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# ODA modernisation

Background paper

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# Introduction

This background paper aims to demystify the process of ODA modernisation – also known as ‘aid reforms’ – being undertaken by the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC), which will affect all official development assistance (commonly shortened to ODA, or ‘aid’). Through this process, the official system for how aid is monitored, measured and reported is being significantly updated, changing the fundamental nature of ODA for the first time in decades.

This paper provides an overview of the drivers behind aid reform, describes the process and timelines for change and summarises the key changes expected. It also introduces some of the implications for policy and practice. It is for anyone who works with ODA data, including researchers, data analysts, journalists and other data users. The paper is designed to stand alone but Development Initiatives has also run a [webinar](#)<sup>1</sup> on ODA modernisation to support and inform interested stakeholders in following the process and engaging with ODA data.

# ODA modernisation: background to the process

## What is the OECD DAC?

The Development Assistance Committee of the OECD (known as the DAC or OECD DAC) is a membership group of 29 donor governments, plus the EU, with a secretariat in Paris, France. The DAC is a key influential and normative actor in shaping cooperation policies on aid and development. It provides a space in which donors agree on a common vision for development aid, learn from each other and hold each other to account.

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### Box 1: The DAC definition of ODA

The DAC defines ODA for its members. The current framing definition is:

*“those flows to countries and territories on the DAC List of ODA Recipients (available at [www.oecd.org/dac/stats/dacelist](http://www.oecd.org/dac/stats/dacelist)) and to multilateral development institutions which are:*

- i. provided by official agencies, including state and local governments, or by their executive agencies; and*
- ii. each transaction of which:*
  - a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and*
  - b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).”*

Whether an activity is eligible as ODA, according to the core pillars of this definition (an official source, concessionality, and a development purpose), is assessed in detail through the reporting of flows to the DAC. Donors report flows of ODA to the Creditor Reporting System (CRS) according to reporting rules called the ‘Statistical Reporting Directives’. ODA modernisation affects the reporting directives but, given the nature of the changes, which affect these core pillars, including concessionality, the core definition of ODA itself may also change to reflect ODA modernisation.

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The DAC’s role involves setting rules for what types of spending should count as ODA (Box 1). The DAC tracks donor progress towards the UN target to which some DAC donors have committed (that at least 0.7% of gross national income should be spent on providing ODA to developing countries). The DAC also produces statistics on ODA and

on other official and private flows of resources to aid-recipient countries, reviews donors' development policies and practices, produces guidance on good practice, and hosts several thematic networks on development issues.

## ODA modernisation

In 2012, the OECD DAC decided that the ODA concept and its statistical system needed updating and 'modernising', to 'better reflect the development finance landscape'. It agreed that it had a mandate to change ODA:

*"Against the background of vast changes to the development financing landscape over the past decades, participating governments [at the High Level Meeting] agreed that the DAC is well-placed to make a contribution to modernising the measuring and monitoring of external development finance provided by its members."<sup>2</sup>*

Although the modernisation may appear to be just a set of technical changes in the DAC statistical system, its implications are relevant for the whole development sector, affecting a wide range of activities and stakeholders. The changes may also affect the fundamental nature of ODA.

## What prompted the changes in ODA?

### Technical drivers

Some of the drivers for change are technical. The DAC has stated that it wants to make improvements to ODA statistics and the rules that govern how ODA is reported by members (DAC donors), in order to:

- Ensure consistency and avoid discrepancies between donors, caused by different interpretations of reporting rules
- More accurately reflect donor effort allocated to development activities in the official data.

Some of the other changes, such as new reporting rules for private-sector instruments (PSIs), are intended to enhance visibility and recognition of some flows and development activities not currently eligible to be reported as ODA. Until data is reported and available for analysis, it is difficult to be sure what the impact of these changes will be on transparency and accountability of ODA overall.

### Policy and political drivers

Some drivers are more political and complex, influenced by DAC members' policy agendas; this particularly relates to some of the new forms of ODA. They also stem from broader issues arising from the changing context for aid-giving and development cooperation. We will cover these issues when we produce further work looking at the impact of the rule changes. You can read more about them in OECD report on ODA modernisation.<sup>3</sup>

The DAC cites several reasons for the modernisation.

