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**MOBILISING PRIVATE DEVELOPMENT FINANCE:  
IMPLICATIONS FOR OVERALL AID ALLOCATIONS**

**Polly Meeks, Matthew Gouett and Samantha Attridge**



# Mobilising private development finance: implications for overall aid allocations

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*Rapport 2020:01*

*till*

*Expertgruppen för biståndsanalys (EBA)*

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# Foreword by the EBA

The agreement on the UN Sustainable Development Goals in 2015 changes the foundations for international cooperation. No country should any longer remain on the sidelines, all must contribute to the joint Agenda 2030 – our common toolkit for a healthy planet.

It has been argued that any attempt to calculate the costs for fulfilling this agenda is futile, and possibly counterproductive. To reach the goals, much more than money is needed, and a narrow focus on finances may even move attention away from the most important elements, such as policies, public sector reforms as well as changed attitudes and behavior.

It is nevertheless clear that money is needed to achieve the Agenda 2030 goals. There is need for a lot of money – much more than is currently available through public financing sources. Since the Addis Ababa Agenda for Action, also jointly agreed upon in 2015, the call has been to move international finance in support of Agenda 2030 ‘from billions to trillions’. The main vehicle for doing this is to encourage and facilitate private finance to invest in projects that will have an impact on the goals.

If public sector resources are far from enough, arguably the use of ODA for mobilizing private capital would scale up the total financial flows to low- and middle-income countries. However, how should this be done in an optimal manner? Allocation decisions should ideally be taken after comparing what alternative uses the resources could be put to. Such comparison requires information about what those alternative allocations are likely to be.

This report is to our knowledge, a first attempt at tracing how major ODA donors allocate their resources when trying to catalyze private finance in support of Agenda 2030. What countries and sectors receive support, and what do not? It is our hope that the report may improve the basis for allocation decisions and enlighten deliberations on how to report various financial streams in a transparent way. Key audiences for the report are decisionmakers who influence the allocation of ODA between its various instruments.

The work with the report has been accompanied by a reference group under the leadership of EBA member Mr. Torgny Holmgren. The responsibility for the analysis and recommendations rests fully with the authors.

Gothenburg, January 2020

A handwritten signature in blue ink, appearing to read 'Helena Lindholm', with a stylized flourish at the end.

Helena Lindholm, EBA Chair

# Sammanfattning

## Ökad användning av bistånd som 'katalysator' för privata investeringar

Att använda bistånd för att 'katalysera' privat finansiering blir allt vanligare inom utvecklingssamarbetet. Från Addis Ababa till Washington DC, har olika internationella fora understrukit vikten av att främja fler privata investeringar för att 'maximera utvecklingsfinansiering' och bidra till FN:s hållbarhetsmål. Denna studie fokuserar på en särskild form av utvecklingsfinansiering – det offentliga utvecklingsbiståndet (ODA) – och dess ökande användning i 'katalytiskt' syfte. Vi koncentrerar oss i synnerhet på bistånd som investeras i privatsektorinstrument (PSI), vilket inbegriper lån, investering i ägarkapital, 'mezzanine'-finans<sup>1</sup> till privata företag och garantier till de finansiärer som lånar ut pengar.

Inom bilateralt bistånd har PSI-investeringar till ett värde av 2,46 miljarder USD rapporterats till OECD-DAC under 2018. Det motsvarar ungefär två procent av det totala internationella biståndet. Den verkliga omfattningen är sannolikt betydligt större, men döljs av brister och otydligheter i de rapporterings-rutiner som OECD-DAC tillämpar.

Biståndsinvesteringar i PSI växer snabbt i omfattning. Av de 31 bi- och multilaterala biståndsgivare som vi studerat planerar 13 stycken – bland dem flera av de största givarländerna – att öka sina PSI-investeringar. En enda givare planerar en minskning (avsnitt 5).

I takt med att intresset för PSI har vuxit internationellt har allt fler studier börjat undersöka möjliga effekter av PSI på den totala omfattningen av utvecklingsfinansiering, för kvaliteten på privatsektor-biståndet, liksom investeringarnas effektivitet och fattigdomsminskande effekter. Fortfarande är dock mindre känt kring vilka effekter ökade PSI-satsningar kan få för den övergripande fördelningen av bistånd. När givare investerar bistånd

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<sup>1</sup> Mezzanine är en finansiell blandform, som delvis har karaktär av lån, delvis har karaktär av ägarkapital.

i PSI, hur påverkar det övrig bistånds-allokering? I vilken mån har givare tagit in sådana hänsyn i sina beslut? Och i vilken mån hindrar eller bidrar nuvarande rapporteringsrutiner till effektivt beslutsfattande?

Denna studie syftar till att undersöka dessa frågor. Vi använder en kombination av litteraturstudier, ingående kvantitativ analys och kvalitativa undersökningar av ett urval biståndsgivare. Det är vår förhoppning att våra resultat ska vara användbara både för enskilda biståndsgivare och OECD-DAC i deras fortsatta strävanden att komma överens om PSI bör rapporteras inom biståndet.

## **Länken mellan PSI-satsningar och övergripande biståndsallokering**

Fördelning av bistånd kräver att komplexa avvägningar görs. Två viktiga frågor behöver i det sammanhanget understrykas.

För det första är vår analys av dessa avvägningar inriktad på bistånd, till skillnad från bredare utvecklings-finansiering. Under rätt förutsättningar kan PSI mobilisera ytterligare resurser för utveckling, och detta bör tas i beaktande när biståndsbeslut görs. Men dessa mobiliserade resurser kan inte självklart antas vara rakt utbytbara mot bistånd, eftersom biståndet har ett specifikt mandat. Av det skälet är det viktigt att å ena sidan kraft PSI har att mobilisera resurser och å andra sidan PSI's betydelse för fördelningen av bistånd ses som två separata men relaterade saker.

För det andra skiljer sig de politiska- och budgetmässiga begränsningarna för biståndet från en givare till en annan. Oavsett hur budgetprocesser ser ut kan givare bara vara säkra på att de får största möjliga effekt av sitt bistånd om PSI-satsningar nogsamt ställs mot en analys av hur medlen alternativt kunde ha använts.

Denna studie erbjuder vägledning för att hantera sådana avvägningar. Ambitionen är inte att föreskriva något specifikt handlingsalternativ.

Vi utgår ändå från att biståndet har en unik roll som förmånlig offentlig resurs, avsedd att "främja ekonomisk utveckling och välbefinnande i utvecklingsländer som huvudsyfte" (OECD, 2019). Vi

utgår också från att givare är bundna av globala målsättningar och internationella konventioner om mänskliga rättigheter, vilket binder dem att ta hänsyn till multidimensionell fattigdom och marginalisering inom hela dess bistånd. Detta förutsätter att effekter – inklusive fördelningseffekter – av biståndsbeslut måste förstås och bedömas grundligt.

## Effekter av PSI:s på biståndets allokering

För att bättre förstå hur biståndsinvesteringar i PSI har påverkat övergripande mönster av allokering jämförde vi tillgänglig information om hur PSI har använts med hur 'vanligt' bistånd har spenderats längs tre olika dimensioner:

- Allokering över sektorer
- Allokering till minst utvecklade länder (MUL)
- Inkludering av olika befolkningsgrupper (utifrån data kring jämställdhet respektive funktionsvariation)

Vår analys av aktuella data från ett urval givarländer (avsnitt 6) visar att:

- Sex procent av sektor-specifik PSI fördelades till de sociala och humanitära sektorerna. För 'vanligt' bilateralt bistånd uppgick denna andel till 69 procent.
- Den geografiska fördelningen av PSI varierade kraftigt mellan olika givare i vårt urval. Totalt för alla elva undersökta givare hade 40 procent av PSI-investeringar riktats mot MUL-länder. Detta resultat drevs dock huvudsakligen av Norge, som anslagit en mycket stor andel av sitt PSI-bistånd till MUL-länder under 2018. När Norge utesluts ur analysen uppgick andelen till 21 procent. För 'vanligt' bilateralt bistånd var motsvarande andel 31 procent.
- Två procent av PSI-allokeringarna syftade till att bidra till ökad jämställdhet, jämfört med 40 procent av det 'vanliga' bilateral biståndet. Rapportering av hur stora andelar som riktas mot människor med funktionsvariation är fortfarande ovanligt, men existerande rapportering visade att inget PSI-

bistånd syftade till inkludering och stärkande av personer med funktionsvariationer. Detta kan jämföras med fyra procent för 'vanligt' bilateralt bistånd.

Genom att fokusera på sektorer och på jämställdhet – de delar av vår analys där vårt urval tillåter de tydligare slutsatserna – har vi försökt kvantifiera möjliga effekter av PSI-satsningar på den övergripande allokeringen av biståndsmedel. Om nuvarande trender fortsätter uppskattar vi (avsnitt 6.6) att bistånds-investeringar i PSIs kan påverka fördelningen på följande sätt:

- Omkring 1,141 miljarder – 5,956 miljarder USD av bistånd kan komma att föras över från de sociala och humanitära sektorerna till produktiva sektorer.
- Omkring 649 miljoner – 3,766 miljarder USD av bistånd kan föras bort från insatser som har jämställdhet mellan könen som syfte.

För att sätta detta i perspektiv kan vi utgå från medelvärdet av det vi räknat fram inom de sociala och humanitära sektorerna – 3,55 miljarder USD – skulle motsvara över tre procent av det totala bilaterala biståndet 2018. Detta är betydligt mer än de samlade utgifterna som gick till grundläggande utbildning detta år.

## **Beslutsprocesser: centrala resultat**

Våra resultat ska inte läsas som någon uppmaning att omfördela PSI-satsningar till de sektorer och länder dit annat bistånd ges. Det handlar snarare om att beslut kring fördelning av resurser till PSI ska föregås av en grundlig avvägning av hur biståndet alternativt skulle kunna användas – precis som det borde vara för alla beslut om biståndsanvändning.

De intervjuer vi gjort med biståndstjänstepersoner i ett urval givarländer bekräftar att de inte alls är obekanta med de avvägningar som investeringar i PSI innebär. Men vi fann inga belägg för att de avvägningar som föregått besluten har dokumenterats, inte i något av de givarländer där vi genomfört intervjuer. Det gör det svårt att veta om beslut kring PSI-investeringar verkligen har varit inriktade på att få största möjliga effekt för varje dollar. Samtidigt

förekommer externa incitament och påtryckningar – från kollegor i det internationella samfundet, från budgetmålsättningarna såväl som från inhemska företag. Sådana påtryckningar riskerar att rikta uppmärksamheten bort från rent utvecklingsmässiga faktorer då besluten fattas.

OECD-DAC:s nuvarande – provisoriska – rapporteringsrutiner kring PSI skapar ytterligare problem för såväl beslutsprocesser som för uppföljning. Utmaningarna handlar om att fundamentalt olika ansatser till rapportering ställs mot varandra; att multilaterala organisationers rapportering av PSI-investeringar är ofullständig; att regler (eller kryphål) möjliggör att överdrivna summor av lån, ägarkapital och garantier i vissa fall räknas in som bistånd. Detta begränsar inte enbart transparensen i rapporteringen, utan riskerar dessutom att skapa incitament för en snedvriden allokering då reglerna möjliggör en mer generös rapportering av PSI än av andra biståndsformer (avsnitt 8).

## **Stärkt beslutsfattande för bättre allokering**

Vår huvudsakliga rekommendation är att framtida beslut om PSI-investeringar bör göras utifrån en transparent bedömning av dessa instruments utvecklingseffekter, jämfört med hur biståndet annars skulle kunna användas. Denna bedömning ska ta hänsyn till givares åtaganden gentemot globala mål, deras skyldigheter inom ramen för internationella konventioner om mänskliga rättigheter, likväl som till biståndets unika resurs för att uppfylla dessa åtaganden.

För att omsätta denna rekommendation i praktiken riktar vi följande specifika rekommendationer till olika aktörer som är inblandade i beslut om PSI. Sverige är väl placerat att driva dessa rekommendationer vidare utifrån sina långvariga erfarenheter som givare inom PSI-området och tack vare sin inflytelserika röst i multilaterala forum.

1. **Biståndsgivare** bör uttryckligen bedöma och dokumentera utvecklingsmotiven bakom användningen av PSI i förhållande till andra användningsområden för biståndet, innan utgiftsbeslut

fattas. De bör vidare investera i ytterligare forskning för att klarlägga vilka avvägningar som behöver göras.

2. **Givarländer** bör avstå från att sätta upp gränser för gåvobistånd och andra biståndsformer, eftersom sådana gränser kan begränsa möjligheterna att fatta beslut om PSI-investeringar enbart baserat på deras utvecklingseffekter.
3. **Multilaterala givare** bör tillsammans med bilaterala givare rapportera alla PSI-transaktioner till OECD-DAC markerade med en ny PSI-‘flagga’. Detta skulle möjliggöra en mer komplett kunskap om de totala investeringarna i PSI.
4. **OECD-DAC** bör fördubbla sina ansträngningar att hindra de nuvarande provisoriska rapporteringsrutinerna från att permanentas. Kommittén bör övervaka hur PSI påverkar den övergripande fördelningen av bistånd. Den bör även använda sin standard-sättande makt för att stoppa påtryckningar som har andra syften än att främja utveckling, till exempel att använda PSI för att främja givarländers egna företag.
5. Deltagare i **globala forum kring utvecklingsfinansiering** bör främja en omsvängning till ett språkbruk och ett tänkande kring användningen av bistånd för privat-sektor-investeringar, vilket starkare poängterar att alla finansieringsformer ska bedömas utifrån sin förmåga att maximera utvecklingseffekter, också för de fattigaste.



# Summary

## **Growing interest in ODA as a ‘catalyst’ for private investment**

The use of development finance to ‘catalyse’ private finance has become a growing trend in development cooperation. From Addis Ababa to Washington DC, international norm-setting forums have stressed the need to catalyse private investment in order to ‘maximise finance for development’ and contribute to the Sustainable Development Goals. In this study we focus on one specialised form of development finance - Official Development Assistance (ODA) – and its increasing use for ‘catalytic’ purposes. Specifically, we concentrate on ODA invested in ‘private sector instruments’ (PSIs), which comprise loans, equity investments, mezzanine finance<sup>2</sup> provided to private sector enterprises; and guarantees extended to financiers who back them.

PSIs accounted for a reported USD 2.46 billion of bilateral ODA spending in 2018, some two percent of total bilateral ODA. The true share of ODA devoted to PSIs is likely to be significantly higher, but is obscured by gaps and ambiguities in the current Organisation for Economic Cooperation and Development Assistance Committee (OECD DAC) reporting arrangements (section 8).

ODA investment in PSIs is increasing fast. Of 31 bilateral and multilateral ODA providers studied, 13 – including many of the largest ODA providers – plan to scale up their PSI spending, and only one plans to scale it down (section 5).

As interest in PSIs within international forums has mounted, a growing body of policy literature has begun to explore the potential implications of PSIs for the total quantity of finance for development; and for the quality of ODA invested in PSIs,

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<sup>2</sup> Mezzanine is a hybrid form of finance, with some of the characteristics of loans, and some of the characteristics of equity.

including its efficiency and its poverty impacts. However, less is known about the effects of PSIs for wider ODA spending. When providers invest ODA in PSIs, how does this affect overall ODA allocation patterns? How have ODA providers factored these linkages into their spending decisions? And how far do current reporting processes facilitate or frustrate effective decision making and scrutiny?

This study seeks to explore these questions. We use a combination of literature review, in-depth quantitative analysis, and qualitative enquiries with a sample of ODA providers. We hope the findings will be useful both to individual ODA providers and to the OECD DAC, in its continued efforts to reach an agreed position on the reporting of PSIs within ODA.

## **The link between PSI spending and overall ODA allocation patterns**

ODA allocation decisions involve trade-offs, but the mechanics of these trade-offs are complex, and two important issues should be considered.

First, our analysis on potential trade-offs is focused on ODA, as opposed to the wider universe of finance for development. In the right circumstances, PSIs can mobilise other resources for development, and where applicable this should be taken into account in ODA providers' decision making processes, within the parameters set out below. However, such mobilised resources cannot be assumed to be interchangeable with ODA, given that ODA has a distinctive mandate. This makes it important for PSIs' mobilisation potential, and PSIs' implications for ODA allocations, to be examined as two related but separate issues.

Second, the details of budget and political constraints on ODA allocations vary from provider to provider. But whatever the specificities of the budgeting process, providers can only be confident that they are maximising the impact of their ODA if investments in PSIs are thoroughly weighed against alternatives.

This study provides guidance for navigating these trade-offs. It does not seek to be prescriptive.

But we do start from the premise that ODA has a unique niche as a concessional public resource mandated to “promote the economic development and welfare of developing countries as its main objective” (OECD, 2019a), and that providers are bound by global targets and international human rights obligations, which compel them to consider extreme multidimensional poverty and marginalisation across their ODA portfolios. This calls for the impacts – including distributional impacts - of spending decisions on overall allocation patterns to be thoroughly understood and appraised.

## **Impact of PSIs on ODA allocation patterns**

To better understand how ODA investment in PSIs has affected overall allocation patterns, we compared available evidence on the allocation of PSI spending versus ‘conventional’ ODA across three basic dimensions:

- Allocation across sectors
- Allocation to Least Developed Countries (LDCs)
- Inclusion of different population groups (using available data on gender and disability)

Our analysis on recent data from a sample of ODA providers (section 6) found that:

- Six percent of sector-specific PSI flowed to the social and humanitarian sectors. For ‘conventional’ bilateral ODA, the share was 69 percent.
- The geographic allocation of PSIs varied sharply among providers in our sample. Across all eleven sampled providers, 40 percent of PSI disbursements that had been classified by country flowed to LDCs. However, this result was driven by Norway, which allocated a large volume of PSI spending to

LDCs in 2018. If Norway is excluded from the analysis, the share of PSI disbursements flowing to LDCs decreases to 21 percent. For ‘conventional’ ODA disbursements, the figure was 31 percent.

- Two percent of PSI disbursements sought to contribute to gender equality, compared with 40 percent of ‘conventional’ bilateral ODA. Reporting on the inclusion and empowerment of persons with disabilities is not yet widespread, but the limited available data showed that no PSI disbursements were reported as aiming for the inclusion and empowerment of persons with disabilities. This compared with four percent of ‘conventional’ bilateral ODA.

Focusing on sector and on gender equality – the strands of our analysis where our sample allows the most confident inferences to be drawn – we sought to quantify the potential effect of PSI spending for overall ODA allocations. If current trends continue, we estimate (section 6.6) that investment of ODA in PSIs may influence the allocation of:

- Some USD 1,141 billion – USD 5,956 billion of ODA investment from the social and humanitarian sectors to the productive sectors.
- Some USD 649 million – USD 3,766 billion of ODA investment away from interventions with gender equality as an objective.

