levels of tied aid, notably in those countries and regions out of the scope of the current *Untying Recommendation*: lower-middle-income and upper-middle-income countries. From the analysis of the four DAC

members, the information available – notably for the UK and the EU institutions – is inconclusive for assessing whether formal or informal tied aid could already be happening.

Considering that the DFIs from the UK (CDC/BII), the EU institutions (EIB), Germany (DEG, KfW) and France (Proparco) channelled 73 per cent (equivalent to US\$15 billion) of the total PSI ODA reported between 2018 and 2021, it is reasonable to conclude that they are responsible for important gaps and inconsistencies in the data reported to the OECD – in contravention of the PSI rules agreed in 2018, which are compulsory. Although the specific DFI websites provide some level of additional information (higher or lower depending on the DFI), the lack of homogeneity with the CRS makes it difficult in most cases (at the exception of France) to track the PSI ODA funds reported in the CRS.

The new PSI agreement includes a series of measures to strengthen the integrity of ODA in the context of PSI through overarching rules and reporting requirements, a reinforced additionality framework and regular monitoring and review mechanisms, followed by a more thorough review in 2030.³⁶ These are important steps towards strengthening the transparency and accountability of PSI reporting. However, to have proper relevance, they will have to be fully implemented. Additional measures will also be needed to allow the monitoring of formal and informal tied aid.

DFIs can play a role in making progress towards the SDGs – under specific conditions, for specific countries and sectors – for example by providing support for the much-needed transition to low-carbon economies or support for the small and medium enterprises in developing countries (mainly, middle-income countries). However, without access to complete and consistent data, including their added value or the way in which development impact is expected to be achieved (or has been achieved) through the related PSI operations, it is impossible to ensure appropriate levels of accountability in the use of ODA resources and ultimately to build the necessary evidence base to justify the inclusion of PSIs in ODA (at the expense of other instruments).

The analysis above shows that most of the DFIs explored need to improve the information produced to meet the OECD CRS standards, with BII/CDC having made improvements in the right direction over the four years under review. The planned update of the eligibility-assessment requirements for PSI vehicles will bring an opportunity to make further improvements.³⁷ However, if DFIs are expected to channel increasing levels of ODA in the years to come, they must align with the OECD reporting standards for PSI ODA.

3. Conclusion and policy recommendations

The world is facing a critical moment and many countries across the global south are at risk of being left behind. The combined effects of the war in Ukraine and the Covid-19 pandemic will see an estimated 130 million people sliding back into poverty over the next 10 years.³⁸ This figure could be further exacerbated by the impact of climate change and related extreme weather conditions.³⁹ The mobilisation of predictable, concessional, conditionality-free financial resources for countries in the global south, aligned to their own development strategies, are therefore more essential than ever. Aid is not an act of charity but a matter of justice, and of reparations for the harm caused by colonialism.

This report analysed ODA channelled through private sector instruments between 2018 and 2021. This analysis finds that:

1. Since 2018, the levels of ODA channelled through private sector instruments have been stable – an average of 3.03 per cent of total ODA levels for the four years under review. Yet, the average figure masks the fact that PSI ODA is actually increasing for some key donors. Among these, four DAC members stand out:

- Japan, which increased PSI ODA by 440 per cent in the four years under review
- France, which increased 124 per cent
- Germany, which increased 97.5 per cent
- Sweden, which increased 55 per cent

In addition, the updated PSI rules are likely to lead to an increasing role for DFIs in the channelling of ODA resources. For example, with the extension of the PSI agreement to guarantees to the private sector, substantial amounts of the EFSD+ (in which the EIB plays an important role) will be ODA-eligible. The EFSD+ makes available €40 million (or US\$42 million) in guarantees' capacity.

2. Given the profit-seeking nature of private sector operations, aid channelled through PSIs is mostly directed to countries and regions that offer secured profits and offer a low-risk profile. As this report shows, between 2018 and 2021, the vast majority of PSI ODA went to UMICs (59 per cent), followed by LMICs (37 per cent). Only an average of 4 per cent of PSI ODA was channelled to least developed countries. This shows that ODA aid channelled through private sector instruments diverts scarce aid resources from where they are most needed.