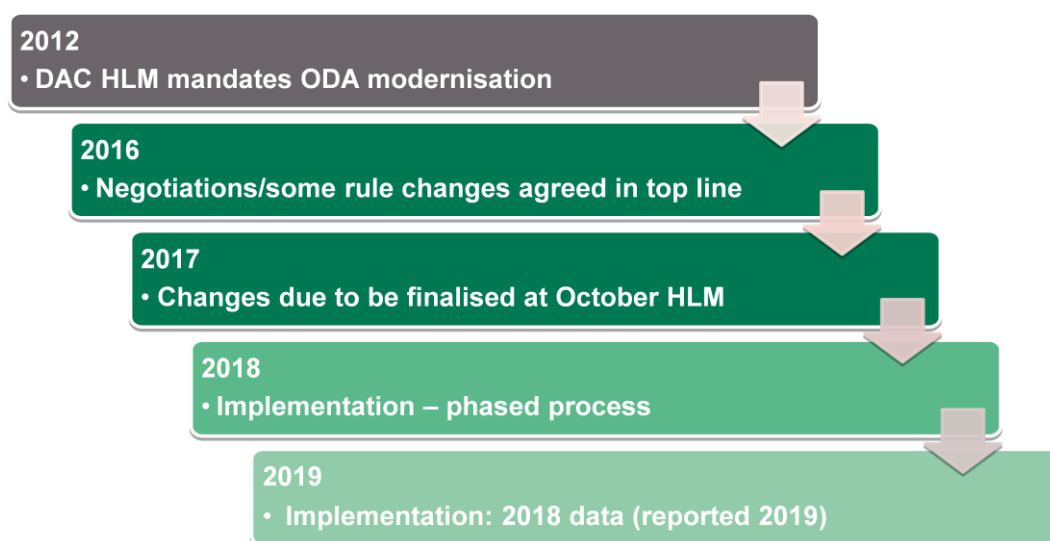
- The changing mix of resources to developing countries means that re-considering the role of ODA is timely. Since the ODA concept was developed in the 1960s, many more types of finance are available to developing countries to finance development.
- There is a drive to increase private-sector partnerships, in part due to the high costs of meeting the Sustainable Development Goals, but also for other reasons.
- More targeted ODA – by changing ODA rules, the DAC can politically incentivise donors to increase more concessional (softer) financing flows for the least developed countries (LDCs) and/or fragile and conflict-affected countries.
- The changing landscape of development cooperation includes the impact of emerging economies, which are able to deliver development assistance (South–South cooperation) under frameworks different from those used by OECD countries.

## Process and timelines

The agreement to undertake the reform was reached by the DAC ministers at the OECD DAC High Level Meeting in 2012,<sup>4</sup> triggering a series of discussions. The intention was that new rules would be agreed and implemented by 2018. The ODA data for 2018, which will be published in 2019, should fully reflect all the rule changes enacted under the ODA modernisation process (Figure 1).

However, at time of writing, a number of key decisions on the revised ODA rules are yet to be agreed. Any further delay to the process of agreeing the new rules could possibly result in changes to the original timeline.

**Figure 1: Timeline of the reforms**



## How will ODA modernisation affect different aid types?

For simplicity, this background paper divides ODA modernisation into two key areas of change.

1. Updating, clarifying and 'streamlining' existing ODA reporting:
  - ODA loans and debt relief
  - In-donor refugee costs (IDRCs)
  - Data changes – including purpose codes, channel codes and finance types.
  
2. Expanding ODA to bring in new activities, new flows and new financing instruments not previously eligible as ODA:
  - Private-sector instruments, or PSIs (including equity investments, guarantees and other 'market-like' instruments)
  - Some peace and security activities.

The detail of each of these areas of change is covered below.

# Unpacking ODA modernisation changes

## Changes to existing ODA

This area of ODA modernisation relates to updating, clarifying or 'streamlining' reporting for existing ODA flows. The drivers for this are primarily technical and relate to improving the accuracy and standardisation of ODA data or, in the case of ODA loans, better representing donor effort in the statistics.<sup>5</sup> However, in the case of in-donor-refugee costs (IDRCs) in particular, the negotiations have become somewhat more political in nature, due to different positions of stakeholders on the appropriateness of counting IDRCs as ODA.

## ODA loan changes

### Current situation

ODA loans must be concessional. The concessionality of a loan is assessed by calculating its 'grant element'<sup>6</sup> – the higher the grant element, the softer the loan.

A loan with a grant element of at least 25% has the full value of the loan counted as ODA. This means that a slightly concessional loan (with a 25% grant element) counts for the same amount of ODA as a highly concessional loan (with perhaps a grant element of 90%+), despite the higher economic cost associated with the less concessional loan. Any capital repayments made on existing ODA loans are subtracted from the headline net ODA figure.

