27 June, 2022

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

We understand that members of the WP STAT will be discussing the outcome of the consultations on the provisional reporting methods on Private Sector Instruments (PSI) in the context of the 2022 review, as well as issues related to the eligibility of official development assistance (ODA) for rechannelled Special Drawing Rights (SDRs) to countries in the global south.

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

ODA reported under Private Sector Instruments and the current review process

According to the latest OECD figures available, between 2018 and 2021, ODA reported as PSI has risen from US$ 2.5 billion, to US$ 3.8 billion, to US$ 4 billion, and to US$ 4.1 billion, respectively, representing an increase of 39 per cent over the four-year period. Worryingly, neither the instrumental nor the institutional approach provide sufficient information about the impact that aid channelled through PSIs is having on addressing poverty and inequalities or on achieving the Sustainable Development Goals (SDGs). Both are also limited in the information they provide to determine additionality, notably for ODA resources reported under the institutional approach. Throughout the four years, a total of 60 per cent of PSI ODA was reported under the instrument approach. The rest (40 per cent) was reported under the institutional approach.

The distribution of PSI ODA per geography and sectors illustrates that this funding targets both countries and sectors where investments are most profitable. Where the detail on recipient countries is available (mostly for the data reported under the instrument approach) from 2018 to 2020 an average of 52 per cent of country-allocated PSI ODA went to upper-middle-income countries — mainly Turkey, Serbia, Brazil and South Africa — compared to an average of 3.5 per cent for least developed countries - mainly Cambodja, Tanzania, Somalia and Ethiopia. When it comes to sectors, between 2018 and 2020, the vast majority of PSI ODA went to the banking and financial sector (an average of 42 per cent during this period), the industry, mining and construction sector (average of 16 per cent) and the energy sector (average of 15 per cent).

We are concerned about the risks of using ODA to support private sector engagement in development through PSIs, which include:

- The diversion of ODA away from its core mandate of the eradication of poverty and reduction of inequalities, interfering with fulfilment of donors' agreed international commitments, including the commitment to 'leave no one behind';
- Unintended negative impacts for development effectiveness principles (such as democratic local ownership, transparency and accountability), human rights, the environment, conflict and fragility, debt sustainability, illicit financial flows and tax avoidance;
- Increased privatisation or commercialisation of social sectors like health, education and water, which risks undermining access to universal high quality public services and the development objectives of ODA.

At a time of deep crisis, the need for developmentally effective ODA is more critical than ever. Yet its value and impact is being questioned both within the development sector and outside. It is essential that the current review of the 2018 PSI agreement becomes a step that prevents the further undermining of ODA as a key resource for the eradication of poverty and inequalities. We call for:

1. Rigorous and demanding criteria and standards, as well as effective transparency and accountability mechanisms, that regulate the use of PSIs in development cooperation. Until then the cessation of the application of the grant-equivalent methods to PSIs operations, reporting them instead as Other Financial Flows. These elements are important to ensure that development motivations are not undermined by commercial motivations or in supporting the domestic private sector (in the ODA provider country).

2. Full transparency and accountability of Development Finance institutions (DFIs) work towards their portfolios. This includes publicly disclosing contracts involving ODA, and making their existing and future accountability mechanisms easily accessible for all citizens, in both the global north and global south, in line with the development effectiveness principles. This means that the related information should be available on their respective websites as well as on request, and should be translated into the official languages of the targeted countries.

3. Concessionality should remain the fundamental defining feature of ODA, distinguishing it from commercial transactions. Non-concessional official support for sustainable development is already reported to Total Official Support to Sustainable Development (TOSSD). To qualify as ODA, the terms of the PSI must be better than those provided by the market (thus concessional). Furthermore, the current expansion of the definition of ODA from concessionality to additionality for PSIs operations, could bring further tied aid or commercially motivated transactions into the scope of ODA. CSOs are particularly concerned with the possibility of export credits becoming eligible.

4. Additionality should be independently assessed and the definition strengthened by focusing on ‘development additionality’ and removing the concept of ‘value additionality’. Furthermore, any type of additionality must be demonstrable, and thus show that risks for people and the environment are effectively minimized, women’s rights and economic opportunities are effectively promoted, and the public sector is not undermined but rather strengthened. In addition, DAC members should ensure they meet or exceed the requirements of the 2018 PSI agreement in the reporting of additionality, including taking full advantage of the additionality fields provided in the Creditor Reporting System.

5. Bilateral development agencies should not use the institutional approach. The analysis of data for 2018 to 2020 leads to significant issues of transparency and the potential for an unrealistic inflation of ODA with the inclusion of activities that may not meet the criteria for ODA.

6. Take immediate steps to end all risks of formal and informal tying or other global north-global south distortions associated with delivering ODA through PSIs consistent with the DAC’s long-standing commitments on untying ODA.

Last but not least, given the current data gaps around PSI, and the far-reaching implications of the current arrangements, it is essential to monitor closely what impact the rules are currently having in practice. The current PSI rules have the potential of disincentivising aid channelled through the public sector, which in many contexts — particularly those affecting the most vulnerable — remains vital for achieving the SDGs and leaving no one behind. We call on DAC providers to take the necessary actions.

Special Drawing Rights (SDRs) rechannelling to developing countries should not be eligible as ODA.

SDRs do not represent a real donor effort and cannot be used in the same manner as other financial transfers. Also their character and quality does not align with the requirements of ODA and, thus, should not be counted as such. While US$ 400 billion worth of the US$ 650 billion SDRs issued by the IMF last year were added to the international reserves of the world's richest economies, i.e. many of them DAC providers, SDRs reserves sit idle and unused in central banks and treasuries of rich countries and should be rightfully transferred to the global south without adding to their debt burden.

Thus, our recommendation is not to report the rechanelling of SDRs as ODA.

We hope that our concerns will be addressed in your forthcoming meeting and look forward to further discussing the outcomes of your deliberations.

Kind regards,

1. ActionAid International, Global
2. Aid Watch Canada, Canada
3. AKÜ – Estonian Roundtable for Development Cooperation, Estonia
4. Alliance Sud, Switzerland
5. Ambrela – Platform for Development Organisations, Slovakia
6. CEIM – Centro de Estudios e Investigación sobre Mujeres, Spain
7. CNCD-11.11.11 – Centre national de coopération au développement, Belgium
8. CROSOL – Croatian platform for International Citizen Solidarity, Croatia
9. Ekvilib Institut, Slovenia
10. Eurodad – European Network on Debt and Development, Europe
11. Global Responsibility - Austrian Platform for Development and Humanitarian Aid, Austria
12. IBON International, Global
13. I-Watch – Investment Watch Initiative, Cameroon
14. Oxfam International, Global
15. Reality of Aid, Global
16. Reality of Aid – Asia and the Pacific, Asia and the Pacific
17. SLOGA - Slovenian Global Action, Slovenia
18. 11.11.11, Belgium

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AidWatch Canada
Promoting Social Justice

alliance sud
Swiss Alliance of Development Organisations
Swissaid · Catholic Lenten Fund · Bread for all
Helvetas · Caritas · Interchurch Aid

eurodad

Ambrela
Platforma rozvojových organizácií

CEIM
Centro de Estudio e Investigación Mujeres

Platforma za međunarodnu građansku solidarnost Hrvatske
Croatian Platform for International Citizen Solidarity
CROSOL

CNCD
11.11.11

Ekvilib
Inštitut

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Global Responsibility
Austrian Platform for Development and Humanitarian Aid

The Reality of Aid
Southern-led North/South Network on the Reform of Aid Policies and Practices

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11.11.11
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