To put this in context, if the effect on the social and humanitarian sectors was the mid-point of the range that we calculate – USD 3548 million – this would amount to over three percent of total bilateral ODA in 2018, or substantially more than total gross bilateral ODA disbursements for basic education in the preceding year.

## **Decision processes: key findings**

Our findings on ODA allocation patterns should not be read as a call for PSIs simply to be reallocated to the same sectors and

countries as other ODA spending. Rather, PSI spending decisions should be subject to a robust option appraisal that takes into account trade-offs against alternative uses – just like any other form of ODA spending.

Our interviews with officials in a sample of provider countries confirmed that they are not oblivious to the trade-offs involved in choosing to invest in PSIs. But we did not find evidence that the ex-ante process of understanding the trade-offs had been explicitly documented by any of the providers whom we interviewed. This makes it hard to be confident that decisions on PSI spending are really oriented to achieving maximum impact for every ODA dollar. At the same time, a range of external incentives and pressures – from peers in the international community, from budgetary targets, and from domestic companies – threaten to distract attention from purely developmental factors in decision making (section 7).

The OECD DAC's current – provisional – reporting arrangements on PSIs create further barriers to decision making and scrutiny. Challenges include: the juxtaposition of fundamentally different reporting approaches within the single ODA measure; incomplete reporting on multilateral agencies' investment in PSIs; and rules (or loopholes) that risk inflating reported ODA for PSI loans, equities and guarantees in some circumstances. These issues not only impair transparency but also risk distorting allocation decisions by offering providers more generous recognition for PSIs than for other forms of ODA spending (section 8).

## **Strengthening decision making for better ODA allocations**

Our principal recommendation is that future decision making on PSI spending should be based on a transparent appraisal of the development impact of PSIs, compared to alternative uses of ODA. This appraisal should consider providers' pre-existing commitments to global targets and their obligations under international human rights treaties, as well as ODA's unique niche as a resource for ensuring these commitments are met.

To help put this overarching recommendation into practice, we make the following specific recommendations to different stakeholders involved in PSI decision making.

With its long experience as a provider of PSIs and its influential voice in multilateral forums, Sweden is ideally placed to drive these recommendations forward.

1. **ODA providers** should explicitly weigh up and document the development rationale for using PSIs rather than alternative uses of ODA, before committing to such spending. They should also invest in research to get a better understanding of the potential trade-offs at stake.
2. **Provider countries** should refrain from setting limits on the relative share of grants and other forms of ODA spending, as such limits may restrict the scope to decide PSI allocations based on development impact alone.
3. **Multilateral providers** should join bilateral providers in reporting all PSI transactions to the OECD DAC using the new PSI ‘flag’, to allow a more complete understanding of overall PSI spending patterns.
4. The **OECD DAC** should redouble its efforts to stop the provisional reporting arrangements on PSIs becoming permanent. It should monitor how PSIs are affecting overall allocation patterns and use its standard-setting power to tackle non-development pressures that may distort spending decisions, such as pressure to use PSIs as a form of support for provider-country companies.
5. Participants in **global norm-setting forums on development finance** should advocate a shift towards an approach to the use of ODA for PSIs, which places more emphasis on the systematic appraisal of *all* alternative financing options to maximise development impact, including for the poorest people.

# 1. Introduction

## 1.1 The increasing use of aid to ‘catalyse’ private finance

The use of Official Development Assistance (ODA) to finance private sector enterprises is widely perceived as the ‘next big thing’ in development finance (European Court of Auditors, in Carter, 2015). The Addis Ababa Action Agenda says such investment is an “important” way to “catalyse additional resource mobilisation from other sources, public and private....[ODA can] be used to unlock additional finance through blended or pooled financing and risk mitigation” (United Nations, 2015a: paragraph 54). The Global Partnership for Effective Development Cooperation’s Nairobi Outcome Document says the international community must “utilise effective development co-operation to attract business investment, engaging business entities in a partnership that mutually benefits business strategies and development goals” (Global Partnership for Effective Development Cooperation, 2016: paragraph 60). The Organisation for Economic Cooperation and Development calls for development actors to intervene to “shift the trillions” of available finance towards sustainable development objectives, including through the ‘catalytic’ use of ODA (OECD, 2019d). And the World Bank Group argues that, to “maximise finance for development”, officials seeking to finance projects should explore the use of public resources such as ODA to catalyse private sector finance before considering the use of public funding models (World Bank Group, 2018).

These evolving global norms are reflected in, and reinforced by, the behaviour of ODA providers at the bilateral level. Of 26 ODA providers recently surveyed, 17 reported that they were already investing public development finance, most often ODA, in private sector enterprises (OECD, 2018a). In 2017, bilateral ODA providers decided that their collective norm and standard setting body – the Organisation for Economic Cooperation and Development’s Development Assistance Committee (OECD

DAC) – should revise its mandate to include ‘stimulat[ing] mobilisation of resources according to the Addis Ababa Action Agenda on financing for development’ (OECD, 2017a: p.22).

PSIs accounted for a reported USD 2.46 billion of bilateral ODA spending in 2018 (OECD 2019b, Table 1), or over two percent of total bilateral ODA. This is probably a significant underestimate of the true scale of PSIs, due to gaps and ambiguities in the current reporting arrangements (section 8 below). As we examine in section 5, these levels are set to increase rapidly in years to come.

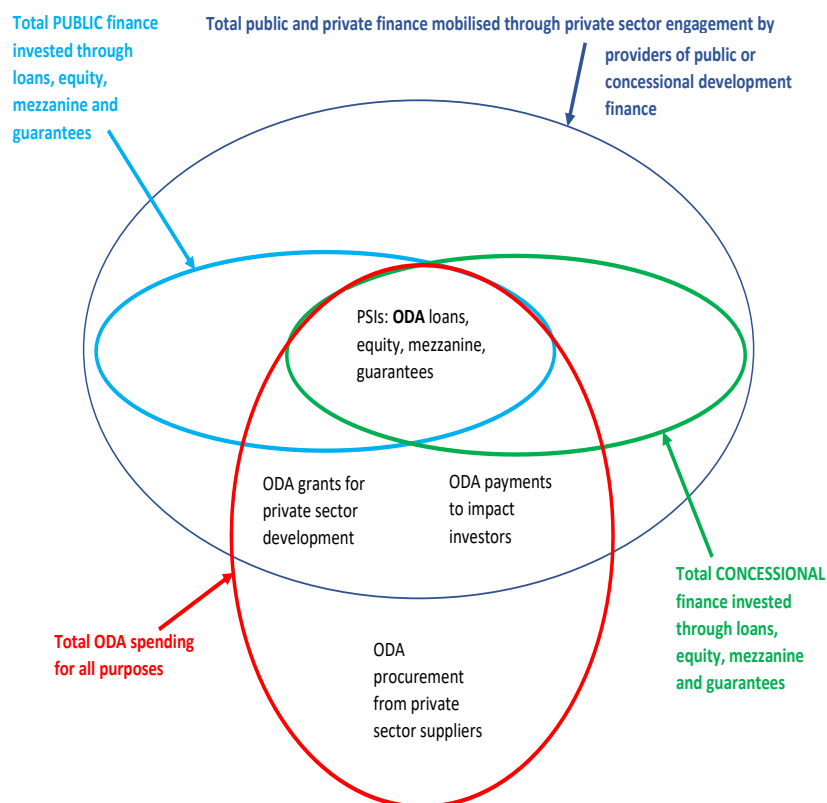
At the same time, members of the OECD DAC have been negotiating a new set of rules for reporting PSIs within ODA. The negotiations reached a watershed in late 2018, when DAC members agreed on a provisional set of reporting arrangements, which they committed to review and refine in two years’ time (OECD, 2018b; OECD, 2019i).

## **1.2 Defining private sector instruments**

As the use of development finance to invest in private sector enterprises has gained traction, so the number of overlapping models for such investment and associated terminology has proliferated. ODA investment in private sector enterprises has variously been described as ‘innovative finance’, ‘blended finance’ and ‘private sector instruments’. However, all these categories are open to different, much broader, interpretations. There are ambiguities as to the kinds of finance at issue (just ODA, or also other kinds of concessional or public finance?); the kinds of instruments used (investments in the form of loans, equity, and guarantees, or also grant finance to provide technical assistance or pay impact investors?); and the financial envelope at stake (just the funds used to ‘mobilise’ private investment, or also the total funds ‘mobilised’?). Some of the key divergences are set out in Figure 1. This study focuses on the area in the centre of the diagram, labelled ‘PSIs’



**Figure 1: Nexus of development finance and private investment.**



Notes: a. While the above assumes that ODA invested in PSI will be concessional, there are proposals that, under future reporting rules, PSI transactions might be reportable as ODA even if not concessional (Attwood et al, 2018).

b. Our treatment of ODA grants is simplified. ODA grants for private sector development can be used in many ways, including technical assistance on issues relating to the enabling environment, capacity development for sole traders, and grant investment in private companies (OECD, 2016a). The latter would strictly speaking overlap the 'public finance invested' and 'concessional finance invested' circles. But for simplicity, and for alignment with OECD DAC definitions, we have not sought to incorporate this nuance in the diagram above.

c. For simplicity, we have included loans, equities, mezzanine and guarantees within the definition of PSIs, as they are all within the scope of the OECD DAC's deliberations. However, under the reporting arrangements currently in place, mezzanine should not be reported as ODA, and guarantees should only be reported as ODA when they are called (see Annex 2).

Because the focus of this study is on the use ODA within the purview of the OECD DAC's current and proposed reporting arrangements, we will confine our scope to 'private sector instruments' (PSIs) as interpreted by the DAC: **loans, equity investments, mezzanine finance<sup>3</sup> or guarantees extended to private sector enterprises (or, for guarantees, to financiers who are backing such enterprises)** (OECD DAC working party on development finance statistics, 2019). All subsequent references to PSIs in this study use this definition.

One aspect of our chosen definition should be emphasised: **our focus in this study is on ODA only**. Other wider categories of finance, such as philanthropic finance or public finance outside the definition of ODA (e.g. the OECD DAC's broader concept of Official Development Finance), while important, are beyond our scope. Many of our arguments are rooted in the unique mandate and reporting system attached to ODA, and it cannot be assumed that they extrapolate to other types of finance.

Our definition also excludes amounts *mobilised* and *catalysed* from the private sector through the injection of ODA (as opposed to the ODA that does the mobilising). Similarly, our scope does not extend to ODA *grants* to private sector actors, ODA procurement from private sector suppliers, and ODA grants to 'impact investors'. These flows – though significant in their own right – are outside the scope of the OECD DAC's current work on the reporting rules.

While this approach – following the OECD DAC's provisional reporting arrangements – sets relatively clear parameters for our investigation, it is arguable that the DAC's reporting arrangements themselves contain a degree of ambiguity. We will explore such ambiguities further in section 8 and suggest some possible implications of these ambiguities that should be taken into account when the reporting rules are reviewed.

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<sup>3</sup> Mezzanine is a hybrid form of finance, with some of the characteristics of loans, and some of the characteristics of equity.

## 2. The role of this study

### 2.1 Contribution to the existing literature

This study seeks to build on a rapidly growing body of theory and evidence on the use of development finance, including ODA, to ‘catalyse’ private finance. This literature addresses fundamentally important questions for future policy making on PSIs: how far do PSIs have the potential to increase the **quantity** of finance to realise the SDGs (e.g. Carter, 2015; Organisation for Economic Cooperation and Development, 2018a; World Bank Group, 2018; Attridge and Engen, 2019a)? And how might the combination of ODA with private finance affect the **quality** of PSI interventions, for example in terms of their efficiency and innovation (e.g. Carter, 2015; USAID, 2019;) and their impact on poverty, in some of its many dimensions (e.g. Spratt et al, 2018; Attridge et al, 2019b and 2019c; Caio, 2019)?

While recognising the importance of these debates, this study does not seek to engage with them substantively. Rather, it aims to explore a complementary question that has so far received less attention in the literature: when ODA is invested in PSIs, how does this affect overall ODA allocation patterns?

ODA is a unique resource, as we discuss further in Section 2.2.1, and investing ODA in PSIs is likely to mean **not** using ODA for other purposes. This trade-off is recognised among others by Carter (2015) and Alonso (2018): the former notes that “the opportunity cost [of investing in PSIs] is spending less aid in traditional ways”.

To be sure, trade-offs are a complex question, and two important nuances should be addressed before proceeding.

First, in line with the definitions in Section 1.2 above, our analysis on potential trade-offs is focused on ODA, as opposed to the wider universe of finance for development. In the right circumstances, PSIs may mobilise other resources for development (e.g. Carter, 2015; Attridge and Engen, 2019a), and where applicable this should be taken into account in ODA providers’ decision making

processes, within the parameters set out in Section 7.1 below. However, such mobilised resources cannot be assumed to be interchangeable with ODA, given the distinctive mandate of the latter. This makes it important for PSIs' mobilisation potential, and PSIs' implications for ODA allocations, to be examined as two related but separate issues.

Second, the details of the relationship between PSIs and other spending options vary from provider to provider: in some, such as the UK, the ODA budget is pre-determined in advance (UK Government, 2015), and the decision to use ODA for PSIs is essentially zero-sum. In others, such as Canada, the expansion of PSIs has been made possible by reallocating other parts of the public finance envelope to the ODA budget (in Canada's case, earnings from the export credit agency [House of Commons of Canada, 2017]). But whatever the specificities of the budgeting process, providers can only be confident that they are maximising the impact of their ODA if investments in PSIs are thoroughly appraised against alternatives.

Drawing on pre-publication access to data newly available under the OECD DAC's provisional reporting directives, this study seeks to contribute to a fuller understanding of the trade-offs at stake.

We analyse trends in the use of PSIs spending over time, and future plans. We compare available evidence on the allocation of PSI spending, as opposed to 'conventional' ODA, across three dimensions:

- Distribution across sectors
- Distribution by geography (Least Developed Countries / others)
- Inclusion of different population groups (using available data on gender and disability)

We then examine what we can deduce about the potential implications of PSIs for wider ODA allocations. At the same time, we explore how ODA providers have approached the potential trade-offs involved in using ODA for PSIs as opposed to alternative uses, before committing to such investments. And we examine how

far the OECD DAC's provisional reporting arrangements on PSIs enable adequate scrutiny on all these questions.

## **2.2 Scope limitations**

### **2.2.1 Overarching decisions on ODA allocation**

Different stakeholders have diverse views on the purpose of ODA: for instance, that ODA should foster economic growth; tackle extreme income poverty; reduce inequalities; promote sustainable development across multiple dimensions; and tackle barriers facing the most marginalised people. This study does not seek to say how these different visions should be prioritised and balanced.

However, we start from the basic premise that – as a concessional public resource mandated to “promote the economic development and welfare of developing countries as its main objective” (OECD, 2019a) – ODA has a comparative advantage in being able to tackle development problems that many other forms of finance cannot (Development Initiatives, 2018; Tomlinson, 2018; OECD, 2019e).

We also note that ODA providers are guided by their commitments to international norms, including the Sustainable Development Goals' objective of 'leaving no-one behind' (United Nations, 2015b), and by their obligations under international human rights treaties (ETO Consortium, 2013).<sup>4</sup> These commitments and obligations compel providers to consider extreme poverty and marginalisation – in their many different dimensions – when making ODA spending decisions.

Within these basic parameters, the analysis that follows is agnostic on how spending options should be prioritised. Further, to avoid privileging one view on the purpose of ODA over another, we use a wide and multi-dimensional definition of poverty –

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<sup>4</sup> The principles are an expert opinion that clarifies and summarises binding obligations contained in sources of international human rights law.

encompassing not only absolute income poverty, but also relative poverty and inequality, access to basic economic rights such as health and education, and extreme social marginalisation. Our focus is simply on contributing to ensuring that spending decisions follow a robust, evidence-based and transparent option appraisal process.

## **2.2.2 Choice of sectors, countries and instruments**

One of this study's contributions is to present a comparison between PSI spending patterns and 'conventional' ODA, disaggregated by sector; by country; and (so far as data permits) by target population group. While we present this analysis in some detail, we are cautious in the inferences that we seek to draw. In particular:

- The analysis provides guidance for analysis on alternative uses for ODA. As per section 2.2.1, we are agnostic on how prioritisation decisions should be made, provided that prioritisation takes into account the comparative advantage of ODA, and the situation of people experiencing extreme poverty, discrimination and marginalisation (including any sector-specific needs they may have – for example, women may have a greater reliance on health services due to factors such as childbearing and gender-based violence [Garcia-Moreno and Watts, 2011]).
- More specifically, our analysis is not intended to imply that PSIs should be reallocated to the same sectors or countries as 'conventional' ODA. On the contrary, in some sectors is questionable how far PSIs can interchangeably achieve the same results as 'conventional' ODA in certain sector and country contexts (e.g. Nicholson et al, 2015; Hunter and Marriott, 2018)
- Finally, and fundamentally, our analysis should not be interpreted as a defence of 'conventional' ODA spending. We do not seek to take any position on the desirability or otherwise of the status quo. To do so would mean forming a judgement

on the effectiveness with which ‘conventional’ ODA instruments achieve their objectives, and the viability of alternative approaches – questions well beyond the scope of this study.

Rather than advocating for any specific mix of instruments, of sectors, or of countries, our objective in presenting the detailed comparisons between PSIs and ‘conventional’ ODA is simply to argue that the effect of increased PSI spending on overall allocation patterns is likely to be significant, and its potential impacts – including distributional impacts – therefore need to be much better understood and appraised.

## 3. Our approach

### 3.1 Methodology

This report is based on mixed methods research, comprising three main strands.

The first strand was a review of published academic and grey literature<sup>5</sup> relevant to the use of ODA for PSIs. The review covered 55 documents, selected using a keyword search on academic search tools, and then using exclusion criteria to screen out those that were not relevant. We supplemented the structured literature review with additional references drawn from the authors' prior work on the topic, and with suggestions from the EBA's expert reference group.

The second strand was quantitative analysis. The analysis covered data published by the OECD DAC for the period 2012 – 2018. However, since the quality of reported data on PSI until 2017 is variable, and only headline data for 2018 is in the public domain, we complemented this published data with unpublished, more granular, data from a sample of ODA providers. Our sampling approach is set out below.

The third strand was qualitative analysis. This involved a review of public announcements on future PSI spending, for all 30 OECD DAC members (found through key word searches of donor government websites). It also involved a total of 21 interviews with officials responsible for planning or for reporting on PSI spending in our sampled ODA providers, as well as an interview with ODA statisticians from the OECD DAC secretariat. The interviews took place between May and August 2019. Where material points from the interviews required triangulation, we also reviewed further documents from the sampled providers' websites and where necessary from their unpublished records.