### After modernisation

Only the grant-element proportion of the loan will count as ODA. Therefore, under the new rules, a loan of US\$10 million with 25% grant element will be counted as ODA of just US\$2.5 million, while a loan of the same size at 90% grant element will count as ODA of US\$9 million. Furthermore, repayments of capital on existing loans will no longer be subtracted from the headline ODA figures. This enables a better comparison between grants and loans, as well as a better comparison between loans with different concessionality levels.

However, there are also changes which affect the calculation of the grant element. The discount rates (sometimes known as 'reference rates') used to calculate concessionality are changing. Currently the discount rate is set at 10% for all loans. In future the discount rate will be differentiated depending on the income grouping of the recipient country. For LDCs and low-income countries (LICs) the discount rate will be 9%; for lower middle-income countries (LMICs), 7%; and for upper middle-income countries (UMICs), 6%. This matters, since the higher the discount rate, the greater the calculated grant element of any given loan. Thus donors will be 'rewarded' for taking higher risk in lending to the poorest countries by having a higher proportion of loans to LICs and LDCs counted as ODA.

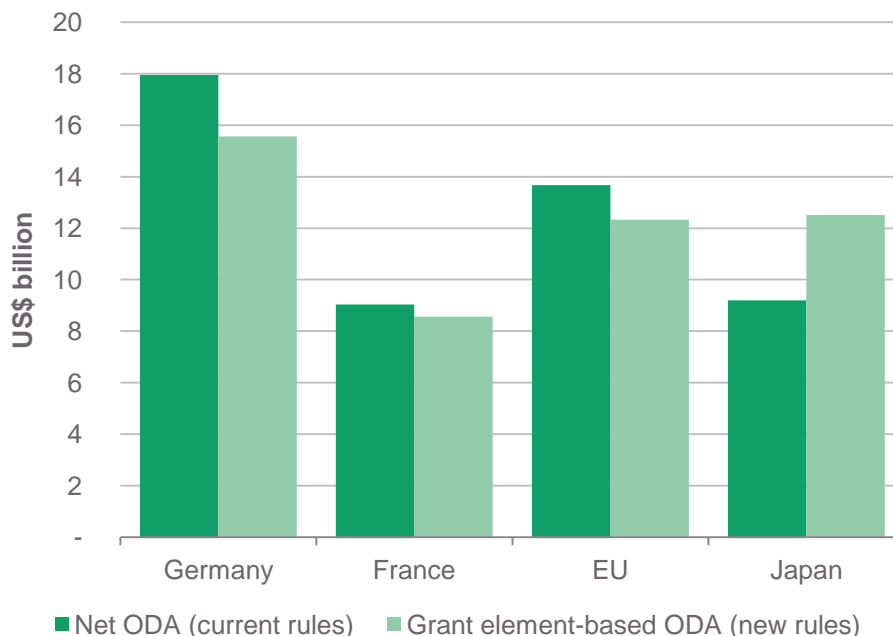


In order to incentivise more concessional lending to the poorest countries, the grant element required for a loan to LDCs and other LICs to be reported as ODA has been raised from 25% to 45%. Loans to LMICs and UMICs will be subjected to a lower concessional threshold and required to have a 15% or 10% grant element, respectively.

Lastly, capital repayments will no longer be subtracted from headline ODA as they were under the old cashflow system. This means that, for some countries, the reported levels of ODA will differ significantly under the new rules compared to the old rules. For example, Japan's reported 2013 ODA appears much higher when the new rules are applied. This is because Japan has a large stock of old ODA loans that are currently being repaid. Under existing rules, capital repayments on these loans are subtracted, reducing Japan's headline ODA figure.

Under the new rules this subtraction will not apply. Indeed, data from the DAC indicates that Japan's ODA would have been 36% higher in 2015 under the new rules (Figure 2). Germany on the other hand gives loans at a lower average grant element than Japan and has fewer old ODA loans currently being paid off. German ODA in 2015 would therefore have been 13% lower under the new rules.

**Figure 2: Comparison of 2015 ODA under old and new rules for main loan-giving donors**



Source: OECD DAC.

Notes: ODA reported by Germany, France and the EU (the main loan-giving donors) would have been lower if the new rules had applied in 2015 ODA; Japan's ODA would have been higher.

