



Proposal for the ‘Modernisation of Private Sector Instruments’: Eurodad reaction.¹

1. **More time is needed.** We are very concerned that major changes are taking place to ODA definitions extremely rapidly, without sufficient time for affected countries and civil society organisations to input. The timeline should be extended after consultation with stakeholders.
2. **Tied aid reform should be happening in parallel.** Tied aid inflates costs, reduces impact, and dilutes ODA’s focus on development. The proposed changes to ‘modernise’ private sector instruments (PSI) create potentially significant opportunities for donors to increase tied aid: they should not be taking place without a parallel reform of tied aid rules, aiming to end tied aid both in policy and in practice. As the proposal suggests, other safeguards are also needed, particularly much stronger requirements for transparency.
3. **Several proposed changes need significant improvements.** We are concerned about (a) the potential for dilution of the development focus of aid; and (b) the risk that PSI become incentivised over other legitimate uses of aid: these decisions should be made at the country level.
 - a. **Dropping concessionality as a feature of ODA sets a worrying precedent:** it should not be approved at the SLM without further discussion, a stronger rationale, and satisfactory safeguards being in place. This is critical, given the problems with additionality proposals.
 - b. **Additionality should be independently assessed.** The proposal is to rely on donor self-reporting, meaning the DAC will fail in its core purpose: to provide independent measurement rules to prevent donors mis-reporting, and protect the credibility of ODA. Additionality should be assessed independently. ‘Value additionality’ should not be used: all investors will aim to ensure improvements through non-financial contributions: it will be possible to claim value additionality in all cases.
 - c. **Guarantees proposals risk inflating ODA. Export credits should be firmly ruled out as ODA-eligible.** Functioning guarantee institutions such as MIGA consistently make money: the rationale for this being counted as ‘donor effort’ is weak. Donors can claim even if guarantees are offered to low risk projects. Export credit schemes are designed to benefit donor firms: they should not be counted as ODA.
 - d. **The rationale for an upper limit and discount on reflows from equities needs stronger justification.** Investment is typically made in a portfolio of equities: it is inconsistent to not count losses and gains across the whole portfolio equally.

¹ Eurodad is a network of 47 non-governmental organisations in 20 European countries advocating for a democratically controlled, environmentally sustainable financial and economic system that works to eradicate poverty and ensure human rights for all. www.eurodad.org