



Better representing the donor effort in non-grant instruments (other than loans)

Principles and methods

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26-27 June 2014

Non-grant instruments in ODA

Current system

	Guarantees	Mezzanine finance	Equity
O ...flows provided by Official agencies	✗ (if activated, partially reported)	✓	✓
D ...for the... Development ...of developing countries	✓	✓	✓
A ... in Assistance of countries...& concessional in character	✓ (Claims only)	✗	✓ (Capital losses only)
Reporting status	Partial	Excluded	Partial



Non-grant instruments in ODA

Modernised system

	Guarantees	Mezzanine finance	Equity
O ...flows provided by Official agencies	Account for costs instead of face value of flows?		
D ...for the... Development ...of developing countries	✓	✓	✓
A ... in Assistance of countries...& concessional in character	Define concessional in character to determine: <ul style="list-style-type: none"> • whether the instrument is concessional; and • how concessional it is. 		
Reporting status	Improve reporting incentives and coverage by: <ul style="list-style-type: none"> • accounting for the donor effort, if any, in ODA; • account for flows in TOSD and/or recipient receipts measure. 		



Key questions

0. *Should non-grant instruments be included in ODA provided they involve a donor effort?*
1. If so, what should be measured in ODA? Flows or costs associated with the effort?
2. How can concessional in character be defined to determine whether there is a donor effort justifying an ODA entry (eligibility criteria)?
3. What methods could be applied to quantify the effort involved?
 - a) Do methods and input parameters need to be standardised across the DAC membership; or
 - b) Can there be a certain reliance on donor internal procedures (e.g. provisioning policies)?



Equity: measurement options

1. **Measurement of net cash-flows**, i.e. maintaining current method;
2. **Measurement of net cash-flows limited to initial investment value**, i.e. adaption of current method;
3. **Measurement of grant equivalent or different alternative to quantify a concessional component** embedded in an instrument, i.e. develop a new method;
4. **Measurement of gross cash-flows:**
 - a) For all developmentally motivated equity;
 - b) For selected types of equity investments (e.g. first-loss shares, locked-up equity, primary issuance); or
5. **Others?**



Guarantees: measurement options

1. **Measurement of net cash flows (claims)**, i.e. maintaining current method;
2. **Measurement of net exposure (NE)***, i.e. including in the definition of official flows indirectly provided flows;
3. **Measurement of expected loss (EL)****, i.e. move from an ex-post (claims) to an ex-ante cost and risk measurement/estimation;
4. **Measurement of provisions/economic capital (ECAR)*****, i.e. measurement of donor funds immobilised by the instrument;
5. **Measurement of NPV of either NE, EL or ECAR**, i.e. calculate a grant equivalent; or
6. **Others?**

* Net exposure (NE) = exposure at default (EAD) x loss given default (LGD)

** Expected Loss (EG) = NE x probability of default (PD)

*** Economic Capital (ECAP) = f(EAD, LGD, PD, aspired solvency level)