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<sup>5</sup> I.e. Documents published outside of academic peer-reviewed channels – for example, reports by multilateral bodies



## 3.2 Sampling

To select our sample, we began with a long-list of 13 bilateral, and 2 multilateral, ODA providers (Table 1 below). We compiled this long-list based primarily on the scale of reported PSI spending reported by OECD DAC members 2018 (OECD, 2019b: Table 1). We then added in the Netherlands (known to have significant PSI operations even though these were obscured by year-on-year fluctuations in 2018), the USA (known to be launching a major new development finance institution), and the International Development Association of the World Bank (known to be a key player in PSIs at the multilateral level, especially following the launch of its ‘Private Sector Window’ in 2017) (World Bank Group International Development Association, 2019).

We then invited these 15 providers to participate in the research and, if they agreed, shared a detailed request for data and interviews. Of the 15, 11 agreed to provide at least some data – either quantitative, qualitative, or both (Table 1). We make clear throughout the analysis that follows how many ODA providers’ data we have used in arriving at each conclusion.

**Table 1: Sampled ODA providers**

<b>ODA provider</b>	<b>Able and willing to take part?</b>
Belgium	Yes
Canada	Yes
Denmark	No
European Union	Yes
Finland	No
France	Yes
Germany	Yes (limited involvement)
International Development Association	Yes
Japan	No
Netherlands	Yes
Norway	Yes
Sweden	Yes
Switzerland	Yes (limited involvement)
UK	Yes
USA**	No

\*\* Data is limited as the new development finance institution does not yet report its spending as ODA

### 3.3 Limitations

The key limitation of the study is that – due to the sampling approach, and to differences in the availability of data covering the period 2012 to 2018 – the detailed findings cannot be generalised across all ODA providers. For instance, one notable gap is that the multilateral organisations in our sample were willing to engage qualitatively but were not able to share quantitative data on their PSI spending – an important limitation, given the significance of this channel. Even for those organisations that shared data, some assumptions had to be made. All such assumptions are clearly

flagged in the analysis, and where relevant we state a range of results to show the level of uncertainty.

Nonetheless, while the detailed findings cannot be generalised, the analysis highlights issues with relevance for all ODA providers who use PSIs. And insofar as one barrier to analysis is ambiguity in the provisional PSI reporting arrangements, we hope our findings will be of use to the OECD DAC as it works towards the review of the reporting arrangements in two years' time.

We have included more detailed methodological notes and caveats at relevant points throughout the text.

## 4. Snapshot of our sampled providers' PSI spending

ODA providers use and report PSIs in diverse ways. Table 2 below sets out some of the key features of our sampled ODA providers' PSI programmes, while Box 1 focuses in more detail on Sweden's activities in this area.

Table 2 includes indicative quantification where possible, but this is likely to be an underestimate, as current reporting processes do not capture all PSI activities. For example, bilateral providers' contributions to multilateral blending mechanisms are generally not reported.

As the table shows, many ODA providers channel a large share of their PSI spending through development finance institutions (DFIs) – government-controlled institutions that invest in private sector projects in countries in the global south (Romero and Van de Poel, 2014).

Under the OECD DAC's provisional reporting arrangements, providers have a choice as to how they report such spending. They may either report ODA spending when individual investments are made – for example, offering a loan to a private sector enterprise. This is known as the 'instrumental' approach. Alternatively, they may report ODA up-front as soon as they transfer capital to their DFI, rather than waiting until the DFI makes investments. This is known as the 'institutional' approach.

More background on the reporting arrangements is in Appendix 2, and some of the implications of these two approaches for transparency and for provider incentives are explored further in section 8 below.

**Table 2: Overview of our sampled providers' PSI spending <sup>a,b</sup>**

<b>ODA provider</b>	<b>Reported PSI spending in 2018 (USD million / percentage of bilateral ODA spending)<sup>c</sup></b>	<b>Main instruments used</b>	<b>Main channels used</b>	<b>Reporting basis</b>
Belgium <sup>d</sup>	71 (5%)	Loans, equities, mezzanine	Development finance institution (Belgian Investment Company for Developing Countries - BIO); contributions to multilateral agencies engaged in blending	Institutional
Canada	334 (10%)	Loans and 'repayable grants' [repayable if certain conditions are met], equity. Plans to use guarantees in future.	Development finance institution (FinDev Canada) Plans for PSI spending through the development agency (Global Affairs Canada) in future; contributions to multilateral agencies engaged in blending	Institutional (FinDev Canada), instrumental (other PSIs through multilateral banks and funds)
European Union <sup>e</sup>	143 (1% - but please note this excludes USD 337 million contributions to the European Fund for Sustainable Development,	Loans, equity, mezzanine, guarantees	Development bank (European Investment Bank) Dedicated funds – the European Fund for Sustainable Development and	Instrumental (but plans to adopt institutional in future)

	which were reported as a grant)		the European Fund for Sustainable Development Guarantee Fund, with close development bank involvement (EIB) Contributions to other multilateral agencies engaged in blending	
France	419 (6%)	Loans, limited equities, limited guarantees	Development bank (Agence Francaise de Développement - AFD) – until 2018; Development finance institution (Proparco) – from 2018; contributions to multilateral agencies engaged in blending	Instrumental
Netherlands	0 (0%)	Loans, equity, mezzanine, guarantees	Programmes managed through development finance institution (Entrepreneurial Development Bank – FMO); or other partners (e.g. Dutch Good Growth Fund, Climate Investor One). Contributions to multilateral agencies engaged in blending	Institutional

Norway <sup>f</sup>	207 (6%)	Loans, equities, mezzanine, shares in collective investment vehicles, some guarantees	Development finance institution (Norfund); Contributions to multilateral agencies engaged in blending	Institutional (since 2014, previously instrumental)
Sweden <sup>g</sup>	69 (2%)	Loans, equity, mezzanine, guarantees	Development finance institution (Swedfund); Sida guarantee programme; Contributions to multilateral agencies engaged in blending	Institutional
United Kingdom	1087 (9%)	Loans, equity, intermediated equity (e.g. investment funds), first loss capital, <sup>h</sup> guarantees	Development finance institution (CDC Group); Smaller programmatic investments (e.g. DfID India funds); Contributions to multilateral agencies/DFIs	Institutional for CDC, instrumental for others

Notes:

<sup>a</sup> This analysis excludes the International Development Association, because – due to its status as a multilateral development bank and the associated differences in its reporting requirements to the OECD DAC – many of the above categories are not directly applicable

<sup>b</sup> Source: authors' interviews; analysis of the OECD DAC Creditor Reporting System database (accessed 23 July 2019); and review of OECD DAC, 2015a, *Current reporting on private sector instruments in DAC statistics*, p.5. Additional sources relating to individual ODA providers are listed in separate notes below.

<sup>c</sup> Preliminary figures for bilateral PSI spending, reported on a net disbursement's basis. Source: OECD. 2019b. 'Development aid drops in 2018, especially to neediest countries' (<https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2018-detailed-summary.pdf>), Table 1. Please note that, if donors report under the institutional approach, low PSI spending in 2018 does not necessarily equate to low overall engagement in PSIs, since DFI capital is accumulated over a long period and is not necessarily replenished frequently.

<sup>d</sup> Belgian government, 'Contrat de gestion entre l'État belge et la Société belge d'Investissement pour les Pays en Développement' (2014 version, Titre 1er, Article 4; and 2019 version, Section 3, Article 19);

<sup>e</sup> European Union, 'Regulation (EU) 2017/1601 of the European Parliament and of the Council of 26 September 2017 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund', Article 10; European Commission, 2018, 'Proposal for a Regulation of the European Parliament and of the Council establishing the Neighbourhood, Development and International Cooperation Instrument', 2018/0243 (COD), Article 23.

<sup>f</sup> Norwegian Ministry of Foreign Affairs, 2015, *Working together: private sector development in Norwegian development cooperation*, p.7

<sup>g</sup> Spratt, S et al, 2018, *DFIs and development impact: an evaluation of Swedfund*. Stockholm, Sweden: EBA.

<sup>h</sup> First loss capital describes a range of instruments where the investor undertakes to take the first loss (up to an agreed threshold) in the event of losses, in order to encourage other investors



## Box 1: Sweden's PSI activities

Sweden is highly engaged in private sector development, and this includes being active in the field of PSIs.

Sweden's development finance institution, Swedfund, invests in private sector enterprises for development purposes. The Swedish government contributed SEK 600 million (USD 64.3 million)<sup>6</sup> of ODA to Swedfund in 2018, and a further SEK 600 million in 2019. In 2018, this equated to around 1.8 percent of Sweden's bilateral ODA (Swedfund, 2019; interview; OECD, 2019b: Table 1). Capital increases are anticipated for future years (Section 5.2 below).

As part of a wide portfolio of private sector development activities, the Swedish International Development Agency (Sida) offers support to private sector enterprises through guarantees (Sida, 2019).

Swedfund also offers support to private sector enterprises through a range of smaller initiatives such as project development advice, funding for partnership between Swedish small and medium enterprises and those in the global south, and technical assistance (Swedfund, 2019).

In addition, Sweden contributes significant amounts of ODA to multilateral institutions that are active in financing private sector enterprises. In 2018, this included the European Union institutions, the World Bank Group, regional development banks, and the United Nations Capital Development Fund (Government of Sweden, 2019: personal communication). Current reporting arrangements do not make it possible to say how much of these contributions were used to invest in private sector enterprise (section 8 below), but it can be assumed that one element of these contributions was indeed PSI.

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<sup>6</sup> Exchange rates as at 19 July 2019. Source: International Monetary Fund. '[Representative exchange rates for selected currencies](#).'

## 5. Trends in PSI spending over time

### 5.1 Historic data

Before the OECD DAC introduced its provisional reporting arrangements on PSIs at the end of 2018, some data on PSI spending was already published through the DAC's Creditor Reporting System database. However, **this data was very incomplete**. A review by the OECD DAC secretariat in 2015 found that some members did not report their private sector operations in a way that was separately identifiable. Even where some analysis was possible, ambiguities remained. In particular, it was very difficult to distinguish between bilateral development banks' loans to sovereign entities, to other publicly owned entities, and to private sector actors (OECD DAC, 2015a). These substantial data gaps make it hard to draw firm conclusions on historic trends in ODA spending. Nonetheless, we analysed the available data on PSI spending from 2012-2017 to see what inferences could be drawn. This analysis pointed to three main observations, as follows.

- First, we considered providers using the **institutional reporting approach** during this period. In principle, the institutional approach was not formally adopted by the OECD DAC until the High Level Meeting of 2017.<sup>7</sup> But in practice, a number of providers were using the approach before this date. Among them, there was sufficient data to analyse the capital contributions of Belgium, Norway, Sweden and the UK (Figure 2).<sup>8</sup> More detail on our approach to this analysis can be found in Appendix 1. Trends in capital contributions over a four-year

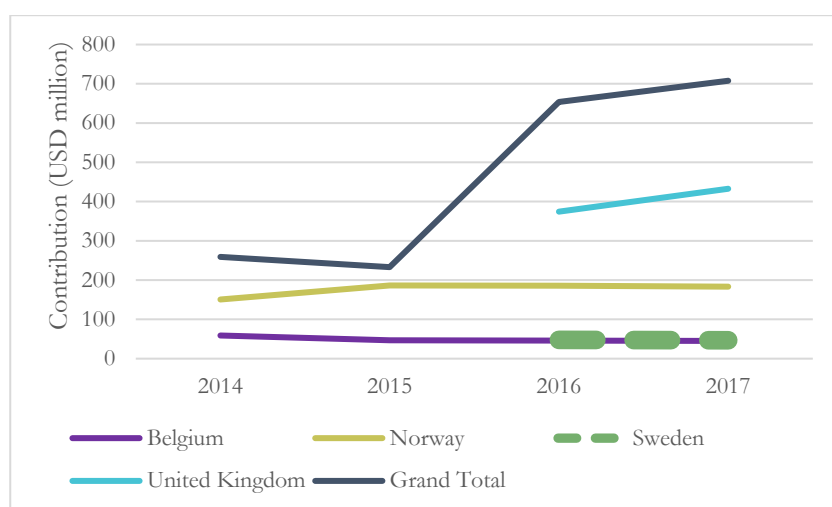
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<sup>7</sup> OECD. 2017a. 'DAC High Level Communiqué: 31 October 2017', paragraph 12. The previous rules – which did not allow institutional reporting – are set out in, for example, OECD, 2016b. 'Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the annual DAC questionnaire', p.37 paragraph 148.

<sup>8</sup> Norway switched from the instrumental approach to the institutional approach in 2014, which distorts comparisons if data from 2012 and 2013 is included too.

period should be interpreted with caution, given that some DFIs accumulate capital over much longer cycles. However, this snapshot suggests that in recent years all four OECD DAC members were committed to building their DFIs' capital through regular top-ups. And in the case of CDC, the UK DFI, the level of capital injections increased very markedly.

**Figure 2: DFI capital contributions by four OECD DAC members, 2014 – 2017**



Source: authors' analysis of the OECD DAC Creditor Reporting System database. All figures are in millions of US dollars, in gross disbursement terms, and in constant 2017 prices.

- Meanwhile for a substantial number of OECD DAC members reporting using the **instrumental approach** (Austria, Denmark, Finland, Germany, Korea and Portugal), there was sufficient evidence to analyse PSI investment in **equity**, between 2012 and 2017. The data showed a moderate decrease in bilateral equity investment over this period – from USD 528 million in 2012, peaking at USD 724 million in 2015, and falling to USD 455 million in 2017 (on a gross disbursement basis). However, our analysis gives only a very partial picture of ODA

providers' overall appetite for investing in equities. PSI equity investments can often be long-term. To get a true measure of providers' support for this channel of investment would require analysis not only of short-term variations in inflows to equity investments, but also the cumulative volume of equities already in providers' portfolio, and the rate of divestment. In the absence of fuller information, the movements that we identify should not be assumed to be representative of overall trends in PSI spending.

- Trend analysis on **loans** was not possible for the whole of the period 2012 – 2017, due to the data limitations set out above. But it is telling that these limitations only affect the years up to 2015, because as of 2016, the OECD DAC introduced a new reporting code for loans (and other transactions) channelled through the private sector. While the period 2016 – 2017 is not long enough to allow meaningful time series analysis, the very fact that this code was introduced is itself indicative of the growing importance that OECD DAC members attach to private sector-based models, including PSIs.

Overall, historic data on patterns in PSI spending is not conclusive, although it is clear that a number of providers have been building up their DFIs' capital in recent years. For greater insights on PSI spending patterns, we instead turned to an analysis of ODA providers' future plans.

## 5.2 Forward plans

To understand more about ODA providers' forward plans for the use of PSIs, we combined document review with interviews of officials from our sampled ODA providers. Based on our findings, we grouped the providers into five main categories: those exploring starting major new initiatives (i.e. major relative to their current level of engagement); those where no major change to existing initiatives is anticipated (or where there is insufficient evidence to conclude);

those intending to scale up existing ways of working; those intending to scale down existing initiatives; and those that do not use PSIs in a material way in their bilateral ODA spending. The results are set out in Table 3 below.

**Table 3: ODA providers' forward plans for PSI spending <sup>a b</sup>**

ODA provider	Summary of plans	Details
Australia	New initiatives	"Australia is actively exploring ... new ways to use grant funding to crowd in or leverage private finance or to use grants more creatively in collaboration with others in blended-finance approaches" <sup>c</sup>
Austria	No major change	
Belgium	Scale-down	Belgium channels its PSI spending through its DFI BIO. A modest decrease in capital contributions to BIO is anticipated (from around USD 250 million in the period 2014 – 2018, to around USD 170 million in the period 2019 – 2024). But while inflows to BIO are a little lower than in previous periods, BIO's underlying capital base and capacity to invest remains substantial. <sup>d</sup>
Canada	New initiatives	New DFI launched in 2018, with initial capital contributions of around USD 230 million over five years. 'Innovative assistance' programme of around USD 670 million over five years, including substantial PSI spending. <sup>e</sup>
Czech Republic	New initiatives	New pilot guarantee programme launched in 2019 (around USD 2 million allocated initially) <sup>f</sup>
Denmark	No major change	.
European Union	Scale-up	If proposals for the next European Union budget are adopted, it could be estimated, based on the current use of budgetary guarantees by the EU, that approximately USD 11 billion - 14 billion (i.e. EUR 10 billion - 12 billion) may be set aside for potential guarantee liabilities in the period from 2021 to 2027. <sup>h</sup> In addition an

		as yet unspecified amount will be spent through other private sector instruments.
Finland	[Inconclusive based on internet review in English]	
France	Scale-up	Commitments from France's DFI, Proparco, are planned to double from around USD 1120 million in 2015 to around USD 2250 million in 2020 <sup>i</sup>
Germany	No major change	
Greece	No PSI use	
Hungary	No PSI use	
Iceland	Does not use PSIs – <i>but interested</i>	The Foreign Minister has said that, "It is clear that public resources will not suffice to achieve the Global Development Goals; private funding is also necessary.... Most leading donor countries and multinational institutions for development cooperation now operate with a clear focus on cooperation with the private sector." <sup>j</sup>
Inter-national Development Association	No major change	It is expected that the Private Sector Window will continue to operate at a similar scale throughout the International Development Association's next funding cycle (2021 – 2023)
Ireland	New initiatives	Intention to "deepen our learning and engagement with innovative and blended finance for agriculture and job-creation." <sup>k</sup>
Italy	Scale-up	Italy plans to expand the range of instruments used for blended finance (though it is unclear how far this will be reported in ODA)
Japan	[Hard to conclude]	[Based on internet review in English]
Korea	Scale-up	Korea plans to expand the range of instruments used for blended finance (though it is unclear how far this will be reported in ODA)
Luxem-bourg	New initiatives	Luxembourg's development cooperation strategy says that "Partnerships with the private sector and multilateral development banks, leveraging grant

		resources, notably through blended financing mechanisms, will be further developed <sup>l</sup>
Netherlands	No major change	Difficult to predict future allocations – but no strong evidence that major changes will happen
New Zealand	No PSI use	
Norway	Scale-up	Allocations to the Norwegian DFI, Norfund, are increasing by 50% over the period 2017 – 2021 <sup>m</sup>
Poland	No PSI use	
Portugal	No major change	
Slovak Rep.	No PSI use	
Slovenia	No PSI use	
Spain	No major change	
Sweden	Scale-up	The budget bill for 2020 proposes a capital increase of SEK 800 million (USD 85.8 million), and the government has said that it intends to increase Swedfund’s capital by a further SEK 1000 million (USD 107.2 million) and 1200 million (USD 128.6 million) in 2021 and 2022 respectively. The government also proposes to increase the upper limit for Sida’s use of guarantees, from 14 to 15 billion SEK (i.e. an increase of around USD 107.2 million). <sup>n</sup>
Switzerland	No major change	
United Kingdom	Scale-up	The UK will inject an average of around USD 750 million – 880 million per year into its DFI, CDC, throughout the period from 2017 – 2021 <sup>o</sup>
United States	New initiatives	The US has created a new DFI, the US International Development Finance Corporation. The investment cap for the new DFI is USD 60 billion. Some of the new DFI’s activities may be reported within ODA as PSIs in future. <sup>p</sup>

