Technical Note

The Reporting of Official Development Assistance from Development Finance Institutions

Introduction

Official Development Assistance (ODA) is the internationally-agreed measure of aid spend, and DFID reports statistics on how much money has been spent on ODA by the UK government. The ODA statistics include equity investments (shares in businesses) purchased by the UK's Development Finance Institution, CDC. CDC is an important part of DFID's portfolio of interventions to promote private sector development and invests in businesses in Africa and South Asia which would struggle to attract investment otherwise.

There are many different interpretations of how equity investments from a Development Finance Institution (DFI) are recorded as ODA. This is in contrast to most other areas of ODA statistical reporting where the guidelines are clear and international practice is consistent. A previous internal quality review recommended that DFID statisticians consider whether the UK's approach is in line with the international rules and best practice in this area.

Subsequently, DFID conducted an internal review and launched a public consultation on the arrangements for reporting this type of ODA. As a result of the consultation it was agreed that from 2015 flows onwards, DFID will report only the capital flow from the UK government to CDC as ODA but will continue to track outflows from CDC. This is in line with practice with some of the other DAC members (Sweden and Belgium).

The purpose of this technical report is to assess the impact of this reporting change on the UK's recent back series of the last five years and to present how DFID intends to communicate CDC spend in its future National Statistics publications.

Background

1. In June 2013, the statistics team in DFID's Finance and Corporate Performance Department carried out a short review[1] of the quality of DFID's National Statistics. The findings included a recommendation that the team carry out a review to consider whether equity investments made by CDC[2] (formerly known as the Commonwealth Development Corporation), the UK's Development Finance Institution (DFI), fall within the OECD definition of Official Development Assistance (ODA)[3].

2. In December 2014, the statistics team presented the results of the subsequent internal review in a consultation[4] where they also requested feedback on three options for reporting equity investments from CDC in the future:

[1] The short review is available here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/236279/short-quality-review-DFID-National-Statistics.pdf
[2] See Annex B for background information on CDC.
[3] See Glossary in Annex A for more information.
[4] The consultation is available here: https://www.gov.uk/government/consultations/department-for-international-development-statistical-consultation

a. Continue to report the value of equity investments made by CDC as ODA.
b. From 2015 flows onwards, report the value of equity investments as 'Other Official Flows' (OOF) rather than as ODA.
c. From 2015 flows onwards, report only the capital flow from the UK government to CDC as ODA but continue to track outflows from CDC.

As a result of the consultation, option c was adopted.

3. This technical report assesses the impact of this reporting change between 2010 and 2014 and presents how DFID will communicate CDC spend in the future. The report is structured as follows:
   A. Reporting of UK ODA
   B. CDC Past Reporting Arrangements
   C. Impact of Methodological Change in CDC Reporting on Historical Data
   D. Reporting Arrangements in Future National Statistics Publications

   Annex A. Glossary of Key Terms
   Annex B. Summary of CDC Group PLC

A. Reporting of UK ODA

4. ODA is the measure of aid spent on international development in accordance with international standards controlled by the Organisation for Economic Cooperation and Development (OECD)'s Development Assistance Committee (DAC). DFID collects ODA data for reporting to the DAC twice a year (in the spring and autumn) in line with the OECD DAC reporting schedule.

5. The indicator *Official Development Assistance (ODA) as a proportion of Gross National Income (GNI) (ODA:GNI ratio)* is an internationally-recognised indicator used to monitor official aid spend across countries. The ratio (as well as the total ODA figure) is reported within two UK National Statistics publications[5] and is included in the ODA statistics[6] reported to the DAC. In the 2004 Spending Review, the UK government set a target date to increase total UK ODA to 0.7 per cent of GNI by 2013. This target for 2013 has been re-endorsed by successive administrations. The 2010 Spending Review included funding to increase ODA to 0.7 per cent from 2013 and the remainder of the spending review period.