## Debt relief

Under the current rules, ODA credit can be claimed for both debt forgiveness and for interest capitalised under debt rescheduling arrangements. Debt relief arrangements can apply to loans originally reported as ODA, other official flows (OOF) or private lending. The full face value of any forgiven loan, plus accrued interest, less any capital repayments can be counted as ODA.

Under the new rules, debt relief on loans that were not originally counted as ODA can be treated in the same manner as before. However, the fact that the full face value of an ODA loan will no longer be counted in the headline figures will mean that the rules on debt relief of ODA loans must change.

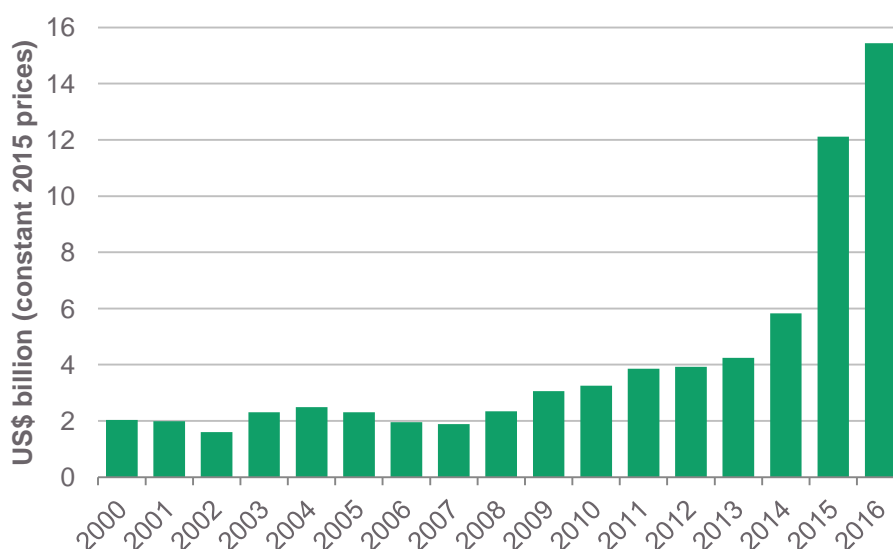
At time of writing, the new rules have yet to be agreed. There is an argument that debt relief of ODA loans should be excluded altogether from the headline ODA figure. This is because the reference rate used to calculate the grant element of each loan includes a 'risk premium' intended to reflect the likelihood of default. This is why a higher reference rate is used to calculate the grant element of loans to LDCs and LICs compared to middle-income countries (MICs). This risk premium increases the amount of ODA a donor will be credited for on any given loan.

In other words, the new rules allow donors to count a greater proportion of their lending as ODA than would otherwise be the case, specifically because of the risk of default when lending to developing countries, especially the poorest countries. However, the complete removal of debt relief on ODA loans from ODA might disincentivise donors from providing this kind of assistance. The next opportunity for donors to move toward agreement on this will come at the DAC High Level Meeting (HLM) in October 2017.

## In-donor refugee costs (IDRCs)

IDRCs are not strictly ODA modernisation in terms of being part of the package of reforms led by the DAC. However, since changes are happening on the same timeline and affect official aid, they are worth including here. Reported IDRCs for some DAC donors have significantly increased recently: IDRC spending rose six-fold over the last 10 years for which we have data (Figure 3).<sup>7</sup> This has brought this issue into the spotlight.

**Figure 3: Refugee costs reported as ODA have risen dramatically since 2013**



Source: OECD-DAC data.

### Current situation

OECD rules allow donors to report as ODA some of the costs of hosting refugees in donor countries during the first 12 months of their stay. These are known as 'In-donor refugee costs' (IDRCs).

The reporting guidelines are somewhat vague and so there is considerable variation between what and how different governments choose to report. The data reported is also quite difficult to understand; for example, information on the numbers of in-donor refugees supported by ODA is not reported. This information would enable better assessment of the extent to which the amount of ODA reported as refugee costs actually reflects the scale of refugee support provided by each donor. There is also a need for descriptions of methodologies used in reporting and methodological changes applied year on year and disaggregated reporting costs.<sup>8</sup>

### After modernisation

The DAC has surveyed donors to find out more about how they report IDRCs. A technical working group, the Temporary Working Group on Refugees and Migration, is reviewing the reporting guidelines, aiming to clarify and agree updated rules to make IDRCs more consistent, comparable and transparently reported by DAC donors. This group is expected to present an updated proposal to the DAC at the end of September 2017.

