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eurodad
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Eurodad Recommendations to the OECD DAC High Level Meeting 2017

Eurodad[1] endorses the recommendations made in the joint civil society submission to the HLM. This submission amplifies the recommendations made on one area with particularly far-reaching implications – DAC members' engagement with the private sector, specifically:

- Private sector instruments
- Blended finance
- Untying aid

Private Sector Instruments (PSIs)

ATTACHMENT – PRESS RELEASE ON PSIs ISSUED ON 23 OCTOBER (also available online)

We draw the attention of DAC members to the concerns that we raised in our recent press release, and urge that the DAC resist the introduction of rules that could create harmful incentives. (Please see Annex 1 for an illustration of some potential harmful incentive effects). We recommend that:

- For the time being, PSIs should be removed from ODA and **reclassified as Other Official Flows**.
- The DAC should address the risks in the calculation methodology that our more detailed commentaries have set out,[2] by better aligning the proposed calculation parameters for loans with those recently agreed by the DAC for sovereign lending; by not including equities and mezzanine finance within ODA until further research has been undertaken; and by only recording guarantees when they are called. **Any any move to introduce even less cautious parameters should be strongly opposed**.
- The DAC should also put in place **detailed plans to mitigate potential aid quality risks** associated with PSI, and establish a clear accountability mechanism, before any agreement is reached.

Blended Finance

ATTACHMENT – INTERNAL EURODAD BRIEFING PAPER ON BLENDED FINANCE AND LEAVING NO-ONE BEHIND

We agree with the DAC that it is important to examine the development effectiveness opportunities and risks associated with blended finance. But **we urge caution in the use of blending** until the risks – particularly the risk of incoherence with some parts of Agenda 2030, such as leaving no-one behind – are better understood.

We are concerned that the OECD Policy Principles on Blended Finance for Sustainable Development do not go far enough to acknowledge or substantively address the risks of blending (including ODA diversion; erosion of country ownership; increasing tied aid; and unintended social, environmental and fiscal consequences). We hope that the forthcoming process to develop more detailed guidance on blended finance will be the first step towards a more extensive reflection on the pros and cons of blending in different contexts.

Untying aid

ATTACHMENT – PUBLISHED EURODAD BRIEFING PAPER ON UNTYING AID (also available online)

We welcome the DAC Chair's strong statements on the importance of untying aid,[3] and consider this work is particularly urgent in the context of the rapidly developing private sector agenda. **The HLM Communiqué should recognise that further progress on untying is needed**, and the DAC should follow this with a comprehensive plan for ending untied aid in policy and practice.

[1] The European Network on Debt and Development (Eurodad) is a network of 46 nongovernmental organisations from 20 European countries that advocate for an environmentally sustainable financial and economic system that works to eradicate poverty and ensure human rights for all.

[2] For example our June 2017 position paper.

[3] https://www.indepthnews.net/index.php/opinion/1103-we-must-be-serious-about-untying-aid-for-the-sake-of-credibility-and-private-sector-engagement

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Annex 1: Illustration of the different ODA incentives associated with public sector loans and PSI loans under the proposed rules

Please note: to enable easier comparison, this example makes some artificial assumptions (most obviously, that an aid provider would ever consider making a concessional loan that attracted zero ODA). But the underlying point that it illustrates is very real - that, in many scenarios, the rules allow more generous ODA rewards for transactions with the private sector than with the public sector, and this risks distorting decision making.

Suppose a DAC member makes a $100 million loan with a zero interest rate and a 13-year maturity (repayable in 12 equal annual instalments with no grace period). The recipient is in a low-income country deemed to have a high credit risk.

If the recipient is a public sector entity, the DAC member providing the loan **would not be able to record any ODA**. The grant element of the loan would be 39%, which is less than the 45% threshold required for loans to public sector entities in low-income countries to be counted as ODA.

If, on the other hand, the recipient is a private sector actor, the DAC member can record **ODA of $44.6 million**. PSIs have to meet a much lower threshold than other ODA loans to attract an ODA credit; and the higher reference rate applied to PSIs increases the credit further.