B. CDC Past Reporting Arrangements

6. CDC is the UK's Development Finance Institution (DFI). It is wholly owned by the UK government but governed by an independent board of directors. CDC is an important part of DFID's portfolio of interventions to promote

[5] https://www.gov.uk/government/organisations/department-for-international-development/about/statistics
[6] http://www.oecd.org/dac/stats/analyses.htm

private sector development, and profits from successful CDC investments are re-invested back into businesses.

7. CDC invests through different instruments (through funds, direct equity and loans, mezzanine products and guarantees), and since 2012, the geographic remit of any new investments made has been limited to South Asia and Africa with incentives to invest in countries with more difficult investment climates.

8. Prior to 2015 flows, CDC's equity[7] investments[8] were scored as UK ODA. Where CDC took an equity stake in an enterprise, the purchase of the investment was recorded as positive ODA. When CDC sold the stake, the value of the sale was recorded as negative ODA. This meant that profitable equity investments, where the value of the sale exceeds the value of the initial purchase, resulted (perversely) in an overall negative impact on UK ODA over the lifetime of the investment despite the positive benefit.

9. Table 1 shows the value of positive, negative and net ODA flows from equity investments over the last five years. It can be seen that the net flow of ODA was positive for each year (total expenditure on investments exceeded the value of returns), with the contribution to the total UK ODA figure ranging from zero to three per cent.

Table 1. ODA Flows Reported by CDC, £millions

	2010	**2011**	**2012**	**2013**	**2014**
Gross positive ODA from CDC (purchases=outflow)	425	296	284	326	300
Gross negative ODA from CDC (sales=inflow)	197	205	181	226	258
Net ODA from CDC	**228**	**91**	**103**	**100**	**42**
Total UK Net ODA	**8,529**	**8,629**	**8,802**	**11,407**	**11,700**
CDC Net ODA as a proportion of UK ODA (%)	**3%**	**1%**	**1%**	**1%**	**0%**

C. Impact of Methodological Change in CDC Reporting on Historical Data

10. As discussed in paragraph 5, the ODA:GNI ratio is an internationally-recognised indicator used to monitor official aid spend, and the UK government set a target date to increase total UK ODA to 0.7 per cent of GNI by 2013. Table 2 shows the UK ODA and GNI figures, and the ODA:GNI ratio, before and after the proposed change in CDC reporting methodology. The figures in the top section of the table include CDC's

[7] CDC also provides loans and guarantees, but these are generally not counted as ODA: **Loans:** CDC's debt transactions do not meet the concessionality requirements in the ODA rules and therefore do not count as ODA. **Guarantees**: ODA is only captured when a project fails and the guarantee is called upon, ignoring the development benefits associated with guarantees that are not called.

[8] **Equity securities (also called shares)** are evidence of ownership of a corporation that gives the owner claims on the residual value of the corporation after creditors' claims have been met. Shares and other equity may pay property income in the form of dividends and may be held with the expectation of holding gains. **Investment fund shares** are issued by collective investment undertakings and represent a share in an investment portfolio. Para 31 – OECD DAC Statistical Reporting Directives.

investment outflows and inflows, whereas the figures in the bottom section of the table replace these with capital flows from the UK government to CDC (of which there were none over the last five years).

Table 2. Impact of Methodological Change on UK ODA and ODA:GNI Ratio

	2010	2011	2012	2013	2014
Total UK Net ODA (£millions)[1]	8,529	8,629	8,802	11,407	11,700
Gross National Income (GNI)[2,3] (£millions)	1,497,700	1,554,600	1,570,000	1,619,800	1,675,000
UK ODA as a proportion of GNI (%)	**0.57%**	**0.56%**	**0.56%**	**0.70%**	**0.70%**
Total UK Net ODA calculated using new CDC methodology (£millions)[4]	8,301	8,538	8,699	11,307	11,658
UK ODA minus CDC ODA as a proportion of GNI (%)	**0.55%**	**0.55%**	**0.55%**	**0.70%**	**0.70%**