### Changes in data: purpose codes, finance types and channels

The DAC Secretariat maintains various code lists which are used by donors to report on their aid flows to the DAC databases. These codes help us understand and classify the

data on ODA: what it is being used for, and what channels or organisations it is being spent through.

The DAC aims to change codes in key areas:

- Sector codes: this may help track ODA spending in a more detailed, granular way in certain priority areas, or in areas relating to global commitments. For example, there is a new code to track ODA spending on activities aimed at ending violence against women and girls, and new codes within the ‘Government and civil society’ sector.
- The DAC is also considering a new reporting code to track donors’ support to “migration and mobility facilitation”.
- Further work is planned to align DAC sector and purpose codes more closely with the goals and targets of the SDGs. However, a timeframe for this work has not yet been published.
- New channel codes are planned, to reflect aid flowing through private-sector entities not previously captured in DAC data.
- New finance type codes will also be implemented to capture a wider range of financial instruments, including some relevant to ‘blended finance’<sup>9</sup> funding arrangements.

As an ongoing process accompanying the reforms in ODA definitions, the purpose codes and channels used for reporting ODA during the transition period have also been evolving. Some minor changes have already been reflected in the latest available reported data. Currently the debates are focused around better adjusting the purpose codes and policy markers to the SDGs framework and targets, especially in areas such as migration, nutrition and disease prevention.

## Expanding ODA-eligible flows

### Peace and security activity costs

Currently donors can report ODA spending on peace and security activities under the ‘conflict prevention and resolution, peace and security’ sector. There are various subcategories within this sector, including: security sector management and reform; civilian peacebuilding, conflict prevention and resolution; participation in international peacekeeping operations; reintegration of child soldiers; land mine clearance; and small arms and light weapons control. However, financing of military equipment or services is generally excluded from ODA reporting.

Because of the interrelatedness of peace and security issues with development and human rights, the DAC has decided that clarification is needed on ODA-eligibility of activities involving the military and the police as well as activities preventing violent extremism. The DAC also wanted clearer guidelines on if and how to report development-related training of military personnel.

## After ODA modernisation

The activities currently included are broadly the same as those to be included after reform. However, there are some new ODA-eligible activities, mainly 'non-coercive security-related activities with a long-term sustainable development objective', for example:

- Training for partner military forces (e.g. in human rights or gender issues)
- Support for costs where military personnel are used as delivery agents of development services or humanitarian aid (as a last resort)
- Educational activities led by partner countries to prevent violent extremism.

ODA still cannot be spent on 'regular' military costs, meaning salaries, equipment or equipment maintenance.

According to the DAC Secretariat, the implications of these changes on ODA levels will not be significant: "Peace and security-related expenditures represent 2% of bilateral ODA. These minor adjustments to reporting rules cannot impact ODA volumes in any significant way".<sup>10</sup>

There is a risk that, depending on how the wording in the communiqué for the High Level Meeting is interpreted, these changes to aid rules may result in resources being diverted away from activities with a greater development and poverty-reduction focus in favour of those that align to national security and political priorities.<sup>11</sup> Ensuring transparency and illustrating the development impact of funding decisions will be critical to ensuring that the needs of vulnerable people are met.

## Next steps

The 'casebook' which tells donors how to publish according to the updated rules will give further guidance on the implementation of these reporting directives. This is due to be published by the DAC later in 2017.

## Peacekeeping

The proportion of funds provided by donors as core funding for UN peacekeeping, known as the 'peacekeeping coefficient',<sup>12</sup> that can be reported as ODA has been increased from 7% to 15%. This apparently large rise is due to the fact that, until now, only activities of civilian UN personnel were counted when calculating how much of the UN's Peacekeeping work is ODA-eligible. However, bilateral donors are allowed to count some specific activities of uniformed personnel as ODA so, to be consistent, relevant activities of uniformed UN personnel have now been taken into account also. We estimate that this would amount to ODA worth approximately an additional US\$500 million reported annually, based on 2015 numbers.

There is a need for greater transparency in reporting of these figures. These costs are reported to the DAC as a single lump sum for each donor, in common with other core multilateral funding. However, unlike many other multilateral bodies who report to the

CRS, no breakdown of the specific types of activities these peacekeeping funds are used for is reported by the UN to the DAC.

## Private-sector instruments (PSIs)

### Current situation

Equity investments have been eligible for ODA reporting since 1995 but account for a relatively small proportion of total ODA – typically less than 1% of total ODA. Some DAC members have established development finance institutions (DFIs), investment funds and other special-purpose programmes, in order to engage the private sector in development.