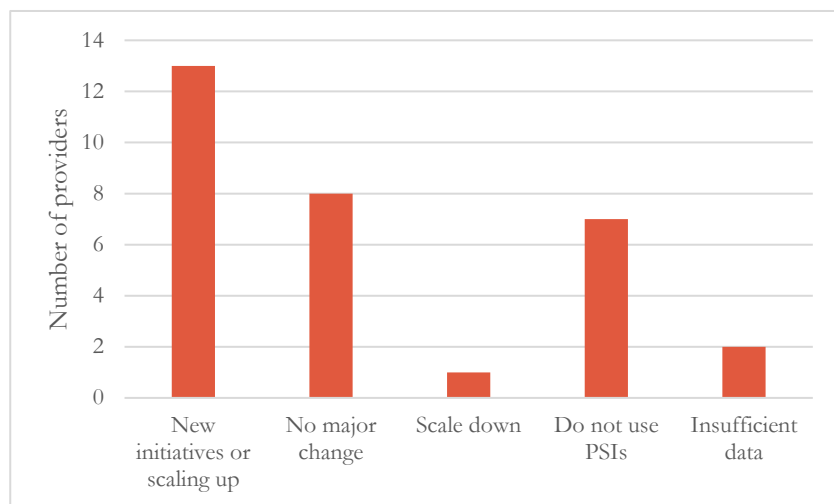
- a. Sources: interviews; OECD, 2018a, *Making blended finance work for the Sustainable Development Goals*, pp 154-155, Paris, France: OECD publishing; documents identified through key word searches on donor government websites; further relevant documents identified through interviews or through other background knowledge. Further specific references for individual ODA providers are listed in the notes below.
- b. Exchange rates as at 19 July 2019. Source: International Monetary Fund. *Representative exchange rates for selected currencies* [online]. Available: [https://www.imf.org/external/np/fin/data/rms\\_mth.aspx?SelectDate=2019-07-31&reportType=REP](https://www.imf.org/external/np/fin/data/rms_mth.aspx?SelectDate=2019-07-31&reportType=REP) [9 December 2019].
- c. Australian Government, Department of Foreign Affairs and Trade. 2015. *Strategy for Australia's aid investments in private sector development*, p.7
- d. Belgian government, 'Contrat de gestion entre l'État belge et la Société belge d'Investissement pour les Pays en Développement' (2014 version, Titre 1er, Article 5; and 2019 version, Chapitre 5). BIO. 2019. *Annual report 2018: the quest for a better life*, p.41
- e. Global Affairs Canada, 2018. *Report to Parliament on Canada's Official Development Assistance, 2017-2018*, p.61; Government of Canada. 2018. *Equality and Growth: a strong middle class*, p. 159
- f. Czech 'Business Info' website. 2019. *Program Záruka ZRS sníží riziko investování na rozvojových trzích* [online]. Available: [https://www.businessinfo.cz/cs/clanky/program-zaruka-zrs-snizi-riziko-investovani-na-rozvojovych-trzich-120072.html?utm\\_source=rss&utm\\_medium=web&utm\\_content=novinky-z-portalu-businessinfo-cz-21&utm\\_campaign=rss\\_portal](https://www.businessinfo.cz/cs/clanky/program-zaruka-zrs-snizi-riziko-investovani-na-rozvojovych-trzich-120072.html?utm_source=rss&utm_medium=web&utm_content=novinky-z-portalu-businessinfo-cz-21&utm_campaign=rss_portal) [Accessed 9 December 2019]
- h. Author's analysis of interview data and of European Commission. 2018. 'Proposal for a regulation of the European Parliament and of the Council establishing the Neighbourhood, Development and International Cooperation Instrument', 2018/0243 (COD), Article 3 and Article 6.
- i. OECD, 2018d. *OECD Development Co-operation Peer Reviews: France*, p.60. Paris, France: OECD Publishing.
- j. Government of Iceland Ministry of Foreign Affairs. 2017. 'The most powerful tool we have to safeguard our interests'. 04 May. <https://www.government.is/news/article/2017/05/04/The-most-powerful-tool-we-have-to-safeguard-our-interests/>
- k. Government of Ireland. *A better world: Ireland's policy for international development*, p.28; Government of Ireland. 2018. *Transforming our world: help Ireland make a difference*, p.6
- l. Luxembourg Aid and Development. *Luxembourg's General Development Cooperation Strategy: the road to 2030*, p.4
- m. Norwegian Ministry of Foreign Affairs, *Common responsibility for common future: the Sustainable Development Goals and Norway's development policy*, p.14
- n. Sida: personal correspondence
- o. UK Government. 2017. 'Business case summary sheet: capital increase to CDC, the UK's development finance institution', p.1.
- p. US Congress. 2018. 'BUILD Act of 2018'.



Analysing future plans in this way is not an exact science: our internet search-based methodology in English intrinsically involved a risk of missing relevant data; the level of available detail varied; and for some providers it is unclear how far their DFIs' activities will be reported within ODA or will meet our definition set out in Section 1.2.

Nevertheless, two results are striking. First, PSIs are rapidly gaining traction among ODA providers whose previously used little or none of their bilateral ODA in this way. Second, a substantial number of ODA providers intend markedly to increase their PSI spending over the coming years. Together, these trends indicate a strong momentum towards increasing the share of ODA spent on PSI (Figure 3 below).

**Figure 3: ODA providers' future plans for use of PSIs**



Source: authors' analysis of qualitative data from interviews and document review

As well as increases in providers' underlying *spending* on PSIs, it is possible that the coming years will also see an increase in providers' *reporting* of PSIs within ODA. In 2018, reacting to the OECD DAC's increased focus on PSIs, France reported within ODA around USD 350 million of loans, eligible for reporting as

ODA, that would in previous years have been counted as non-ODA international public finance ('Other Official Flows'). We have not yet heard of similar changes in other providers' reporting practices, but there is a distinct possibility that the provisional rules will encourage more providers to re-categorise Other Official Flows as ODA over the long-term.

Some of the risks and potential perverse incentives associated with the provisional reporting arrangements are unpacked in more detail in section 8 below.

### **5.3 Trends in the use of guarantees**

One noticeable trend among the ODA providers whom we interviewed was a growing interest in the use of guarantees. Several providers described plans or aspirations in this area. Of these, by far the largest is the European Union. Current proposals for the next European Union budget include a major guarantee programme (European Commission, 2018). If proposals for the next European Union budget are adopted, it could be estimated, based on the current use of budgetary guarantees by the EU, that approximately USD 11 billion - 14 billion (i.e. EUR 10 billion - 12 billion) may be set aside for potential guarantee liabilities in the period from 2021 to 2027. In addition, an as yet unspecified amount will be spent through other private sector instruments.<sup>9</sup> This amount would be reported as ODA following the institutional approach, potentially representing a substantial increase in EU PSI spending, to over 10 per cent of the total proposed EU development budget for that period (European Commission, 2018, and interview with European Commission officials). Meanwhile Canada is introducing new regulations that would allow the use of guarantees for development purposes. And the Swedish government plans to increase the upper limit for Sweden's guarantee spending by SEK 1

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<sup>9</sup> Author's analysis of interview data and of European Commission. 2018. 'Proposal for a regulation of the European Parliament and of the Council establishing the Neighbourhood, Development and International Cooperation Instrument', Article 3 and Article 6.

billion (a little over USD 100 million) (Sida: personal correspondence).

The reporting of guarantees within ODA is a vexed question with different ODA providers currently using very different approaches, and with the potential to create adverse incentives for development-focused decision making. This is discussed further in section 8 below.

## 6. Comparative analysis of PSIs and other ODA spending

### 6.1 Introduction

This section presents the findings from our comparative analysis of spending patterns across PSIs and ‘conventional’ ODA, disaggregated by sector; by country; and (so far as data permits) by target population group.

To produce this analysis, we drew on data newly available under the OECD DAC’s provisional reporting directives on PSIs. A number of providers agreed to share this data with us in its preliminary form pre-publication. While this data was, at the time of the analysis, provisional and still subject to final review and adjustment, we considered it sufficient to give a good indication of overall trends. We supplemented this 2018 data with 2017 data from further providers whose PSI transactions were readily identifiable from the OECD DAC’s Creditor Reporting System database. Altogether this strand of our analysis covered a total of eleven significant bilateral providers..

This is, to our knowledge, the most extensive analysis of ODA providers’ PSI spending to-date.

Still, the analysis is not comprehensive, and we would draw readers’ attention to the following caveats in particular.

Whilst we sought to gather the fullest data feasible, there were some limitations in completeness and representativeness. It was not possible to obtain data on all ODA providers’ PSI spending in 2017 or 2018, with Japan and multilateral providers (e.g. the European Union and the International Development Association) being notable gaps.

For those providers whose spending we did analyse, limitations in the Creditor Reporting System meant it was only feasible to examine PSIs channelled through bilateral development finance

institutions and development banks<sup>10</sup> - generally the largest channel through which providers disburse bilateral PSIs, but not the only one.

We also had to exclude from our analysis a substantial number of PSI transactions that were not allocated to a named sector or country.

Further details on these and other aspects of our methodology are given below, and in Appendix 1.

Although these limitations are not negligible, we consider them unlikely to have affected our core findings materially. As the OECD DAC's provisional reporting directives start to fill some (but not all) of the data gaps that we highlight above, there would be value in extending this analysis, replicating the methodology that we pilot here across a more extensive dataset.

## 6.2 Sectoral distribution

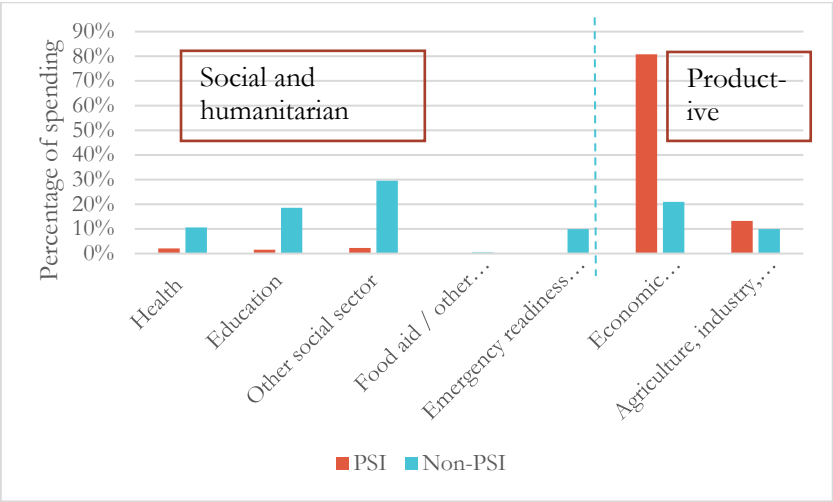
As noted in section 2.2.2 above, this study does not seek to argue that more PSIs should flow to social sectors such as health and education – but rather that the impacts for the social sectors resulting from increasing PSI spending need to be clearly understood.

To this end, we analysed the sectoral distribution of PSIs, and compared it with the sectoral distribution across ODA spending as a whole. We found that the large majority of our sampled providers' bilateral PSI investments – around 94 percent of those that had been classified by sector - flowed to 'productive' sectors such as banking and industry. In contrast the majority of non-PSI ODA spending that had been classified by sector (69 percent) flowed to social sectors, food aid, other assistance in kind, and emergency-related programming; only 31 percent went to the 'productive' sectors. Figure 4 shows the comparative distribution in more detail.

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<sup>10</sup> Plus the Sida guarantee fund, which in many providers' architecture would fall within the development finance institution's remit, so was included to enhance comparability

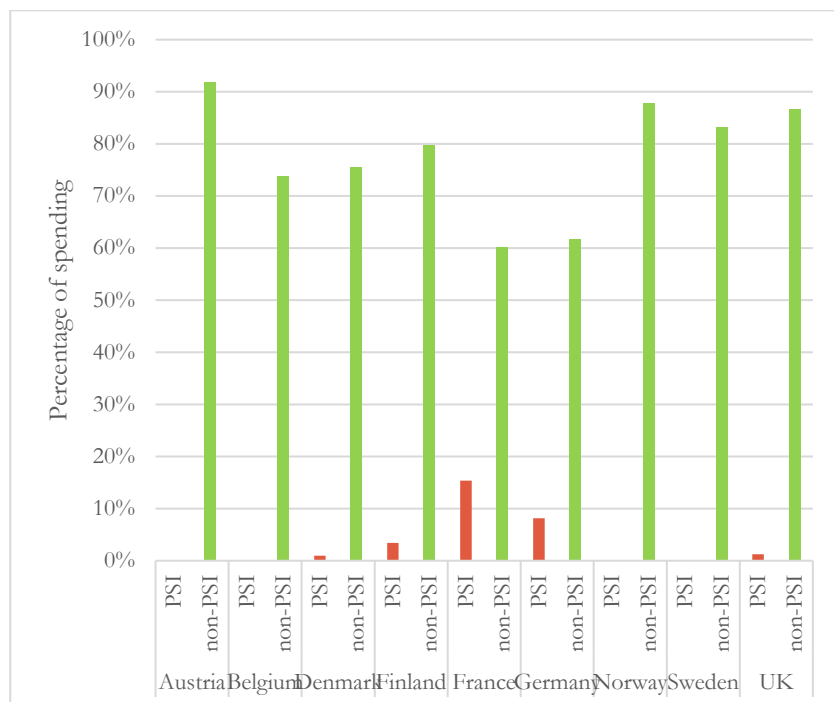
**Figure 4: PSI disbursements classified by sector, compared to bilateral non-PSI ODA**



Source: authors’ analysis of the Creditor Reporting System database for 2017 (gross disbursements basis) or unpublished provisional data for 2018 where shared. Data for 11 ODA providers. Our sector classifications broadly follow the system used by the OECD DAC, and we excluded spending that had not been allocated a sector code – more details are in Annex 1.

We also disaggregated our analysis across all individual ODA providers for whom sufficient data was available. We found that, for all providers studied, the share of PSI disbursements flowing to the social sector was much lower than for non-PSI bilateral disbursements (Figure 5 below).

**Figure 5: Disbursements in social and humanitarian sectors as a share of all disbursements classified: comparison between PSI and non-PSI bilateral ODA**



Source: authors' analysis of the Creditor Reporting System database for 2017 (gross disbursements basis) or of unpublished provisional data for 2018 where shared. We excluded Korea and Canada from this disaggregated analysis due to relatively low numbers of PSI transactions in 2018, although they are included in the aggregate analysis underpinning figure 4 above. Our sector classifications broadly follow the system used by the OECD DAC, and we excluded spending that had not been allocated a sector code – more details are in Annex 1.

Note on Sweden: data for Sweden includes ODA spending from Swedfund and the Sida guarantee portfolio. Only a small subset of the latter is reported within ODA – across the entire guarantee portfolio, the sectoral distribution would have been somewhat different: around 10% to social sectors, and around 90% to productive sectors.

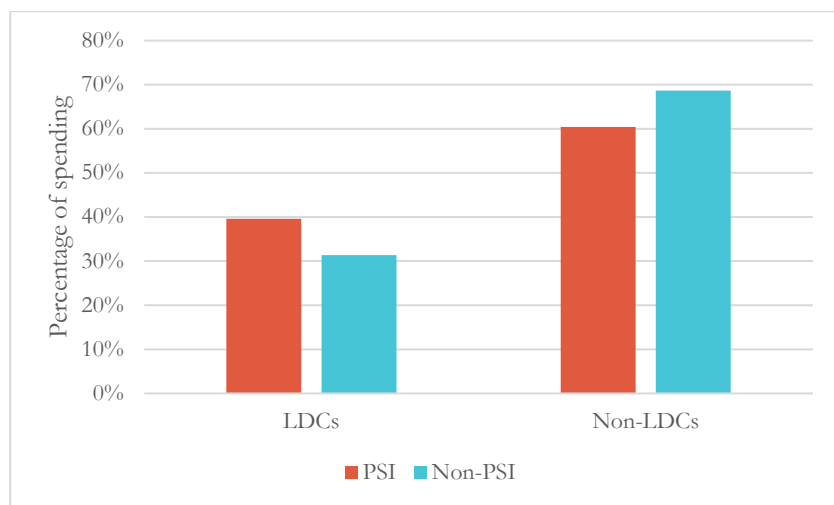
## 6.3 Geographic distribution

We also analysed the extent to which PSIs are flowing to the poorest countries. The main parameter for our analysis was LDC status. We chose to use LDC status because, in keeping with our multi-dimensional definition of poverty, it captures a basket of different barriers – low income, low human assets, and structural economic and geographic challenges – which in combination are likely to frustrate a country’s economic development prospects (United Nations Department of Economic and Social Affairs, 2019). LDCs are likely to have a particularly strong need for ODA – indeed, there is an international target to increase the share of ODA going to LDCs (United Nations 2015a). This therefore seems an appropriate lens through which to examine how the growth of PSIs is affecting geographic spending patterns. Some supplementary analysis using an alternative parameter – Low Income Country status – is presented in Appendix 3 and reveals broadly similar patterns overall.

Spending patterns in LDCs were not uniform across the eleven providers in our sample. Superficially, our aggregate result could seem to suggest that providers direct a higher share of PSI disbursements to LDCs than they do ‘conventional’ ODA. Taking our sample as a whole, we found that around 40 percent of PSI spending with a specified destination country went to LDCs. For ‘conventional’ bilateral ODA spending the figure was 31 percent (Figure 6).