[1] This figure includes CDC investment outflows and inflows

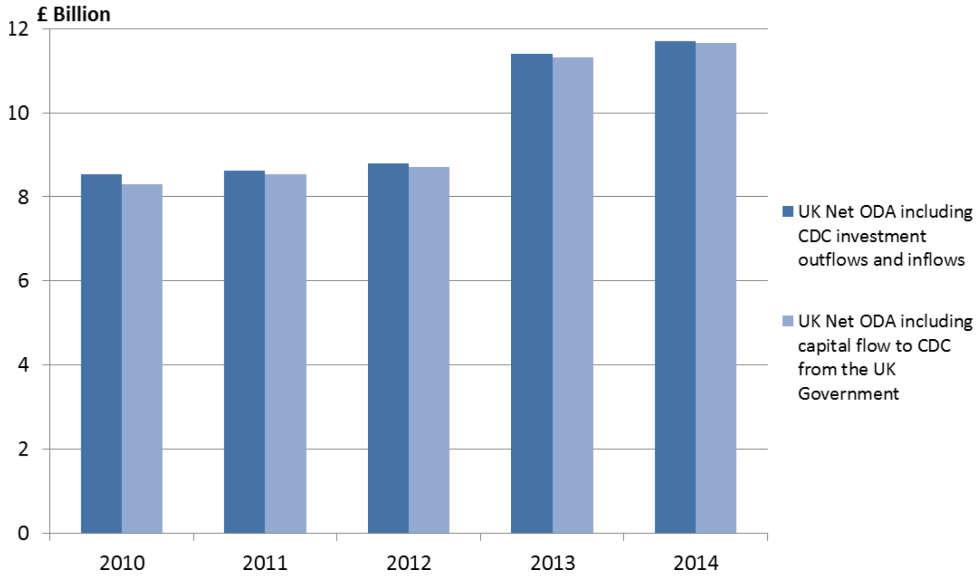
[2] Based on the European System of Accounts (1995) National Accounts methodology, correct at 08.07.15

[3] Figures expressed to the nearest £0.1 billion

[4] This figure includes capital flows from the UK government to CDC and excludes CDC investment outflows and inflows

11. Figure 1 compares the UK Net ODA figures under the old and new CDC reporting methodologies. It can be seen that the net ODA figures are higher when CDC equity investments are included (only because CDC investments have exceeded returns in these years as shown in table 1), compared to when they are replaced with capital flows to CDC from the UK government.

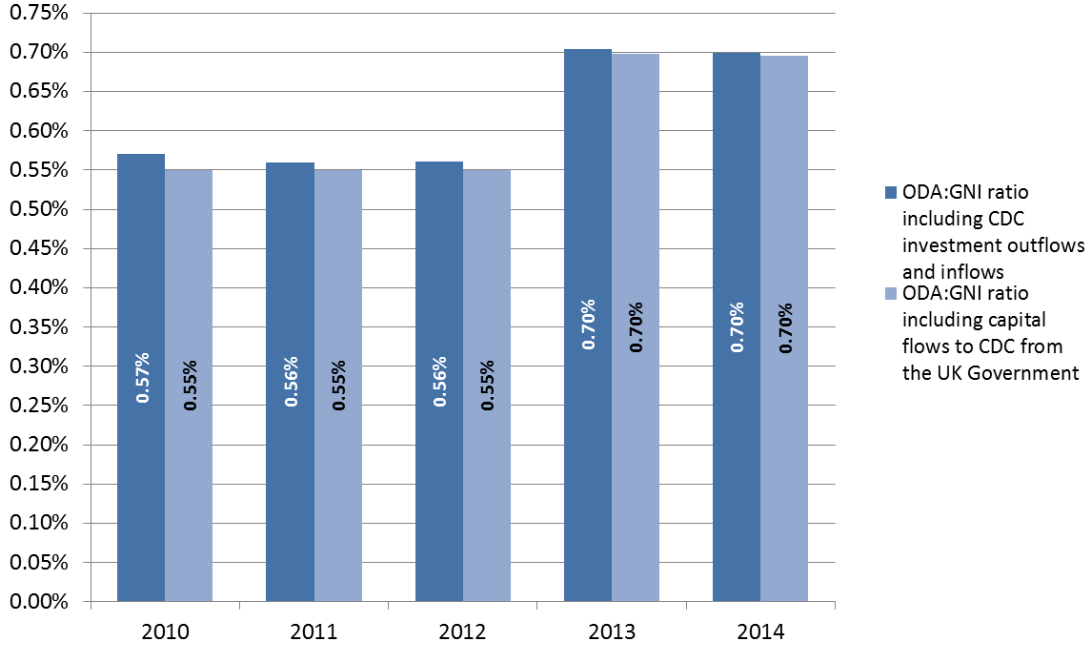
Figure 1. Impact of Methodological Change on UK Net ODA