These DFIs and investment funds use PSIs such as equity investments and guarantees. This allows them to engage in activities often characterised as ‘blended finance’ or ‘catalytic’ aid.<sup>13</sup> Under blended finance arrangements, a donor or DFI can mobilise additional investment from commercial actors through a variety of means including the provision of guarantees or first-loss capital. This can potentially generate investments in developing countries many times greater than the amount of funding provided by the donor or DFI.

However, these activities do not currently qualify as ODA, mainly because they are not ‘concessional’ (not including a ‘grant element’). Donors wanted to update the system to better provide incentives for the use of PSIs in developing countries and to reflect current activity in the ODA statistics.

### After modernisation

The rules are not yet agreed, but are likely to allow for reporting of:

- Investments in private companies
- Loans to private companies that are non-concessional (or at lower levels of concessionality than required for loans to governments)
- Underwriting of commercial activities through guarantees.

This finance may also be used to mobilise additional funding from private investors via blended finance instruments (e.g. syndicated loans and mezzanine finance).

These investments are very likely to be handled by DFIs which many donors have established to manage the funding of private companies in developing countries. Because they are likely to be non-concessional (except for a technical threshold), ODA eligibility of PSIs will be judged on a different, more subjective basis:

- Financial additionality – investment that the market would not have provided on its own
- Developmental additionality – adding developmental value to normal commercial activity.

The concept of additionality is complex and aims to quantify whether the financial or developmental impact brought about by an activity would have occurred otherwise. A PSI may, even while it may not be 'concessional', still have the "the economic development and welfare of developing countries as the main and primary objective of its operations".<sup>14</sup> How these 'additionality' criteria will be defined and measured is still under discussion. When reporting PSIs as ODA, donors will be able to choose between two methods of accounting for these outflows – the 'instrument approach' and the 'institutional approach'.

- Under the **instrument approach** the donor agency or DFI providing the investment will report each investment at the individual activity level.
- Under the **institutional approach** the donor will report any capital funding provided to the DFI as ODA. The proportion of this funding that is actually added to the donor's ODA figure will be determined through an institutional assessment of each DFI which will determine the level of ODA-eligible activities carried out by that DFI. DFIs will still be expected to provide activity-level reporting in order to preserve transparency.

While this could potentially increase ODA levels and leverage much-needed investments, especially in LDCs, the risks traditionally associated with the use of PSIs for development are a concern for some, as is the significant change to the 'concessional' element of ODA. Another concern is the difficulty of maintaining the same levels of transparency in PSIs as in the rest of ODA, due to the challenges of reporting detailed information relating to transactions involving ODA, when that information is held to be commercially confidential.

# Possible implications of ODA modernisation

## Implications for data analysts and researchers

These changes represent the largest shake-up in over two decades for how ODA is counted. The inclusion of new flows, previously excluded from ODA, and the fundamental changes to the way in which ODA loans are accounted for will have significant implications for analysts and researchers once the new rules are fully implemented.

The headline ODA figure has never been a reliable guide to the amount of money or other resources transferred to developing countries. This is largely due to the inclusion of a number of elements that do not result in any transfer of new resources – for example debt relief (especially the cancelling of accrued interest), imputed student costs and in-donor refugee costs. The new rules may be a better way of measuring the donor effort involved in providing aid, but they will also result in the headline ODA figure bearing even less resemblance to actual resource transfers.

Seen from a perspective of examining donor effort, it is a good thing that a highly concessional loan will count for more ODA than a loan that will be more expensive for the borrower. On the other hand, the amount of lending reported in the headline ODA data will represent only a fraction of the funds disbursed. In order to analyse the cashflow implications for each developing country, it will be necessary to analyse the gross lending figures and repayments rather than the headline ODA numbers.

This effect will be even more pronounced in the case of PSIs. PSI loans will almost certainly have even lower grant elements than ODA loans, so the amount reported as ODA will be even further removed from the actual cashflow figures. PSI guarantees reported as ODA complicate the picture still further. These instruments will not result in any transfer of resources from the donor to a developing country, but may result in a loan from another source that would not otherwise have been made. The donor will, however, count a small proportion of the total value of the guarantee in their ODA.

Also, those donors who report PSIs under the institutional approach will not record any transfers of PSIs to specific developing countries – just the capital funding transferred to DFIs. In these cases, researchers will need to examine the data on outflows from DFIs to developing countries in order to assess the impact on specific recipients.