**Figure 6: PSI disbursements classified by LDC status, compared with non-PSI bilateral ODA**



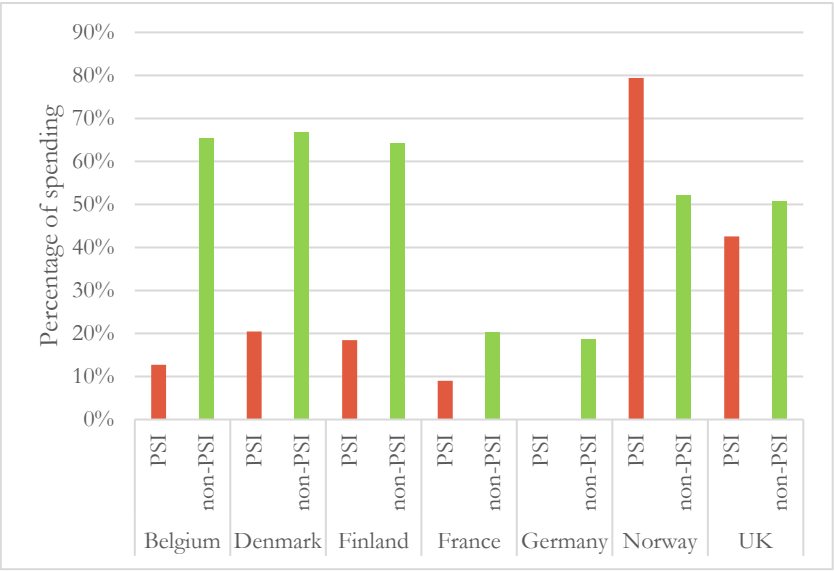
Source: authors' analysis of the Creditor Reporting System database for 2017 or of unpublished ODA provider data for 2018 where shared. Data for 11 ODA providers. Gross disbursements basis, excluding items not allocated to a single country.

At first sight, this is a puzzling finding. Previous research focusing on levels of private finance mobilised, rather than the levels of ODA invested, found the opposite pattern. For example, a 2019 study found that of all the private finance mobilised by official development finance interventions between 2012 and 2017, approximately USD 9.3 billion (six percent) went to LDCs, whereas over 70 percent went to middle-income countries (OECD and UNCDF, 2019). Analysis by Low Income Country status has come to similar findings, pointing to barriers that make engagement with the private sector more challenging in low income contexts (Attridge and Engen, 2019a).

However, our aggregate result does not give the complete picture. Seven providers had reported country-specific data on a sufficient number of transactions to allow meaningful disaggregated analysis (Figure 7). Of these, six disbursed less PSI to LDCs, compared with conventional ODA – far less, in most cases. Just one provider – Norway – presented the opposite pattern, with 79

percent of country-specific PSI disbursements flowing to LDCs. Part of the reason for this is likely to be that Norway’s development finance institution, Norfund, has to meet a target level of investment in LDCs as part of its annual key performance indicators (Norfund, n.d.).

**Figure 7: Disbursements to LDCs as share of all disbursements classified: comparison between PSI and non-PSI bilateral ODA**

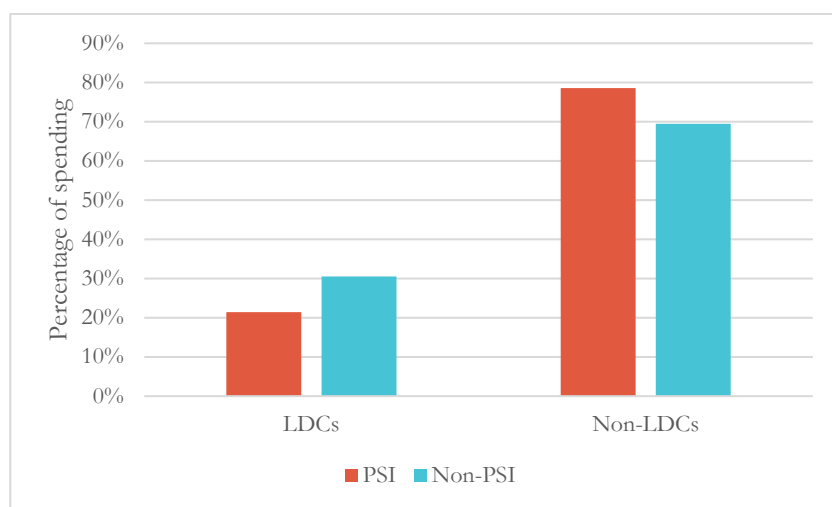


Source: authors’ analysis of the Creditor Reporting System database for 2017 or of unpublished ODA provider data for 2018 where shared. Gross disbursements basis. The analysis excludes items of spending that were not allocated to a single country. We did not include Austria, Canada, Korea and Sweden in this disaggregated analysis due to relatively low numbers of country-specific PSI transactions, although they are included in the aggregate analysis underpinning figure 6 above.

But while Norway’s spending pattern was an outlier, Norway reported a high total value of PSI transactions in the year of our analysis: in fact, after excluding transactions that were unallocated to any specific country, Norway was the largest PSI provider in our sample. This means that the weighted average underlying our headline finding was very sensitive to Norway’s spending. To allow

for this, we re-ran our calculations without including Norway. This showed that, across the other providers in our sample, 21 percent of PSI spending with a specified destination country went to LDCs, compared with 31 percent of ‘conventional’ bilateral ODA (Figure 8).

**Figure 8: PSI disbursements classified by LDC status, compared with non-PSI bilateral ODA (except Norway)**



Source: authors’ analysis of the Creditor Reporting System database for 2017 or of unpublished ODA provider data for 2018 where shared. Data for 10 ODA providers. Gross disbursements basis. The analysis excludes items of spending that were not allocated to a single country.

Once Norway’s unusual spending patterns are taken into account, our results are broadly consistent with earlier researchers’

findings:<sup>11</sup> they suggest that PSIs tend to be deployed less in LDCs, whilst also highlighting the diversity in different providers' approaches.

## 6.4 Distribution by demographic group

A third crucial dimension in understanding the potential impact of PSIs on overall ODA spending patterns is their distribution across different population groups.

The OECD DAC's Creditor Reporting System database only allows limited insights on this question: it is not possible to do a systematic analysis of the extent to which ODA spending seeks to reach many marginalised groups – for example, older people, or indigenous peoples.

However, some data is available through a pair of 'markers' relating to two groups who are prone to discrimination: women and girls; and persons with disabilities. The markers record whether these groups are expected to benefit from ODA activities. This is vital information, although it should also be noted that being expected to benefit is a relatively low bar. It is outside the markers' scope to assess whether spending choices sought to maximise the benefits of ODA for the population groups in question. And the markers do not, by their nature, guarantee that expected benefits were realised. Nonetheless, despite their limitations, the gender and disability markers do offer some important indications of the extent

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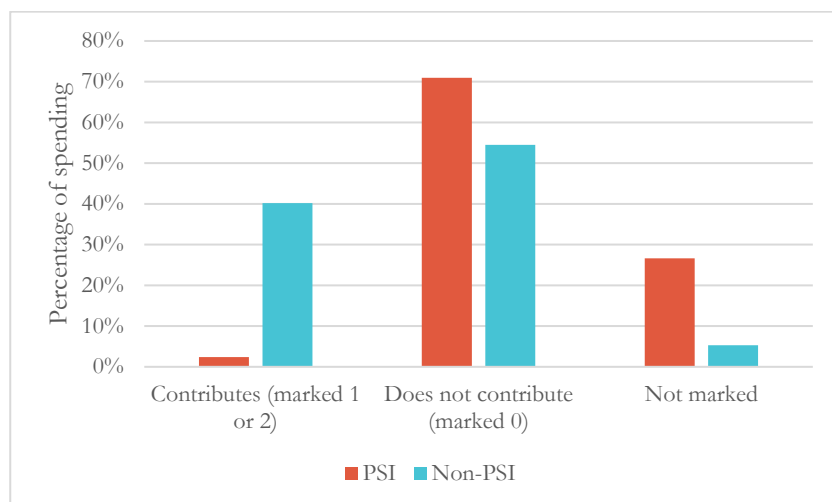
<sup>11</sup> On the surface, it might still seem surprising that 21% of the PSI spending in this sample flowed to LDCs, set against OECD and United Nations Capital Development Fund (2019)'s finding that these countries received only 6% of all the private finance mobilised by official development finance interventions between 2012 and 2017. A large part of the reason for this difference is likely to be the difference in measures used – ODA spending versus private finance mobilised. Mobilisation levels are known to be substantially less in lower-income contexts: recent research found that in Low Income Countries, one dollar of public finance investment mobilised on average USD 0.37 (Attridge and Engen, 2019a). In other words, it takes more ODA to leverage every dollar of private finance in Low Income Countries. So it is to be expected that even if there is a sharp disparity between private finance mobilised in poorer and less poor contexts, the difference in underlying ODA investment levels would be more modest.

to which different population groups stand to benefit from PSI spending.

## Findings on the gender marker

We compared the use of the gender marker across PSI and non-PSI spending. The comparison showed that, for our sampled providers, a substantially lower share of PSI disbursements was reported as targeting gender equality, compared with all bilateral ODA – two percent and 40 percent respectively. The analysis also showed that providers report against the marker less consistently in their PSI spending than their other ODA activities: 27 percent of PSI spending had not been classified using the gender marker, as against five percent of ‘conventional’ bilateral ODA spending (Figure 9).

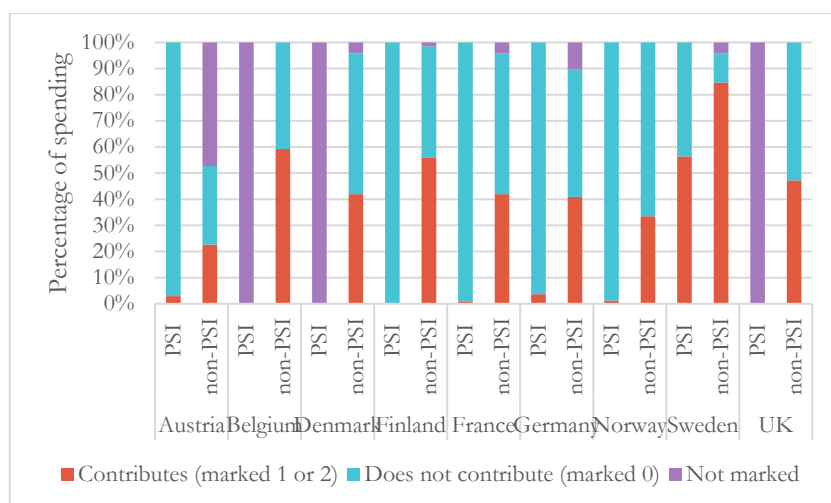
**Figure 9: share of PSI disbursements marked as contributing to gender equality, compared with other bilateral ODA**



Source: authors’ analysis of Creditor Reporting System database (2017) or of unpublished ODA provider data from 2018. Data for 11 ODA providers. Gross disbursements basis. The gender field on the CRS can contain one of four possible values: “2” (meaning that gender equality is the principal objective); “1” (gender equality is a significant objective); “0” (not a significant or principal objective); or “blank” (the provider has not provided any information). For our analysis, interventions were deemed to contribute to gender equality when marked with a score of “2” or “1”.

Sufficient data was available to disaggregate this analysis across nine individual OECD DAC members (Figure 10). For all nine, the share of spending reported to target gender equality was lower for PSIs than for other instruments. However, the disparity was much less for Sweden than for the other four providers. More investigation would be needed to understand the reasons for this, but it is possible that Sweden’s experience may offer useful learning for other OECD DAC members.

**Figure 10: Disbursements marked as contributing to gender equality as a share of all disbursements: comparison between PSI and non-PSI bilateral ODA across sampled providers**



Source: authors’ analysis of Creditor Reporting System database for 2017 or of unpublished ODA provider data for 2018. Gross disbursements basis. Gender marker: see note under Figure 9.<sup>12</sup>

<sup>12</sup> Note on Sweden: Data for Sweden includes ODA spent through Swedfund and the Sida guarantee portfolio. Only a small subset of the latter is reported within ODA – across the entire guarantee portfolio, the sectoral distribution would have been somewhat different: around 65% of the portfolio was classified as contributing to gender equality

Note on the UK: Strictly speaking, while the UK did not report on the gender marker for individual outflows from its DFI, CDC, it did code its lump sum capital contribution to CDC as contributing to gender equality. However, we do not consider it meaningful to classify a capital contribution in this way, when gender equality considerations need to be verified at transaction as well as portfolio level.

## Findings on the disability marker

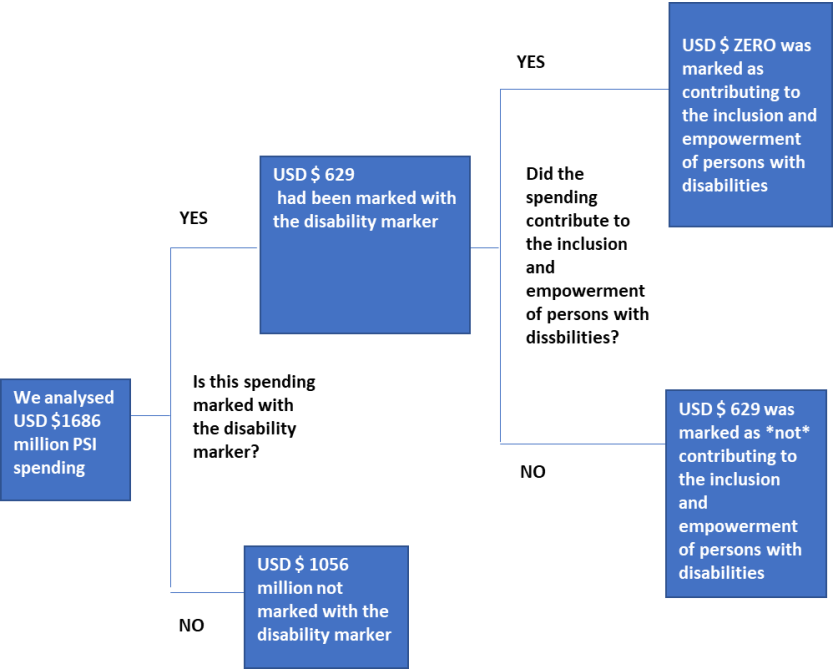
The disability marker, introduced from 2018, has the potential to offer important insights into the poverty focus of ODA spending, given the close links between disability, consumption poverty and multi-dimensional poverty (Braithwaite and Mont, 2009; Mitra et al, 2013,).

However, as yet, use of the marker to report on PSIs is not widespread. Using pre-release 2018 data, we were able to analyse USD 1,686 million of PSI spending. The majority of this spending had not had the disability marker applied (Figure 11).

Such limited evidence makes conclusions tentative. But the available data yields two indicative findings. First, none of the PSI spending that we analysed was deemed to contribute to the inclusion and empowerment of persons with disabilities (Figure 11).

Second, based on available data from just two providers (where we also had access to 2018 data on **non**-PSI transactions, for comparison), it appears that attention to disability inclusion may be stronger in ‘conventional’ bilateral ODA than in PSI spending. Whereas no PSI spending was marked as contributing to the inclusion and empowerment of persons with disabilities, four percent of all ‘conventional’ bilateral ODA disbursements – or 17 percent of spending to which the disability marker was applied – were deemed to contribute.

**Figure 11: six providers’ reporting on the inclusion of persons with disabilities in their PSI spending**



Source: authors’ analysis of pre-release 2018 data for five ODA providers. Gross disbursements basis. The disability field on the Creditor Reporting System can contain one of four possible values: “2” (meaning that the inclusion and empowerment of persons with disabilities is the principal objective); “1” (significant objective); “0” (not a significant or principal objective); or “blank” (the provider has not provided any information). For our analysis, interventions were deemed to contribute to the inclusion and empowerment of persons with disabilities where they had been marked with a score of “2” or “1”.

### 6.5 A note on the counter-factual

The above analysis compares PSI spending patterns with patterns across all other ODA spending. During our research, we heard the argument that it would be more realistic to use a narrower comparator, such as ODA spending in Middle Income Countries (MICs), or ODA spending on loans, since it is these kinds of



spending that PSIs most frequently substitute. However, we decided against such an approach, for two reasons.

First, we did not come across strong evidence to support the premise that PSIs systematically substitute some types of ODA more than others. This was not evident in the decision processes that providers described to us. Nor is it apparent from available historic data. For example, an analysis of German and Danish PSI disbursements in MICs since 2012 does not suggest any obvious link between PSI spending and wider ODA spending patterns in these countries (the former increased gradually over the period, while the latter **decreased** sharply in the case of Denmark, and **increased** sharply in the case of Germany).<sup>13</sup>

Second, more fundamentally, our interest is in maximising the impact of ODA allocations overall. To do this justice, we need to consider all possible alternative uses to which PSI spending could be put, rather than confining our analysis to a small subset of options, such as loan spending. We explore further the potential perverse effects of too narrow a focus on non-fiscal spending such as loans in section 7.3.2 below.

## 6.6 Potential effect of PSI spending for other ODA allocations

### Approach

Since ODA providers' use of PSI is increasing (section 5), and PSI spending tends to be distributed differently from other forms of ODA (section 6.2-6.4), it is likely that there will be effects on the overall distribution of ODA. In this section we seek to explore the potential dimensions of these effects.

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<sup>13</sup> Source: author's analysis. Germany and Denmark are the largest PSI spenders for which this historic data is readily available.

We focus on spending patterns by sector and by gender marker, as this is where our earlier analysis allows us to draw the most confident conclusions. Providers' reporting across these elements is relatively complete, and the results across providers in our sample are relatively consistent – in contrast to the results by LDC status, where providers' spending patterns diverged.

Even so, such an exercise inevitably involves considerable uncertainty, which should be borne in mind when interpreting the results. Nonetheless, it offers an overall sense of scale, which we hope will be a useful addition to the evidence in a debate that has so far been taking place without much quantification.

Our calculations are based on the following simple formula, which compares spending patterns in 'conventional' and PSI spending:

$$\text{Spend affected} = F \times (V_c / T_c - V_p / T_p) \times A$$

Where: F = forecast PSI spending

$V_c$  = value of 'conventional' spending in the area in question (e.g. social sectors)

$T_c$  = total value of 'conventional' spending analysed

$V_p$  = value of PSI spending in the area in question (e.g. social sectors)

$T_p$  = total value of PSI spending analysed

A = an adjustment factor of 80 percent. This is to allow for the fact that some types of ODA spending – administrative costs, debt relief, in-donor refugee costs – are unlikely to be directly susceptible to the effects of changing PSI allocations.<sup>14</sup>

Two key uncertainties in applying this formula are (i) forecasting future levels of PSI spending; and (ii) anticipating how

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<sup>14</sup> We calculated the adjustment factor based on the share of gross bilateral ODA disbursements that flowed to administrative costs, debt relief and in-donor refugee costs in 2017.

‘conventional’ spending patterns may change in response to wider shifts in provider policies.

To allow for these uncertainties, we calculated a range of potential effects under alternative scenarios.

To take into account uncertainty over future PSI spending levels, we considered the following scenarios for forecast PSI spending (F):

- Lower limit: we assumed that, at a minimum, PSI spending would continue at current reported levels. This equates to USD 2,460 million per year. Given that providers actually have extensive plans to scale up their PSI spending (section 5.2 above), this conservative assumption is likely to yield a significant under-estimate.
- Upper limit: we considered how spending patterns might change if all ODA providers followed the approach of one of the biggest providers, the European Union, in scaling up their PSI spending. The European Union may devote as much of 10 percent of ODA to PSIs under its next budget. We therefore set our upper limit at ten percent of OECD DAC members’ total reported bilateral ODA in 2018: this equates to USD 10, 948 million. This approach is still cautious insofar as it does not factor in PSI spending through multilateral ODA.