3. DAC members are committed to transparency and accountability. Yet they are failing to report the information required by the 2018 PSI reporting rules that they themselves committed to, notably on additionality – the primary criterion for private sector instruments to be ODA-eligible. The failure to deliver on the PSI reporting requirements includes omitting crucial information for assessing whether ODA is effectively allocated according to where it is most needed and can have the greatest impact. This makes it very difficult for the development community, and the broader general public, to assess the added value of these operations compared to other types of interventions, such as budget support. And they could be hiding a diversion of ODA resources from more effective instruments (i.e., budget support and/or initiatives with a strong role for the state in the countries supported).

Four DAC members – the UK, the EU institutions, Germany and France – account for almost 80 per cent of the total aid channelled through private sector instruments over the period 2018-2021, particularly contributing to the information gaps identified, notably on the additionality requirements.

4. Between 2018 and 2021, DFIs have been the main implementers of PSI ODA with an average of 85 per cent channelled through them. These institutions have emerged as key players in the private sector orientation of development cooperation. Among the DFIs implementing the highest amounts of ODA reported as private sector instruments for the four years under review, there are the EIB (EU), the BII (UK), Proparco (France), and DEG and KfW (Germany). These five DFIs alone have implemented a total of US\$15 billion (equivalent to 73 per cent of the total ODA reported between 2018 and 2021).

The analysis of the data provided by these DFIs confirms important gaps in reporting according to the requirements set by DAC members within the PSI agreement in 2018. Thus, orange colour coding has been given to the four related DAC members.

5. While PSI ODA has been reported as untied from firms based in wealthy countries, the *Untying Recommendation* applies to only the very minimal 4 per cent of aid channelled through private sector instruments targeting LDCs. Currently, the Recommendation leaves out of scope ODA channelled to UMICs or LMICs, where most PSI operations are directed. Considering that some DFIs have explicit mandates to facilitate investment by private sector companies from the DAC member country they belong to and how much development finance has changed in the last decade, the current Untying Recommendation has become obsolete. This increases the risk of there being higher amounts of hidden tied aid in the coming years.⁴⁰

In October 2023, DAC members have reached a new agreement for the reporting of private sector instruments as ODA. This new agreement is likely to lead to increasing levels of ODA reported as PSIs in the years to come – notably following the expansion of the agreement to new instruments that were until now not ODA-eligible (i.e. guarantees, mezzanines). Following this there are some actions they must urgently take to strengthen transparency on the use of ODA resources and accountability on its impact.

Recommendations for DAC members:

1. **Prioritise delivering aid as grants** so recipient countries are able to promote publicly financed and delivered services and strengthen those sectors that are proven to best tackle inequality, such as public health, education or social protection.
 2. **Members failing to fulfil the agreed PSI reporting requirements**, notably on additionality and the financial details related to the grant equivalent calculations, **should not report these funds as ODA**.
 3. **Meet the standards they have set for the ODA reported as private sector instruments immediately** – any delay on this will only continue to perpetuate a problematic lack of transparency.
 4. **Improve the flow of ODA information with DFIs**. DAC members are responsible for the information provided by their DFIs. This means that there should be an enhanced information exchange between DAC members and their DFIs, so the reporting requirements are met. It is critical to ensure greater transparency in the reporting to the DAC on: the names of clients and conditions of individual operations reported as PSI ODA; the additionality of ODA-supported operations; the financial data related to the grant equivalent calculations; and the impact of these operations on sustainable development.
- DFIs should be reporting as well against the agreed Impact Standards (see Table 2) to improve and harmonise the information they provide to the development community.
5. When information is gathered and reported on PSI activities, **ensure that information is in line with the agreed OECD–UNDP Impact Standards for Financing Sustainable Development**. These Impact Standards are an assessment tool that looks at the extent to which private sector oriented operations help achieve the Sustainable Development Goals (SDGs). Integrating this could strengthen the level of information reported to the OECD on PSI operations.
 6. **Update the scope of the current Untying Recommendation to counter the risks of increasing levels of tied aid** in the context of private sector instruments, which only considers least developed countries, heavily indebted poor countries, other low-income countries, and countries that qualify to receive support from the World Bank's International Development Assistance-only ("IDA-only").⁴¹ Considering that PSIs target LMICs and UMICs, DAC members should expand the scope of the Recommendation to these country groups.
 7. **Commission an independent and external review of the whole ODA modernisation process** and its impact on the quantity and quality of ODA, notably the overall aid levels reaching the global south. Such a review should look into the expansion of the ODA concept and related reporting rules, including the departure from concessionality for PSI operations. In the meantime, **freeze the ODA modernisation process**.