Some of the changes to data will enable analysis to be more detailed in some respects. It will be possible to obtain additional detail on the types of private-sector organisations that receive aid funding. A wider range of financial instruments will be captured and data will



be available on the amount of additional private finance mobilised by the use of blended finance deals.

In summary, analysis of ODA data will require more complex technical understanding and researchers will need to take care to select the right data for different research questions. For example, the data required to examine donor behaviour may be very different from the data required to understand the impact of ODA in any given developing country.

## Policy and practice implications

We cannot yet be sure whether ODA modernisation will bring about more choice for donors and their partner countries – with a wider range of financing instruments more suitable for targeting in different contexts, for example. Or will there be additional constraints, perhaps due to unintended consequences such as potential opportunity costs? However, it is clear that new rule changes can alter behaviour through providing incentives, so it is important to consider these future possibilities.

First, as highlighted, the fundamental nature of ODA is likely to change, which may require revisiting the core ODA definition. There will also be a range of new actors whose activities will be included in ODA, or in the related data. More DFIs will have their activities reported as ODA. Data on the actions of private actors will also be available, and military or security actors may also begin to play a bigger role in development cooperation. These actors will have practices and objectives different from those of donors' existing aid agencies, which will need to be taken into account by anyone involved in advocacy around development policy.

Second, anyone tracking flows of finance for the UN Sustainable Development Goals or other global aid targets will need to take into account that headline figures are even further from actual resource transfers – because the headline ODA figure reported for loans and PSIs will not match the amount of funds committed or disbursed. Transparency and accountability of these flows may also be challenged as some data becomes more difficult to access, understand and analyse.

Third, the new rules may also change the incentives for, and the behaviour of, donors' aid agencies. For example, a loan to an LDC will count for more ODA than the same loan advanced to an MIC – due to the different reference rates used in the grant-element calculation. It remains to be seen what effect this may have on donors' lending decisions. Also, the ability for donors to count a proportion of unfunded liabilities (guarantees) as ODA may create incentives for donors to make increasing use of such instruments in developing countries.

Finally, the role of 'traditional' ODA – grants, technical cooperation and highly concessional loans – may also need to alter due to changes elsewhere in the development finance system. If development finance delivered through PSIs and private capital mobilised through blended finance gravitates toward certain sectors and certain developing countries, grant-funded ODA may need increasingly to focus on those areas which attract less of these investments. This has implications for donor decision-making, and for policy on development cooperation more widely.

# Next steps

## Finalisation of rules

As noted above, the new rules around ODA are not yet entirely finalised. The 2017 October High Level Meeting (HLM) of the OECD DAC is the next opportunity for donors to reach agreement on outstanding issues. These issues include:

- The exact method and parameters for calculating the level of PSI loans and guarantees which will be counted as ODA
- The treatment of ODA loans subject to debt relief under the new rules.

## Publication of Peace & Security Casebook

The revised Peace & Security Casebook will enable further assessment of the changes and clarifications to the rules around counting security-related activities within ODA. Examples of specific peace and security activities will be included, together with the rationale for allowing or not allowing each activity to count as ODA.

## Potential issues to monitor

There are a number of potential issues which will require attention once the new rules are implemented and data on donors' ODA activities under these rules begins to be published:

- **What will be the effect on overall ODA levels of the new loan rules?** The new rules on loans will mean that some donors (e.g. Japan) will see an increase in their overall ODA figures while others (e.g. Germany) will see their headline ODA fall.
- **Will donors increase lending to the poorest countries?** The higher discount rates applied when calculating the grant element of loans to LDCs and LICs will mean that donors will be able to report more ODA for a loan to an LDC than if the same loan were given to an MIC. It remains to be seen whether this will result in donors favouring loans as a means of providing ODA to the poorest countries. Any effect on the debt sustainability of these countries will need to be closely monitored.
- **Will the new rules on peace and security mean more of these activities being reported as ODA?** In theory, this should not be the case, since the intention of the new rules on peace and security spending is mainly to provide clarification rather than a large-scale expansion of these activities being included in ODA.
- **Will the inclusion of PSIs in ODA actually lead to a large-scale increase in the funding of private-sector organisations?** The low levels of concessionality

associated with these instruments means that the amount of PSIs counted as ODA may be small compared to the overall increase in funding for the private sector. Thus the level of ODA reported as PSIs may not be a reliable guide to the actual levels of investments. Cashflow data will also need to be analysed in order to ascertain the extent to which PSIs have increased the funding available to private-sector organisations in developing countries.