Meanwhile, to factor in uncertainty over providers’ wider spending priorities, we modelled how the results would change if current spending allocation patterns for ‘conventional’ ODA varied by  $\pm 5$  percentage points. For example, we considered what would happen if ODA providers reduced the share of ‘conventional’ ODA for the social/humanitarian sectors to 64 percent, or increased it to 74 percent - as opposed to the 69 percent we actually observed. Allowing this level of margin would comfortably accommodate

movements observed in headline ODA spending patterns over recent years.<sup>15</sup>

## Findings

### *Effect on spending for the social / humanitarian sectors*

In section 6.2, we found that six percent of our providers' sector-specific bilateral PSI investments flowed to the social and humanitarian sectors. For the same providers' 'conventional' ODA spending, the figure was 69 percent. Entering these figures into the formula above gives the following results.

Observed  $V_c / T_c = 69$  percent (modelled range 64 – 74 %, to allow for future changes in provider policy). Observed  $V_p / T_p = 6\%$

Giving:

		Forecast PSI spending	
		Lower limit	Upper limit
<b>V<sub>c</sub> / T<sub>c</sub></b>	Min = 64%	USD 1,141 m	USD 5,080 m
	Observed = 69%	USD 1,240 m	USD 5,518 m
	Max = 74%	USD 1,338 m	USD 5,956m

This means that, if future spending patterns follow the trends that we have modelled, the use of PSIs may influence a shift of between USD 1.1 billion and USD 6.0 billion away from the social/humanitarian sectors and towards the 'productive' sectors.

### *Effect on spending for gender equality*

In section 6.4 we found that, for our sampled providers, two percent of PSI disbursements were marked as targeting gender equality, compared with 40 percent of 'conventional' bilateral ODA. Entering these numbers into our formula gives:

Observed  $V_c / T_c = 40$  percent (modelled range 35 - 45% to allow for future changes in provider policy). Observed  $V_p / T_p = 2\%$

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<sup>15</sup> Source: analysis of the DAC's preliminary ODA statistical releases between April 2012 and April 2019.

Giving:

		Forecast PSI spending	
		Lower bound	Upper bound
<b>Vc / Tc</b>	Min = 35%	USD 649 m	USD 2,890 m
	Observed = 40%	USD 748 m	USD 3,328 m
	Max = 45%	USD 846 m	USD 3,766 m

Hence if future spending patterns follow the trends that we have modelled, the use of PSIs may influence a shift of USD 0.6 billion - 3.8 billion away from interventions deemed to target gender equality.

#### *A sense of scale*

To put these findings in context, if the effect on the social and humanitarian sectors was the mid-point of the range that we calculate – USD 3548 million – this would amount to over three percent of total bilateral ODA in 2018, or substantially more than total gross bilateral ODA disbursements for basic education in the preceding year.

## 7. Donors' approaches to appraising effects and opportunity costs

### 7.1 The need for robust ex ante option appraisal

The quantitative analysis presented in section 6 shows the scale of the potential impact of PSIs on overall ODA allocation patterns. But such quantitative analysis, by its nature, tells us little about the decision process behind these shifting spending trends. When providers committed to spend ODA on PSIs, did they weigh up how this would affect their overall portfolio? Did they consider trade-offs between PSIs and alternative uses of ODA?

To explore these questions, we triangulated our quantitative analysis with a qualitative assessment of how far ODA providers' decision to use PSIs was informed by a clear appraisal against the potential development impact of alternative spending options. Whilst recognising that ODA allocation is a complex process, we would nevertheless look for all ODA providers to consider the following basic dimensions:

A clear articulation of the rationale for using PSIs rather than other instruments, of how their use maximises the impact of ODA, taking into account:

- The special mix of opportunities, obligations and commitments that distinguishes ODA from other development tools; and, as a corollary of this,
- A clear analysis of the distributional impacts of different spending options.<sup>16</sup>

These considerations are by no means unique to PSIs: we would expect all ODA spending decisions to be subject to basic option

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<sup>16</sup> Caio (2019) puts forward some important considerations that such a distributional analysis should include.

appraisal along the lines set out above. But they are certainly very pertinent factors in the PSI context, all the more given the potential effects of PSI spending for overall ODA allocation patterns (section 6 above), and the range of non-developmental factors that risk influencing the decision to use PSIs (section 7.3 below).

We recognise that the level of detail of such an option appraisal should be proportionate to the volume of spending at issue: a commitment of several hundred million dollars accounting for an important share of a provider's ODA budget would require more in-depth assessment than a small pilot programme – though at least a minimum basic level of appraisal could be expected in both cases. But the scale of PSI spending in all our sampled ODA providers goes beyond what we would regard as 'small pilot programmes'. In all cases, PSIs are important either because of their absolute volume (over USD 100 million for seven providers in our sample during 2018); or because of their volume relative to the rest of the provider's spending (over one percent of total ODA for six out of the ten providers for whom this information was available in 2018 – and known to be substantial for the Netherlands too if we took a multi-year view) (OECD DAC, 2019b: Table 1).<sup>17</sup> To put this in perspective, even in Sweden, which was one of the smaller PSI spenders in our sample, total PSI spending of USD 69 million in 2018 was roughly the same as its entire bilateral spending on primary education.<sup>18</sup>

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<sup>17</sup> Source: authors' analysis of OECD, 2019b. 'Development aid drops in 2018, especially to the neediest countries', Table 1.

<sup>18</sup> Source: authors' analysis of preliminary transaction level data for 2018. Analysis on a net disbursement's basis.

## **7.2 ODA providers' approaches to option appraisal in practice**

### **7.2.1 Overview of decision-making processes**

To get a better understanding of the processes that ODA providers follow in deciding to invest ODA in PSIs, we asked providers in our sample to talk us through the steps leading up to recent PSI spending commitments. These commitments included new capital contributions to the providers' DFIs (in Belgium, Canada, Norway, Sweden and the UK); and a range of other major new PSI programmes: the European Fund for Sustainable Development Plus and its associated guarantee fund; the International Development Association's Private Sector Window; various Dutch PSI programmes within the Ministry of Foreign Affairs' Department for Sustainable Economic Development; and commitments under the Sida guarantee programme.

Although the details varied depending on the provider and the nature and scale of the commitment, most of the processes had three broad stages in common:

- A high-level political commitment in favour of the use of PSIs. All nine of the providers whom we interviewed mentioned that their PSI spending had received impetus from ministers (or, in the case of the European Union and the International Development Association, from representatives of their different member countries with delegated authority for policy setting). For larger commitments, the amount of ODA committed was decided at political level too (Belgium, Canada, European Union, International Development Association, Norway, Sweden, UK).
- A technical level decision on the precise level of ODA to be invested, within the broad direction established at political level – sometimes also involving a round of external consultation (e.g.



with civil society organisations). For example, decisions made at technical level materially affect the level of spending on Dutch contributions to PSI programmes (decided by technical specialists in different sectors); and specific commitments under the Sida guarantee programme (decided in consultation between sector and financial specialists).

- A feedback loop involving monitoring of the PSI spending, its results (with the emphasis on financial or development results varying depending on the programme), and – for some of the longer-term commitments – any adjustments to be made to the spending levels originally anticipated.

In addition, some interviewees mentioned that they also funded research that would help inform future decision making on PSI spending – for example through Belgium’s “BeFinD” university research programme on development finance.<sup>19</sup>

### **7.2.2 Providers’ approach to ex ante option appraisal**

We explored whether the eight providers interviewed for this part of the research<sup>20</sup> had taken any steps to appraise alternative options along the lines set out in section 7.1 above, before committing to use PSIs.

Some of our interviewees told us that trade-offs had been taken into account. Some also showed that they had reflected on the comparative advantages and disadvantages of PSIs: for example, some said they did not always think PSIs were the best tool with which to reach highly marginalised people. They told us they saw

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<sup>19</sup> See for example Couderé H. ‘To blend or not to blend: towards a Belgian blended finance policy’.

<sup>20</sup> I.e. Belgium, Canada, the European Union, the International Development Association, the Netherlands, Norway, Sweden, and the UK.

PSIs as “just one tool in the development toolbox”, with different tools serving different purposes.

However, we did not find evidence that the *ex ante* process of trading off PSIs against alternative uses for ODA had been explicitly documented by any of the providers whom we interviewed.<sup>21</sup> In general, consideration of trade-offs was instead an implicit part of the wider budgetary decision process described in section 7.2.1 above. One interviewee told us, “It’s mostly a political decision. The decision and the bigger part of the reflection isn’t at the ministry level [but higher up]. The ministry didn’t receive any demand for specific analysis developing alternative scenarios and comparing”.

Insofar as the decision process is based more on political priorities and less on a systematic appraisal process, this may also affect the kinds of factors that are taken into account. The same interviewee told us they were “not sure there is a specific interest in ... questions [on the capacity of PSIs to reach marginalised people] ... at a political level at very senior levels in the ministry”.

And while some providers told us they did not see PSIs as the best tool for all their objectives, but rather as one piece in a “toolbox”, they did not have a clear view on how far spending through other tools could be allowed to shrink, consistent with ensuring all objectives were met.

If, as our enquiries suggest, providers lack a clearly documented process for comparing PSI investments against alternative uses for ODA, this seriously limits the scope to test whether such spending is really maximising opportunities for development impact.

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<sup>21</sup> In the case of the UK, we did find documentation comparing proposals to inject capital into CDC, the UK development finance institution, against a ‘do-nothing’ option (UK Government, 2017).<sup>21</sup> However even in this case, the potential alternative uses for funds under the ‘do-nothing’ scenario are not elaborated, and it appears this scenario serves mainly to bring into focus the postulated benefits of the proposed investment. It seems that any substantive comparison against real alternatives must have taken place at an earlier, undocumented, stage of the process.

## 7.2.3 Sequencing of decisions

While all eight providers follow broadly the same decision process, we found one important differentiating factor: the sequence in which decisions are made. Broadly, providers fell into one of three categories:

- At one end of the spectrum, some providers make commitments on PSI spending before the overall ODA envelope is known. This is true of Belgium, for example, where the minister for international development signs five-yearly management contracts with the national DFI, BIO, even before the total ODA budget has been confirmed.<sup>22</sup> Belgium is not an isolated case: indeed, except in countries such as the UK where the ODA budget is enshrined in law, most providers who make long-term PSI commitments are in principle at risk of finding themselves in a position where the PSI budget is ring-fenced, even if the rest of the ODA budget unexpectedly shrinks. Of course, this is not to say that multi-year spending commitments should never be made (on the contrary) – but rather, that making long-term bilateral commitments to one instrument, without commensurate certainty over the budget for other bilateral spending priorities, risks sub-optimal allocations over the long term.
- Some providers make the decision to invest in PSIs at the same time as setting other high-level spending commitments, as part of a wider budgeting process. This allows room for a degree of ‘implicit’ option appraisal, as described by our interviewee above. However, it nonetheless risks committing large volumes of resources before the detail of other options is known in sufficient detail for meaningful trade-offs to be made.

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<sup>22</sup> In theory, payments could be adjusted, but in practice there is a strong expectation that this will not happen.

- A third sequence involves providers deciding on geographic or sectoral priorities first, and then deciding whether to use PSIs to meet these priorities. This is the case for some Dutch PSI spending for example, and also for the Swedish guarantee program. While this sequencing is not in itself sufficient to guarantee a robust trade-off of alternative options based on poverty impact, it does increase the chances that decision makers have a detailed understanding of alternative non-PSI spending options against which to compare any PSI proposals.

## 7.3 Non-developmental factors that may influence option appraisal

The above discussion has focused on the strength of ODA providers' development rationale for using PSIs. But we also note that there are some *non*-development driven factors that could incentivise ODA providers to use PSIs, even if the development evidence supported a different approach.

To be clear: **we are not asserting that these factors did materially influence the decisions of the providers in our sample.** Nor are we claiming that all these factors are unique to PSIs – some would apply to certain other forms of ODA spending too. Our aim in this section is merely to highlight some issues that need to be addressed in order to guarantee the most strongly evidence-based ODA spending decisions in future.

### 7.3.1 Peer pressure

As noted in the introduction, PSIs have come to be seen as the 'next big thing' in development finance (European Court of Auditors, in Carter, 2015) – so much so that, when Canada revealed plans to launch its new DFI in 2017, a committee of parliamentarians questioned why it was coming so 'late to the dance' (House of Commons of Canada, 2017).

Not only are PSIs and other forms of ‘catalytic’ official development finance very prominent in the discourse in multilateral norm-setting or trend-setting forums such as the United Nations Financing for Development process, the wider United Nations system (e.g. the United Nations Development Programme’s private sector hub and the United Nations Capital Development Fund), the Bretton Woods Institutions, the OECD and the World Economic Forum. Their use is also encouraged through a range of harder and softer incentives established by the international development cooperation community.

For European ODA providers, the most tangible incentive is probably the possibility of securing extra finance for their DFIs through the new European Fund for Sustainable Development Fund Plus. The proposed regulation for the new Fund makes this possibility explicit (European Commission, 2018: Article 23 paragraph 6, and Article 30). This gives European ODA providers a potential motivation to invest in PSI activities aligned to the European Union’s plans, with a view to attracting European Union finance and growing their DFI operations.

International forums present softer incentives too. These include high-profile events at which ODA providers can showcase their use of PSIs (such as the ‘Tri Hiti Karana’ forum on the margins of the Bretton Woods Institutions’ annual meetings in 2018, and the Organisation for Economic Cooperation and Development’s Private Finance for Sustainable Development week).

The incentives also include soft accountability mechanisms. For example, the OECD regularly reports on donors’ performance in mobilising private finance (OECD, 2019c). The OECD DAC also conducts periodic assessments on the quality of its members’ development cooperation through its peer review process. Its peer review guidance includes two criteria that encourage providers to use PSIs or other similar mechanisms to mobilise additional resources (OECD, 2019g). There is some nuance to this, and the peer review process has occasionally been used to highlight the potential opportunity costs of PSIs too (e.g. the peer review of Finland in 2017 [OECD, 2017b]). But overall the peer review criteria’s emphasis on PSIs is so prominent that it is unclear a

hypothetical provider would fare very well if, even following a thorough option appraisal process and review of priorities across their whole portfolio, it concluded that PSIs were not the best way to pursue development impact. Past reviews on providers without PSIs in their portfolio, while not explicitly criticising their choice, have nonetheless drawn attention to it: for example the 2014 review on Ireland found that Ireland’s “capacity to use ODA to leverage private investments is limited, as it has no official financial instrument enabling it to do this” (OECD, 2014. See also the reviews on Iceland [OECD 2017c] and Greece [OECD 2019f]).

### **7.3.2 Wider budgetary pressures**

Finance ministries in ODA provider countries face a tension between pressures to increase spending on domestic policy areas, and pressure not to jeopardise a country’s headline level of ODA spending. Against the backdrop of these pressures, many finance ministries have a preference for returnable or ‘non-fiscal’ forms of ODA spending, such as loans and equities.

PSIs are not the only form of non-fiscal spending. And not all PSI spending is non-fiscal. . Still, the returnable character of many forms of PSI, coupled with ODA reporting arrangements that offer generous recognition for many PSI activities, potentially makes this an attractive option for decision makers striving to meet finance ministry demands. Tellingly, the dominant role of the finance ministry in PSI spending decisions was so clear in one country that when we asked for a contact who had been closely involved in a recent decision to scale up PSI spending, we were directed straight to the finance ministry.

### **7.3.3 Corporate pressures**

In principle, ODA providers within the OECD DAC have subscribed to commitments on untying their ODA – i.e. that they will not give most kinds of ODA on the condition that it must be spent with companies in the provider country (OECD DAC, 2019b). ODA providers are also key participants in the Global

Partnership for Effective Development Cooperation, whose recent Kampala Principles for effective Private Sector Engagement emphasise the importance of engaging with local firms in the global south (Global Partnership for Effective Development Cooperation, 2019). However, despite these commitments and policy principles, the application of untying commitments to PSIs is a complex area (Meeks, 2018) that the provisional reporting arrangements do little to clarify.

Examining whether PSIs involve tied ODA would require detailed research outside the scope of this study. But, as part of our document review, we examined a more basic question - whether the bilateral providers in question intend domestic companies to derive some benefit from their PSIs (Table 4). We found that many did. What is more, support for domestic companies is also an explicit consideration of some DFIs outside the scope of our qualitative review. For example, the Act that established the US' major new DFI says that the institution should "give preferential consideration to projects sponsored by or involving private sector entities that are United States persons." (US Congress, 2018).

Intending domestic companies to benefit is of course very different from actively tilting the playing field in their favour through tying. But both have the potential to affect incentives for ODA allocation. Our findings in Table 4 suggest that domestic companies in ODA provider countries have much to gain from PSI spending. Prima facie, there appears to be a risk that this could motivate them to pressure providers into spending an increasing share of their ODA budgets through PSI, irrespective of whether or not this is the best way to serve development objectives.