CSOs also have a critical role to play, notably in the following five areas:

1. **Maintain the spotlight on the continued need for non-PSI ODA and hold DAC members to account for their longstanding commitment to provide 0.7 per cent of GNI as ODA, on concessional terms.** The comparative advantage of ODA, unlike other flows, is its potential as a resource to address poverty and inequalities directly, something that is underpinned by its concessional character and development mandate. This is what countries in the global south need the most.
2. **Demand evidence to justify the inclusion of PSIs in ODA.** Spending ODA on PSIs has an opportunity cost – the ODA resources invested cannot be used elsewhere, yet there is no evidence that rich countries have a robust process in place to support their choice of PSIs over alternative uses of ODA. Furthermore, where DAC donors do not comply with the agreed reporting requirements – including the additionality fields – it is key to advocate for the non-inclusion of these flows as ODA. Further transparency should be requested as well, to prove the financial additionality of PSI operations, such as the client names or the terms and conditions of the individual operations.
3. **Defend the integrity of ODA.** CSOs could closely monitor PSI operations, and the role of DFIs within them, notably in terms of evidence of achieved development results, the risks for increased levels of tied aid, their alignment with the development effectiveness principles, and the country allocation implications arising from the inclusion of PSI in ODA.
4. **Monitor the inflation of ODA figures.** The new PSI reporting rules allow DAC members to reinvest the profits generated by the PSI operations and report them as ODA, questioning the whole concept of 'donor (budgetary) effort'. This is a very concerning trend that is likely to lead to inflated ODA figures in the mid-term. It is important to pay attention to the inflation of ODA figures by tracking the profits generated by PSI operations. The new PSI rules will require DAC members to provide this information and remind DAC members that those profits (reinvested into new PSI operations) can only be additional to their ODA budgets.
5. **Continue to develop evidence and analysis** that contributes to more informed discussions on the impact of PSIs, and their support for various types of private sector actors in the global south, towards eradicating poverty and inequalities, contributing to environmental and development sustainability and 'leaving no one behind'.
6. **Call for a definitive end of the ODA modernisation process.** This process has been responsible for broadening the scope of ODA to report activities that do not belong to it.

With the deadline for achieving the SDGs rapidly approaching, DAC donors and their DFIs need to make sure ODA resources are targeted where they are most needed and can deliver the highest development impacts.

Annex I: Methodology for country rating system

The analysis considers reporting requirements included in the 2018 PSI agreement, specifically:

- whether sufficient geographic information related to the reported PSI operation is provided
- whether sufficient information about the sector targeted by the reported PSI operation is provided
- whether the project description is sufficient to understand the motivations of the reported PSI operation
- whether sufficient information on the additionality of the reported PSI operations has been provided – this includes meeting the requirements set within the 2018 PSI agreement (DCD/DAC(2018)47/FINAL), thus, whether the following information is provided and to what extent:
 - type of additionality that the reported PSI operations conveys
 - an additionality assessment (in text), including demonstration of the expected development additionality of the reported PSI operation
 - an explanation of the development objectives pursued by the reported PSI operation
- whether sufficient information on the tying status of the reported PSI operations has been provided

The analysis of these aspects allows this report to flag issues that CSOs have been consistently raising since the PSI agreement in 2018, namely issues related to:

- the fundamental nature and role of ODA to address the eradication of poverty and inequalities and whether ODA is effectively allocated according to where it is most needed and can have the greatest impact
- transparency and accountability, related to the availability of data that allows the assessment of PSI transactions and the evidence of the expected impact

Methodology for the ranking system

Green

- Reported PSI ODA includes (most of the) geographic and sector information: at least 90 per cent of the reported PSI ODA.
- Reported PSI ODA includes a good project description of the PSI operations supported: at least 90 per cent of the reported PSI ODA.
- Reported PSI ODA includes (most of) the required information within the additionality fields, being:
 - type of additionality that the reported PSI operations conveys: at least 90 per cent of the ODA reported in private sector instruments includes such information
 - an additionality assessment (in text), including demonstration of the expected development additionality of the reported PSI operation: at least 90 per cent of the ODA reported in private sector instruments includes a meaningful level of information
 - an explanation of the development objectives pursued by the reported PSI operation: at least 90 per cent of the ODA reported in private sector instruments includes a meaningful level of information
- Reported PSI ODA includes information on its tying status: at least 90 per cent of the reported PSI ODA.

Orange

- Between 55 per cent and 89 per cent of the reported PSI ODA includes information on the geographic areas and sectors targeted.
- Between 55 per cent and 89 per cent of the reported PSI ODA includes a good project description of the PSI operations supported.
- The reported PSI ODA includes a fair level of information within the required additionality fields, being:
 - type of additionality that the reported PSI operations conveys: such information is provided for at least 55 per cent to 89 per cent of the reported PSI ODA

- an additionality assessment (in text), including demonstration of the expected development additionality of the reported PSI operation: such information is provided for at least 55 per cent to 89 per cent of the reported PSI ODA
- an explanation of the development objectives pursued by the reported PSI operation: such information is provided for at least 55 per cent to 89 per cent of the reported PSI ODA
- Between 55 per cent and 89 per cent of the reported PSI ODA includes information on its tying status.

NOTE: Where the analysis of each of the reporting requirements results in more than one colour code for the same reviewed DAC member, an average has been calculated. This is the case, notably, for the assessment of data provided on additionality – which includes three different sub-fields (an average of these three fields is calculated).

The calculation of averages has resulted in the orange colour code for the four DAC members under review. Darker orange aims to show lower levels in meeting the agreed PSI requirements.

Red

- Less than 55 per cent of the reported PSI ODA includes information on the geographic areas and sectors targeted.
- Less than 55 per cent of the reported PSI ODA includes a good project description of the PSI operations supported.
- The reported PSI ODA includes an insufficient level of information within the required additionality fields, being:
 - type of additionality that the reported PSI operations conveys: such information is provided for less than 55 per cent of the reported PSI ODA
 - an additionality assessment (in text), including demonstration of the expected development additionality of the reported PSI operation: such information is provided for less than 55 per cent of the reported PSI ODA
 - an explanation of the development objectives pursued by the reported PSI operation: such information is provided for less than 55 per cent of the reported PSI ODA
- Less than 55 per cent of the reported PSI ODA includes information on its tying status.