- **Will the amounts mobilised from the private sector be large enough to make a significant contribution to funding the SDGs?** Much has been made of the potential for ODA to unlock very large sums from private investors through blended finance deals. The data on amounts mobilised from the private sector will provide an indication of the extent to which this becomes a reality.
- **Which countries and sectors will receive less funding from PSIs, including blended finance, and will other forms of ODA be more focused on these areas?** Funding from PSIs and blended finance are likely to be concentrated in a number of sectors where stable financial returns are more likely. Some countries may also struggle to attract these forms of finance. There is therefore a case for 'traditional' forms of ODA to be more closely targeted at those sectors and countries which benefit less from these forms of finance.
- **What will be the impact of PSIs on transparency standards?** The inclusion of more private-sector activities in ODA will result in some information about transactions that are reported as ODA being withheld for reasons of commercial confidentiality. This looks likely to create a situation in which some types of ODA are subject to a lower standard of transparency than others.

# Notes

<sup>1</sup> Development Initiatives, 2017. *How is aid changing? An introduction to ODA modernisation*. Available at <http://devinit.org/post/oda-modernisation-background-paper-changing-rules-aid/>

<sup>2</sup> OECD DAC, 2012. DAC HLM Communiqué. Available at: <https://www.oecd.org/dac/HLM%20Communique%202012%20final%20ENGLISH.pdf>

<sup>3</sup> OECD DAC, 2017. *Report of the High Level Panel: A new DAC in a changing world*. Available at: <https://www.oecd.org/dac/Report-High-Level-Panel-on-the-DAC-2017.pdf>

<sup>4</sup> OECD DAC, 2012. DAC HLM Communiqué. Available at: <https://www.oecd.org/dac/HLM%20Communique%202012%20final%20ENGLISH.pdf>

<sup>5</sup> OECD DAC, 2015. *Why modernise official development assistance?* Available at: <http://www.oecd.org/dac/financing-sustainable-development/Addis%20flyer%20-%20ODA.pdf>

<sup>6</sup> 'Grant element' is the standard way of measuring how concessional a loan is. It can be viewed as the difference between the cost, in today's prices, of the future repayments a borrower will have to make on the loan in question and the repayments the borrower would have had to make on a non-concessional loan. This is therefore the amount of money that is considered to have been 'given away' by the donor, hence grant element. The grant element is normally shown as a percentage of the value of the loan.

<sup>7</sup> Development Initiatives, 2016. *Donors gave a record amount of aid for hosting refugees in 2015 while also increasing spending elsewhere*. Available at: <http://devinit.org/post/donors-gave-a-record-amount-of-aid-for-hosting-refugees-in-2015-while-also-increasing-spending-elsewhere/>

<sup>8</sup> Development Initiatives, 2017. *Strengthening transparency: OECD DAC reporting on in-donor refugee hosting costs*. Available at <http://devinit.org/wp-content/uploads/2017/09/Strengthening-transparency-of-OECD-DAC-reporting-on-in-donor-refugee-hosting-costs.pdf>

<sup>9</sup> For further information on blended finance see Development Initiatives, 2016. *Blended finance: understanding its potential for Agenda 2030*. Available at: <http://devinit.org/wp-content/uploads/2016/11/Blended-finance-Understanding-its-potential-for-Agenda-2030.pdf>

<sup>10</sup> DAC Secretariat, 2016. *The scope and nature of 2016 HLM decisions regarding the ODA-eligibility of peace and security-related expenditures*. Available at: [https://www.oecd.org/dac/HLM\\_ODAeligibilityPS.pdf](https://www.oecd.org/dac/HLM_ODAeligibilityPS.pdf)

<sup>11</sup> See Development Initiatives, 2016. *New aid rules allow for the inclusion of a wider set of peace and security activities*. Available at: <http://devinit.org/post/new-aid-rules-allow-for-the-inclusion-of-a-wider-set-of-peace-and-security-activities/>

<sup>12</sup> OECD DAC, 2017. *The ODA coefficient for UN peacekeeping operations explained*. Available at: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/ODA-Coefficient-for-UN-Peacekeeping-Operations.pdf>

<sup>13</sup> See Development Initiatives, 2016. *Blended finance: understanding its potential for Agenda 2030*. Available at: <http://devinit.org/post/blended-finance-understanding-its-potential/>

<sup>14</sup> OECD DAC, 2016. DAC HLM Communiqué. Available at: <https://www.oecd.org/dac/DAC-HLM-Communique-2016.pdf>

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