**Table 4: ODA providers' use of PSIs to support domestic companies**

ODA provider	Support for domestic companies
Belgium	Positively, the investment strategy for Belgium's DFI contains relatively strong language on the need to comply with commitments on untying ODA. But while the documents that we reviewed rule out tying,

	<p>they encourage broader opportunities for Belgian companies to benefit from PSI activity. A recent evaluation of Belgian development cooperation engagement with the private sector strongly argued in favour of doing more to “look for mutual benefits” that unite development cooperation with Belgium’s economic and geopolitical interests. Meanwhile the most recent management contract for the Belgian DFI requires it to seek synergies and complementarities with (among other Belgian development cooperation actors) Belgium’s export credit agency. <sup>a</sup></p>
<b>Canada</b>	<p>Canada’s new DFI is a subsidiary of Canada’s export credit agency, and is accountable to the minister for international trade, although its mandate is independent, and the development minister plays an advisory role. The DFI’s statute does not require that it work with Canadian companies, although it welcomes proposals from the Canadian private sector. In a parliamentary hearing about the establishment of the DFI, the head of Canada’s development agency said that projects would be selected primarily based on development impact, but the minister also said “we will work hard to have Canadian businesses involved and benefiting from the DFI.” <sup>b</sup></p>
<b>France</b>	<p>The DFI website places an emphasis on supporting French companies (though NB it is unclear whether this is within its ODA spending or its wider operations): “Proparco supports the development of companies and financial institutions that are active in areas of key importance to development, both local organizations and international companies (particularly French) with operations in developing countries or seeking to develop subsidiaries there.” <sup>c</sup></p>
<b>European Union</b>	<p>European Union PSI programmes take place in conjunction with dialogue to ‘improve the investment climate’ in countries in the global</p>



	<p>south. Such dialogue engages European as well as local companies, and may include an element of economic diplomacy, which seeks to 'reinforc[e] the promotion of strategic European economic interests and the involvement and internationalization of EU companies (including SMEs) in these regions'.<sup>d</sup></p>
<b>Netherlands</b>	<p>It is difficult to isolate information on Dutch PSI operations from the information reported online. However, such operations take place within the framework of a combined policy for trade and development cooperation. And support to the Dutch private sector is prominent on the Dutch development cooperation policy website – for example “grants will be available for businesses and knowledge institutions that seek to invest in developing countries, especially in sectors where Dutch trade and industry are global leaders (the Dutch 'top sectors').”<sup>e</sup></p>
<b>Norway</b>	<p>The Norwegian private sector development strategy places a very strong emphasis on the role of Norwegian companies, although it is not completely clear how much of this would be PSI. For example: “Close interaction between public and private actors will be important for identifying specific projects that are well suited for increased Norwegian private sector engagement in the various countries. In addition to carrying out their business operations, Norwegian companies will be able to play an important role as dialogue partners in the work to improve the environment for business activities.”<sup>f</sup></p>
<b>Sweden</b>	<p>Swedfund encourages small and medium domestic companies to engage in the global south through its 'Swedpartnership' loans scheme, although the loan funds themselves are used for the partner company in the global south.<sup>g</sup></p>
<b>UK</b>	<p>The mission of the UK DFI, CDC, makes no reference to the promotion of UK firms. Board</p>

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minutes from 2018 show that the UK DFI, CDC, has been considering proposals on how it can encourage more UK companies to invest or expand their operations in Africa and South Asia.<sup>h</sup> However the outcome of these deliberations is not yet clear from documents in the public domain.

#### Notes:

a. BIO. 2015. *Investment strategy 2015-2018*, p. 10. Royaume de Belgique. 2018. *Évaluation de l'appui au secteur privé par la coopération belge au développement*, résumé. Author's translation. Belgian government, 'Contrat de gestion entre l'État belge et la Société belge d'Investissement pour les Pays en Développement', Article 48.

b. House of Commons of Canada. Standing Committee on Foreign Affairs and International Development. No. 062, 1st session, 42nd Parliament. Response to question from Mr Dean Allison. And No. 072, 1st session, 42nd Parliament. Response to question from Mr. Borys Wrzesnewskyj.

c. European Commission. 2019. *Handbook on improving the investment climate through EU action*, pp. 28-29.

d. Government of France. *Proparco at a glance*, p.6.

e. Government of the Netherlands, 2018. *Investing in Global Prospects*. Government of the Netherlands. *Dutch [development cooperation] policy* [online]. Available: <https://www.government.nl/topics/development-cooperation/the-development-policy-of-the-netherlands>. [9 December 2019].

f. Norwegian Ministry of Foreign Affairs, 2014. *Working together: private sector development in Norwegian cooperation*, p.16.

g. Spratt, S et al, 2018, *DFIs and development impact: an evaluation of Swedfund*, p.37. Stockholm, Sweden: EBA.

h. CDC Group. *Our Company* [online]. Available: <https://www.cdcgroup.com/en/about/our-company/> [8 December 2019]. Board minutes from February, April and July 2018. Available: <https://www.cdcgroup.com/en/about/our-company/>. [9 December 2019].

## 8. Challenges in the provisional reporting arrangements on PSI

### 8.1 Transparency

In some respects, transparency over PSI spending in the OECD DAC ODA statistics has improved this year. (For more background on the new reporting arrangements, please see Appendix 2). For the first time, bilateral providers' use of ODA for PSIs is clearly flagged. The statistics also make clear whether providers are reporting on using the instrumental or the institutional approach (OECD, 2019b: Table 1). So far, this data has only been publicly available in aggregate form, but from early 2020, assuming the full implementation of the reporting arrangements goes according to plan, it will also be possible to access complete, easily distinguishable data on PSIs at transaction level. And this data will be enhanced with brief information on PSIs' claimed added value – crucial information for scrutiny, which was not available before (OECD DAC, 2018b).

However, in other respects, the provisional reporting arrangements fail to overcome many basic transparency barriers. For example, while data on bilateral providers is more readily available now, it remains difficult to get a precise picture of **multilateral** providers' PSI spending: the quality of reporting varies among providers, and it is not yet clear how far new tools such as the PSI 'flag' will be applied in a multilateral context. This is a serious limitation, given the significance of the World Bank Group and other multilateral agencies' engagement in PSIs, and is likely to lead to substantial understatement of the true levels of PSI spending. Our interviews also revealed a lack of clarity over how PSI spending through multi-donor trust funds and other hybrid bi-/multilateral channels should be reported. Treatment of publicly owned financial intermediaries appeared to be another area of ambiguity (i.e. if a provider makes a contribution to a publicly owned organisation that will on-lend to private sector actors, does this count as a PSI?). For example, in 2018 the European Union contributed USD 337 million

to the European Fund for Sustainable Development, but did not record any of this very substantial contribution as PSIs, on the grounds that the European Fund for Sustainable Development is itself part of the public sector, and the share of its financing that would go to private sector actors was not yet clear (European Commission, 2019: personal communication).

More worryingly, the provisional reporting arrangements also introduce some *new* barriers to transparency that did not exist in previous years' statistics. The most serious of these is probably the co-existence of two fundamentally different approaches to reporting PSI and other ODA spending. From this year, ODA sovereign loan spending is reported on a 'grant equivalent' basis – applying a formula that adjusts up-front for the 'gift' that the provider gives in making the loan concessional, with a view to better representing different donors' 'effort'. However, after some four years of deeply contentious negotiations, it has proven impossible to develop an analogous grant equivalent methodology for PSIs – in part because it is arguable that some PSIs are not concessional at all (Atwood et al, 2018). This means that PSIs continue to be reported based on cash flows to and from the provider agency, rather than any kind of up-front formula. The co-existence of these two entirely different approaches seriously weakens the comparability – and credibility – of the 2018 ODA statistics.

## 8.2 Incentives

Getting the reporting rules right matters for transparency. But it also matters for incentives, where anomalies in the provisional reporting directives risk giving providers a disproportionate statistical reward for transactions that actually had very little impact on their coffers.

The criteria for reporting PSI loans as ODA are a case in point. Under OECD DAC reporting rules, all loans – including PSI loans – have to meet a minimum concessionality threshold. However, as the OECD DAC's current rules set very 'generous' parameters for concessionality, which would potentially encompass many loans offered on fully commercial terms. Concerns over the OECD DAC's approach to calculating concessionality have also been raised

by the former chief statistician of the DAC, Simon Scott: as he puts it, “if [users of the ODA statistics] could get a mortgage from a private bank at 2 percent, but took one from a government bank at 2 percent, they would not expect the government to tell them they should have paid 6, 7 or 9 percent, and have therefore received the equivalent of a massive upfront grant.” (Scott, 2019). These issues are not unique to PSI loans – the same basic questions arise for sovereign loans too. But the risk of overly generous concessionality parameters is certainly highly relevant in the PSI context, given it is debatable whether some PSIs are concessional at all – a view that was echoed during our interviews.

Other important anomalies include:

- A lack of challenge over the scope of providers’ reporting under the institutional approach. In principle, nothing should be reported under this approach that would not also qualify for instrumental reporting. However, in practice, ODA providers are free to self-assess the eligibility of their institutional activities, and evidence to-date suggests that many are including 100 percent of their institutional contributions, even if this includes instruments or activities that would not qualify as ODA under the instrumental approach (see Box 2 on guarantees).<sup>23</sup>
- A lack of lock-in to ensure consistent use of the institutional or instrumental reporting basis year-on-year. In theory, the current reporting arrangements would allow a provider to report all their capital contributions to their DFI as ODA one year under the institutional approach, then to switch to the instrumental approach the next year and report ODA from loans and other activities enabled by the same ODA capital given the previous year – a clear case of double counting. While we are not aware

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<sup>23</sup> The provisional reporting arrangements propose some basic reporting processes that could, in the long term, help the OECD DAC to assess the degree of divergence between the institutional and instrumental approaches. But they do not foresee any mechanism to correct potential overstatements that may arise from institutional reporting in the short term (OECD DAC, 2019i).

of any providers having taken advantage of this loophole yet, and the OECD DAC secretariat will seek to put in place some checks, there remains a significant risk that some double counting will slip through the net in practice.

- The treatment of profits from equity investments. Although the provisional reporting arrangements require providers to record negative ODA if money flows back to them from their PSI investments, they make an exception if the reflows from equity exceed the original investment (OECD, 2019i: p.4). This means that, across a portfolio of equity investments, providers can appear to be making generous ‘gifts’ to countries in the global south, even if overall they are actually making a profit.

These anomalies are important because they essentially allow providers to claim ODA without having made a commensurate concessional ‘effort’. Insofar as providers can do this in the context of PSI, but have to make a genuine effort to record ‘conventional’ ODA, this risks distorting decision making, as providers may be swayed by the ease of improving their ODA statistics, rather than development factors alone. Box 2 illustrates another key example of the transparency and incentive problems in the current reporting arrangements: the treatment of guarantees.

### **Box 2: treatment of guarantees under the OECD DAC provisional reporting arrangements**

The reporting of guarantees is one of the messiest areas of the provisional reporting arrangements. In principle, the reporting arrangements state that guarantees should only be reported when they are called and payment is made (OECD 2019i, paragraph 9d). We interpret this principle as applying to the instrumental and institutional reporting approaches alike, as it would not make sense for the OECD DAC to exclude guarantees under one approach but not the other. Yet despite this relatively clear principle, in practice different providers’ reporting behaviour diverges significantly.

On the one hand, some providers report guarantees on a transaction-by-transaction basis. Sweden is one such provider

that reports as ODA the small amount that relates to subsidies offered to borrowers from high risk contexts, who would not be able to afford to pay guarantee fees on a commercial basis. At the end of 2018, these subsidies amounted to around USD 9 million. Administrative costs and costs for covering currency risks are also counted as ODA. (Sida: personal communication, 2019).<sup>24</sup> Sweden does not report as ODA when guarantees are called (i.e. the risk materialises and payment has to be made). Overall, the amount that Sweden charged to ODA was around two percent of the total amount guaranteed.<sup>25</sup>

On the other hand, some providers who report PSI on an institutional basis are using an entirely different methodology for reporting guarantees. This alternative approach involves reporting up-front the whole amount that providers have set aside on their balance sheets, in case the guarantee is called. Under current plans, the European Union is likely to be the biggest user of this reporting methodology. If proposals for the next European Union budget are adopted, it could be estimated, based on the current use of budgetary guarantees by the EU, that approximately USD 11 billion - 14 billion (i.e. EUR 10 billion - 12 billion) may be set aside for potential guarantee liabilities in the period from 2021 to 2027. This will amount to somewhere between nine and 50 percent of the total amount guaranteed (European Commission, 2018).

Neither Sweden's nor the EU's approach strictly follows the provisional reporting directives' basic principle that guarantees should only be reported when they are called. However, while it is impossible to make direct comparisons between the Swedish and European Union examples without knowing more about the underlying risk profile of the transactions guaranteed, available evidence suggests that providers who use the Swedish approach are likely to obtain considerably less generous ODA recognition per unit of guarantee 'effort' than

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<sup>24</sup> Source: correspondence from Sida.

<sup>25</sup> Source: author's analysis, drawing on Sida. 2019. 'Grant portfolio per 31 December 2018', p 5.

those who use the European Union's approach, because the rate at which guarantees are called generally tends to be low.<sup>26</sup>

The best approach to reporting guarantees in ODA in the long-term remains subject to controversy. Some stakeholders argue that the rules need to be broadened, to offer greater up-front ODA recognition for guarantees, in order to incentivise increased use of an important catalytic instrument (OECD, 2015b). Others argue that recent proposals risk incentivising investment in low-risk projects that would have taken place anyway, or even those from which providers make a profit (Eurodad et al, 2017). It is beyond the scope of this research to form a view on this controversy. But what is clear is that the discrepancy between providers' current approaches not only risks invalidating comparisons across the OECD DAC membership. It also risks skewing providers' allocation decisions towards PSIs based on factors other than development impact alone, if they can obtain such large ODA credits simply by setting aside funds for a guarantee that may never be called.

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<sup>26</sup> Source: interviews and prior engagement with different providers at conferences on blended finance. The European Union argues that, in the long-term, it will not receive more generous recognition, since if guarantees are not called, and the assets in the guarantee fund are returned to the EU, this will be recorded as negative ODA. However, experience calls into question whether this is likely to happen: if current EU budget proposals are agreed, when on-going guarantee programmes come to an end, the remaining assets will simply be carried forward into the fund for the next generation of guarantees, and so no negative ODA will occur (author's analysis of European Commission 2018, Article 26, paragraphs 6 and 8).



## 9. Conclusions and recommendations

PSIs, together with other ‘catalytic’ forms of development finance, have become the ‘next big thing’ (European Court of Auditors, in Carter, 2015) in the discourse on development cooperation. And available data suggests that the ODA providers’ actual practice is increasingly echoing this discourse. 13 providers plan to scale up their PSI spending in the coming years, and only one plans to scale it down.

These trends could lead to substantial shifts in overall ODA allocation patterns. Our analysis on recent data from a sample of ODA providers found that:

- Six percent of sector-specific PSI flowed to the social and humanitarian sectors. For ‘conventional’ bilateral ODA, the share was 69 percent.
- The geographic allocation of PSIs varied sharply among providers in our sample. Across all eleven sampled providers, 40 percent of PSI disbursements that had been classified by country flowed to LDCs. However, this result was driven by Norway, which allocated a large volume of PSI spending to LDCs in 2018. If Norway is excluded from the analysis, the share of PSI disbursements flowing to LDCs decreases to 21 percent. For ‘conventional’ ODA disbursements, the figure was 31 percent.
- Two percent of PSI disbursements sought to contribute to gender equality, compared with 40 percent of ‘conventional’ bilateral ODA. Reporting on the inclusion and empowerment of persons with disabilities is not yet widespread, but the limited available data showed that no PSI disbursements were reported as aiming for the inclusion and empowerment of persons with disabilities. This compared with four percent of ‘conventional’ bilateral ODA.

If current trends continue, we estimate (section 6.6) that investment of ODA in PSIs may influence the allocation of:<sup>27</sup>

- Some USD 1,141 million – USD 5,956 million of ODA investment from the social and humanitarian sectors to the productive sectors.
- Some USD 649 million – USD 3,766 million of ODA investment away from interventions with gender equality as an objective.

To put this in context, if the effect on the social and humanitarian sectors was the mid-point of the range that we calculate – USD 3548 million – this would amount to over three percent of total bilateral ODA in 2018, or substantially more than total gross bilateral ODA disbursements for basic education in 2017.

This study seeks to does not seek to prescribe how ODA should be allocated, nor to advocate for PSI sectoral allocation patterns to be aligned to those observed in other ODA spending. But it does argue that the decision to use PSIs, like any other ODA spending decision, should be based on a thorough, transparent and evidence-based option appraisal that considers the balance of a provider's overall portfolio.

Officials who plan, monitor and research ODA spending are not oblivious to the trade-offs involved in using PSIs. But we did not find evidence that the ex -ante process of trading off PSIs against alternative uses had been explicitly documented by any of the providers whom we interviewed. This makes it hard to be confident that decisions on PSI spending are really oriented to achieving maximum impact for every ODA dollar. At the same time, a range of external incentives and pressures – from peers in the international community, from finance ministries, and from domestic companies – threaten to distract attention from purely developmental factors

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<sup>27</sup> The potential implications of PSI spending for allocations to LDCs, and to the inclusion and empowerment of persons with disabilities, are less certain, due to limitations in the inferences that can be drawn from our sample.

in decision making. What is more, serious unresolved issues in the OECD DAC's provisional reporting arrangements for PSIs further complicate informed decision making and scrutiny.

## Recommendations

This study's principal recommendation is that that future decision making on PSI spending should be based on a transparent appraisal of the development impact of PSIs, compared to alternative uses of ODA. This appraisal should take into account providers' pre-existing commitments to global targets and their obligations under international human rights treaties, as well as ODA's unique niche as a resource for ensuring these commitments are met.

To help put this overarching recommendation into practice, we make four more detailed recommendations for different stakeholders who influence the outcome of spending decisions, as follows. We unpack the recommendations' application to Sweden in more detail in Box 3.

**ODA providers** should explicitly weigh up and document the development rationale for using PSIs rather than other instruments, before committing to such spending. To help facilitate informed decisions rooted in detailed evidence, ODA providers should also review the sequence in which spending decisions are made, giving due consideration to the risks of allocating ODA to PSIs before the total ODA budget is known, and the benefits of making PSI allocation decisions after sectoral allocations have already been agreed. And they should invest in further research: more and better evaluation on the impact of existing PSI interventions has an important role to play in this (Winckler Andersen et al, 2019), but so too does more macro level analysis on the potential opportunity costs of PSI spending for other ODA priorities, building on the initial findings presented in this report.

**Provider countries** should refrain from setting limits on fiscal and non-fiscal spending: the optimum balance of grants and loans within a given ODA budget envelope should be based on development impact alone. More broadly, the constraints imposed by non-fiscal

spending targets are a reminder of the urgent need to meet long-standing commitments to provide 0.7 percent of Gross National Income as ODA, on concessional terms that exceed the minimum thresholds set out in the OECD DAC's Recommendation on the Terms and Conditions of Aid (OECD, 1978).

**Multilateral providers** should report all PSI transactions using the PSI flag, to allow a more complete understanding of overall PSI spending patterns.

The **OECD DAC** should:

Not let the provisional reporting arrangements on PSIs become permanent, in view of the many scrutiny barriers and potential perverse incentives that they present.

Pending full review of rules on reporting PSIs within ODA, take immediate steps to improve transparency, including by:

- clarifying how to treat PSIs channelled through publicly-owned financial intermediaries; and hybrid bi- / multilateral channels such as multi-donor trust funds; and
- putting in place the most robust possible checks against abuse of the potential loopholes that we highlight, such as the lack of lock-in to ensure consistent use of the instrumental and institutional approaches year-on-year.
- Monitor how PSIs are affecting ODA spending patterns, including analysis of distributional impacts
- Take forward planned enquiries into the risk that PSIs may be used as in support of domestic companies as a form of disguised export credits.
- Invoke tougher disincentives – such as high profile ‘naming and shaming’ – for ODA providers that do not comply with the Recommendation on the Terms and Conditions of Aid, and for those that use PSIs to channel large shares of ODA through companies in donor

countries, against the spirit of the OED DAC's Recommendation on Untying ODA. (OECD 2019h)

- Review incentives in the peer review guidance to ensure there is no presumption in favour of including PSIs within a provider's portfolio, but rather an incentive to select the best mix of instruments based on a robust appraisal of all available options.