Endnotes

- 1 UNDP (2022). Human Development Report 2021/2022, available here: <https://hdr.undp.org/towards-2023-human-development-report>.
- 2 See for example: G77 + China (2023). Statement on behalf of the Group of 77 and China by Ambassador Yusnier Romero Puentes, Deputy Permanent Representative of Cuba to the United Nations, at the 2023 Development Cooperation Forum on 'Protecting Lives and Livelihoods of the Most Vulnerable for More Effective Development Cooperation' (Session 1) (New York, 14 March 2023), <https://www.g77.org/statement/getstatement.php?id=230314>.
- 3 Further details here: <https://www.oecd.org/dac/financing-sustainable-development/modernisation-dac-statistical-system.htm>.
- 4 The need for a financial transaction to provide better terms than those from the market.
- 5 D.F. Runde, 'Development Finance Institutions: Plateaued Growth, Increasing Need', *Center for Strategic & International Studies*, 2019, <https://www.csis.org/analysis/development-finance-institutions-plateaued-growth-increasing-need>.
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- 7 Budget support is a particular way of channelling ODA. It operates by financing a country's budget through a transfer of resources of the government's national treasury of this country.
- 8 Oxfam, 'Press Release: Obscene Amount of Aid is Going Back Into the Pockets of Rich Countries', 2023, <https://www.oxfam.org/en/press-releases/obscene-percent-aid-going-back-pockets-rich-countries>.
- 9 Source: ODA Levels in 2021 – Preliminary data. The preliminary 2021 ODA figures do not give a figure for imputed student costs in donor countries. Document available at <https://assets.nationbuilder.com/eurodad/pages/2953/attachments/original/1654167170/oda-assessment-2021-final.pdf?1654167170>.
- 10 'Real ODA' is a measure developed by Brian Tomlinson (Executive Director of Aid-Watch Canada) to capture the value of ODA that is genuinely available for initiatives to reduce poverty and inequalities in the global south. With this purpose the following expenditures have been taken out from total ODA levels between 2010 and 2021 in order to make this calculation: student costs, debt relief, in-donor refugee costs and vaccine donations. For further information, see AidWatch Canada, 'Calculating "Real Canadian ODA"', Trends in Total Canadian ODA Disbursements, January 2022, <https://aidwatchcanada.ca/canadian-aid-trends/canadian-oda-disbursements/#realODA>.
- 11 Unless specified differently, data provided in this section and related calculations have been extracted from the OECD Creditor Reporting System (CRS) for 2018 to 2021. Value is US\$ gross extended (deflated), 2021 prices. ODA aggregates have been provided by the OECD. The CRS provides data on where aid goes, what purposes it serves and what policies it aims to implement, on a comparable basis for all DAC members. This data is collected on individual projects and programmes. Data was downloaded in September 2023.
- 12 The preliminary 2021 ODA figures do not give a figure for imputed student costs in donor countries.
- 13 Here it is interesting to note that a number of operations from the Austrian OeBB, the EIB, the Finnish FinnFund, the French Development Agency and Proparco, the Italian Society for Enterprises Abroad and Cassa di Risparmio di Venezia, the Korean Export-Import Bank of Korea, the Portuguese SOFID, the Spanish COFIDES, the British Department for International Development and the US IDFC and OPIC report a number of private sector instruments as other financial flows (thus, outside ODA). Between 2018 and 2021 these operations reached a total of US\$32.5 billion. Some of these operations may fit into ODA with the new PSI agreement.
- 14 Authors' calculation from the OECD Creditor Reporting System (September 2021). Constant prices, 2021.
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- 23 Ibid. 20.
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- 27 For further information, see 'The Busan Partnership for Effective Development Co-operation', *OECD*, <https://www.oecd.org/dac/effectiveness/busanpartnership.htm>.
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- 34 A German state-owned investment and development bank.
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- 41 OECD DAC, 'Recommendation on Untying ODA', *Statistical Reporting Directives*, 2018, Annex 17, accessed 21 October 2021, [https://one.oecd.org/document/DCD/DAC/STAT\(2020\)44/ADD2/FINAL/en/pdf](https://one.oecd.org/document/DCD/DAC/STAT(2020)44/ADD2/FINAL/en/pdf), particularly paragraphs 8, 17, 18, 19. The Recommendation excludes freestanding technical co-operation, and leaves it to DAC members' discretion whether to untie food aid.
- 42 A transaction is considered financially additional if it is extended to an entity that cannot obtain finance from the private capital markets (local or international) with similar terms or quantities and for similar developmental purposes without official support, or if it mobilises investment from the private sector that would not have otherwise invested.
- 43 A transaction is considered to have value additionality if the official sector offers to recipient entities or mobilises, alongside its investment, non-financial value that the private sector is not offering and that will lead to better development outcomes – for example, by providing or catalysing knowledge and expertise, promoting social or environmental standards or fostering good corporate governance.



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