Participants in **global norm-setting forums on development finance**, including the Bretton Woods Institutions, the United Nations Financing for Development Process, and the OECD, should advocate a shift towards an approach to the use of ODA for PSIs – one that places more emphasis on the systematic appraisal of *all* alternative financing options to maximise development impact, including for the poorest people.

### **Box 3: implications of our recommendations for Sweden**

These recommendations offer many opportunities for Sweden. Not only does Sweden have long experience as a bilateral provider of PSIs – it is also a very influential actor in multilateral contexts including the OECD DAC, the European Union, the World Bank, and the United Nations system. This strong multilateral presence gives Sweden the potential to leverage improvements in ODA allocation processes even beyond its own ODA programme. Sweden should lead by example in its own processes for decision making on PSIs, whilst also using its voice in multilateral forums to press for wider progress. For example, Sweden's use of the gender and disability policy markers to report on PSI spending already offers an example of better practice that Sweden should urge other OECD DAC members to learn from.

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## List of abbreviations

DFI	Development Finance Institution
EU	European Union
EUR	Euros
GBP	UK pounds
LDC	Least Developed Country
LIC	Low Income Country
LMIC	Lower Middle Income Country
MIC	Middle Income Country
ODA	Official Development Assistance
(OECD) DAC	Development Assistance Committee (of the Organisation for Economic Cooperation and Development)
PSI	Private Sector Instrument
SEK	Swedish Krona
UMIC	Upper Middle Income Country
USD	US dollars

# Appendix 1: Methodology

## Overview

This report is based on mixed methods research, comprising three main strands.

The first strand was a review of published academic and grey literature<sup>28</sup> on the use of ODA for PSIs. The review covered 55 documents, selected using a keyword search on academic search tools,<sup>29</sup> and then using exclusion criteria<sup>30</sup> to screen out those that were not relevant. We supplemented the structured literature review with additional references drawn from the authors' prior work on the topic, and with suggestions from the EBA's expert reference group.

The second strand was quantitative analysis. The analysis covered data published by the OECD DAC for the period 2012 – 2018. However, since the quality of reported data on PSI until 2017 is variable, and only headline data for 2018 is in the public domain, we complemented this published data with unpublished, more granular, data from a sample of ODA providers. Our sampling approach is set out below. For more details on our quantitative analysis, please see the sub-section below.

The third strand was qualitative analysis. This involved a review of public announcements on future PSI spending, for all 30 DAC members (found through key word searches of donor government

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<sup>28</sup> I.e. Documents published outside of academic peer-reviewed channels – for example, reports by multilateral bodies

<sup>29</sup> Search tools: JSTOR, Google Scholar, Scholar Direct, Scopus. Key words: 'blended finance', 'private sector instrument', 'blended finance' and 'impact', 'blended finance' and 'human rights', 'ODA' and 'privatisation' and 'blended', 'ODA' and 'private sector' and 'blended'. [Note – 'human rights' was used as an umbrella to capture different forms of extreme marginalisation. We also ran further sub-searches within the selected documents, for key words such as 'women' and 'disability'].

<sup>30</sup> Items were deemed non-relevant if they did not contain any substantive content relating to the search term.

websites). It also involved a total of 21 interviews with officials responsible for planning or for reporting on PSI spending in our sampled ODA providers, as well as an interview with ODA statisticians from the DAC secretariat. The interviews took place between May and August 2019. Where material points from the interviews required triangulation, we also reviewed further documents from the sampled providers' websites and where necessary from their unpublished records.

## **Details of our quantitative analysis**

### **Analysis in Section 5**

The source for this analysis was the OECD DAC's Creditor Reporting system database (accessed here: <https://stats.oecd.org/Index.aspx?DataSetCode=CRS1>). We downloaded ODA data for each year of analysis, on a gross disbursements basis, in constant 2017 prices.

For providers reporting under the institutional approach, we used a word-search to identify inflows to their DFIs.

For providers reporting under the instrumental approach, we applied the following filters to identify their PSI equity investment from among their development bank/development finance institution's total ODA spending:

- Filtering for equities (i.e. 'finance type' codes starting in 5-).
- Filtering out transactions channelled through multilateral organisations (channel code 40000). (We did not apply other channel code filters because this would have distorted the time series, given that some codes were not introduced until relatively recently).

## Analysis in Section 6

The main **source** for our quantitative analysis in Section 6 was a bulk download from the DAC's Creditor Reporting System database (gross disbursements, constant 2017 prices). We supplemented this with unpublished data on 2018 spending that some providers had kindly shared.

We applied **filters** to the bulk download to exclude items that were not relevant us. We generally applied similar filters to both the CRS data and the unpublished data that had been shared, though details depended on the exact format of the unpublished files. The key filters were:

- Removing non-ODA spending such as Other Official Flows
- Removing multilateral spending
- For our non-PSI analysis:
  - (i) filtering out PSI spending through our sampled development banks and development finance institutions (however, we did **not** filter out these institutions' non-PSI spending, i.e. **grant** and **public** sector loans) and
  - (ii) removing spending through the private sector (channel code 60000) (PSI spending does not map exactly to channel code 60000, but this approach was designed to strip out any transactions that might have PSI-like elements and hence distort comparison)
- For our PSI analysis: removing grants
- Removing admin spending, debt relief and in-donor refugee costs, to focus our comparison on items directly relating to development and humanitarian activities in countries in the global south

In addition to the filters mentioned above, we used the following additional techniques to **identify PSI spending**:

- For providers reporting under the instrumental approach, we filtered for outflows from their development finance institutions / bilateral development banks. We further filtered by the private sector channel code, 60000 (though we also added in a small number of these, where other details in the database suggested that the underlying substance of the transaction was a PSI).
- For providers reporting under the institutional approach (i.e. Belgium, Canada, Norway, Sweden, UK), we used a word-search to identify inflows to their DFIs. For our analysis of granular data on the sectoral / geographic / demographic breakdown of these DFIs' spending, we cross-referred to records on Other Official Flows.
- For 2018 data, we were also able to identify PSI spending using the "PSI flag" introduced to the reporting system under the new provisional reporting arrangements.
- To identify Sida guarantees, we also filtered by 'leveraging mechanism' (code 6)

We made some corresponding adjustments to our non-PSI spending data to **avoid double counting** – for example, we removed capital contributions made to development finance institutions, where we had already included outflows from these same development finance institutions in our analysis of PSI data.

The analysis sought to use the **most recent available data**. This means that some comparisons combine published 2017 data with unpublished 2018 data released by particular providers. We are not aware of any reason to expect major changes in sectoral/geographic/demographic PSI spending patterns between 2017 and 2018, so consider this is unlikely to have distorted the findings.

In analysing **sectoral allocations**, we used the 'sector name' field on CRS. We categorised sectors as follows:



<b>Our categorisation</b>	<b>DAC sector name code</b>
Health	I.2
Education	I.1
Other social sectors	I.0, I.3 – I.6
Economic infrastructure and services	II
Agriculture, industry, trade	III
Food aid / other commodity assistance	VI.2, VI.3
Emergency readiness / response	VIII
Excluded	All other codes (e.g. debt relief, general budget support) as they do not allow meaningful sector analysis

In analysing **country** allocations, we cross-checked to the United Nations' list of Least Developed Countries (United Nations Department of Economic and Social Affairs, 2019), and to the World Bank's country income classification pages for the year in question (World Bank Group, 2019). A low number of small territories were not included on these lists (e.g. Wallis and Futuna), but since these territories do not receive large quantities of ODA, we do not consider this will have materially affected the results.

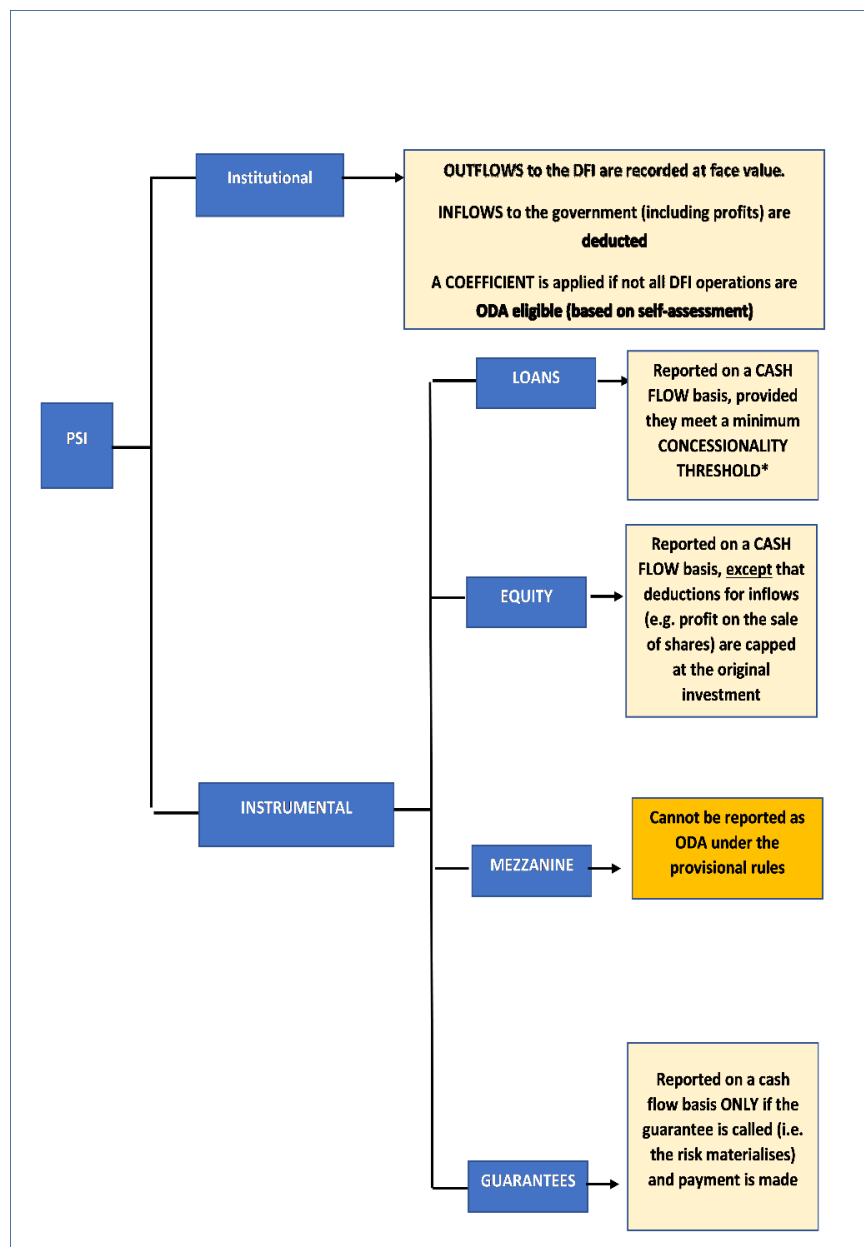
## Appendix 2: The DAC's provisional reporting arrangements for PSIs

Source: OECD, 2019i.

Under the provisional reporting arrangements for PSIs, agreed in December 2018, the basic principle is that bilateral ODA providers report their PSI spending on a cash-flow basis. That is, they record positive ODA when financial outflows occur – for example, making loans or buying shares. They record negative ODA when inflows occur – for example, collecting loan repayments.

The more detailed nuances of this reporting approach are set out in Figure A1 below. As the diagram shows, providers who channel PSIs through bilateral development finance institutions (DFIs) have two reporting options. They may either report on the ‘instrumental basis’ – i.e. reporting ODA when the DFI makes individual investments, such as offering a loan to a private sector enterprise. Alternatively, they may report on the ‘institutional basis’ – i.e. reporting ODA up-front as soon as they transfer capital to their DFI, rather than waiting until the DFI makes investments.

**Figure A1: the provisional reporting arrangements for PSIs**

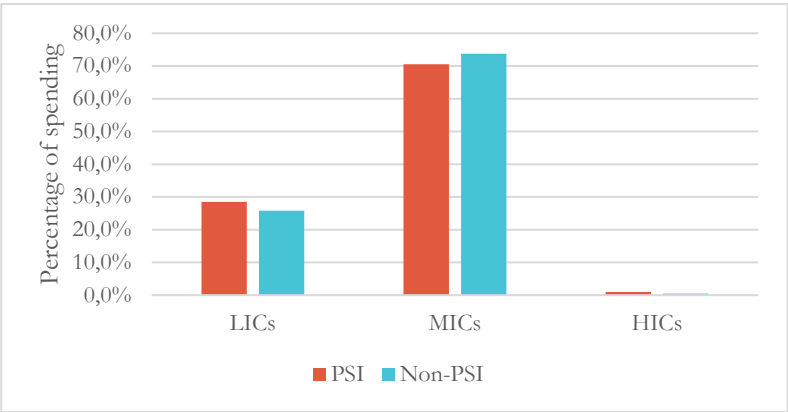


Source: authors' analysis of OECD (2019i). \* The concessionality threshold is a measure of how generous loan terms are. Under the provisional reporting arrangements, PSI loans must meet a 25% concessionality threshold, calculated using a discount rate of 10%.

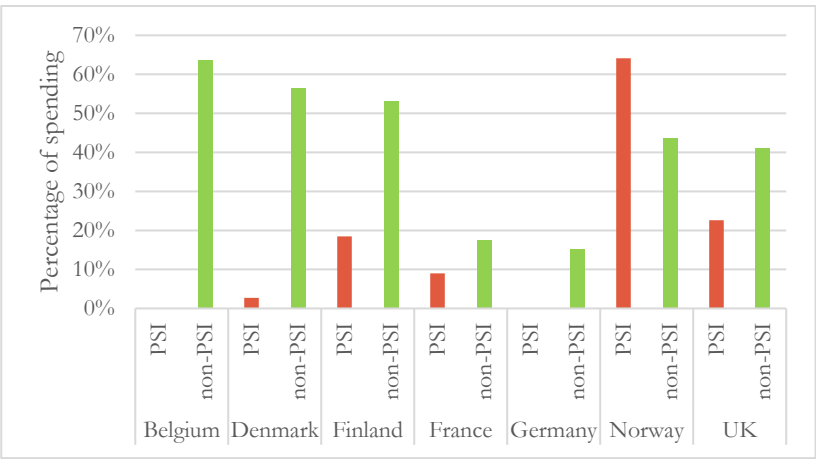
In principle, the reporting arrangements also require that PSIs be clearly flagged in ODA providers' transaction level data (including Other Official Flows data for providers reporting under the institutional approach, to allow the capture of data at a more granular level). The provisional reporting arrangements also require that providers supply brief supplementary information on PSIs' claimed added value. However, it is too early to be certain how well these stipulations will be implemented in practice, since the first year's reporting cycle has not yet been completed.

# Appendix 3: Detailed analysis on PSI spending patterns by Low Income Country status

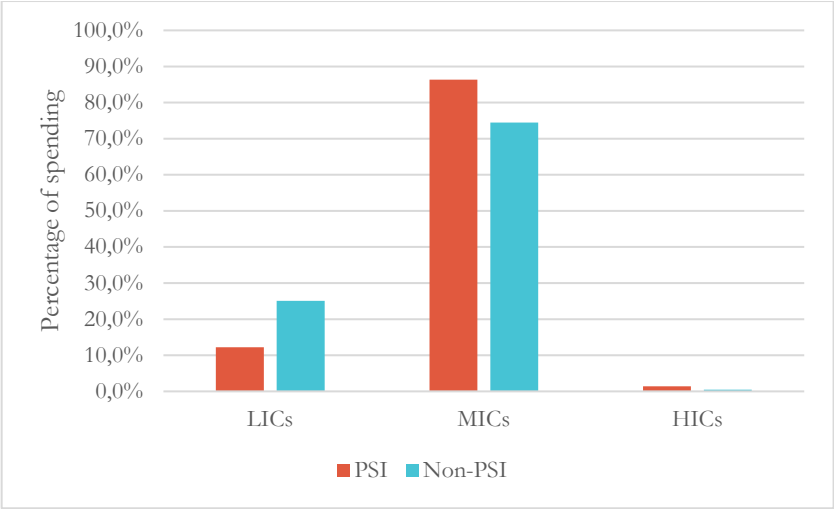
**Figure A2: PSI disbursements classified by LIC status, compared with non-PSI bilateral ODA (all 11 sampled providers)**



**Figure A3: Disbursements to LICs as a share of all disbursements classified: comparison between PSI ODA and non-PSI bilateral ODA**



**Figure A4: PSI disbursements classified by LIC status, compared with non-PSI bilateral ODA (all sampled providers excluding Norway – total 10)**



Source: authors’ analysis of the Creditor Reporting System (for 2017) or of unpublished provider data (for 2018), where shared. All data in Figures A2 and A3 is based on gross disbursements. Both charts exclude spend not allocated to a specific country.

## Appendix 4: List of interviewees

Jean-Jacques Bastien and Gaëlle Jullien, Belgian Ministry of Foreign Affairs

Carmen Beatrice Esser and Merle Kreidbaum, BMZ

Torsten Ewerbeck and Javier Raya-Aguado, European Commission

Tensae Berhanu, Hubert Drolet, Anne Germain, Jeremie Guiet, Jeffrey Heaton, Laird Hindle, Maher Mamhikoff, Drew Smith, and Meghan Watkinson, Global Affairs Canada

Loes van Driel, MJ Eeckhout, Sandra Louiszoon and Mark Sarfo, Netherlands Ministry of Foreign Affairs

Ase Elin Bjerke, Norwegian Ministry of Foreign Affairs, and Einar Ternes, NORAD

Julia Benn and Valérie Gaveau, OECD

Massimo Block, SECO

Sofie Habram, Anzee Hassanali, Kalle Hellman and Erik Korsgren, Sida, and Anna Holmryd and Johanna Teague, Swedish Ministry of Foreign Affairs

Federica Dal Bono and Helen Mary Martin, World Bank Group

Three further interviewees provided very helpful advice but asked to remain anonymous in the report.

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The use of development finance to ‘catalyse’ private finance is a growing trend in development cooperation. This study traces what may happen to ODA allocation to various sectors, countries and groups given donors’ intentions to scale up this kind of support.

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En växande trend i internationellt utvecklingssamarbete är att använda bistånd för att “katalysera” privat finansiering. Denna studie undersöker vad som kan hända med biståndets fördelning till sektorer, länder och grupper, givet att givarländer planerar att öka denna typ av stöd.