12. Figure 2 compares the UK ODA:GNI ratios under the old and new CDC reporting methodologies. It can be seen that the ratios are smaller when capital flows to CDC from the UK government are included in the UK ODA figure rather than CDC equity investments, because there were no capital flows in the last five years. Although UK ODA as a proportion of GNI is less than 0.01 percentage points lower in 2013 under the new

methodology, the 0.7 per cent target was still achieved in both 2013 and 2014. Thus the UK government's target to increase total UK ODA to 0.7 per cent of GNI by 2013 was met under the new methodology.

Figure 2. Impact of Methodological Change on ODA:GNI Ratio



D. Reporting Arrangements in Future National Statistics Publications

13. Following a consultation in 2014/15 which set out the options for reporting CDC's contribution in ODA, the option which reports the capital flow from the UK government to CDC - captured at the point when the capital is provided to CDC - was preferred. This treatment will apply from 2015 ODA flows onwards, and is consistent with the way Belgium and Sweden report ODA of their Development Finance Institutions (DFI).

14. The consultation also acknowledged that the reporting practice for scoring bilateral DFI ODA differed amongst DAC members, and hence there is currently reduced international comparability in DFI ODA statistics. DFID will continue to work with members of the OECD DAC to clarify the ODA directives which cover this reporting area as part of the ongoing work on ODA modernisation.

15. Although the value of equity investments made by CDC will no longer be included as part of the UK's ODA statistics, we will continue to track CDC inflows and outflows to fulfil any other reporting requirements by the OECD DAC and other users.

16. The methodological change in reporting CDC's contribution to the UK's total ODA figure will commence in 2015. The historical ODA figures prior to 2015 will not be revised because it has been shown to have minimal effect on the overall ODA aggregate.

Annex A. Glossary of Key Terms

Concessional
A loan, the terms of which are more favourable to the borrower than those currently attached to commercial market terms is described as concessional (or a soft loan) and the degree of concessionality is expressed as its grant element. For more detail on how these are calculated, please see the OECD DAC Aid Statistics website.

Development Assistance Committee (DAC)
The Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD) is a forum for consultation among 28 donor countries, together with the European Commission, on how to increase the level and effectiveness of aid flows to all aid recipient countries. The member countries are Australia, Austria, Belgium, Canada, Czech Republic, Denmark, European Union, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, The Netherlands, New Zealand, Norway, Portugal, Poland, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, UK and USA.
The DAC sets the definitions and criteria for aid statistics internationally. Statistical Directives exist to encourage comparability of reporting of resource flows by DAC members. The countries receiving aid are set out in the DAC List of Recipients of Official Development Assistance (ODA).

Gross National Income (GNI) - formerly Gross National Product (GNP)
GNI comprises the total value of goods and services produced within a country (i.e. its Gross Domestic Product or GDP), together with income received from other countries (notably interest and dividends), less similar payments made to other countries.

Official and Private Flows
The flow of resources to aid recipient countries is a term used in DAC reporting and corresponds broadly to the following transactions with recipient countries and multilateral institutions (for the benefit of recipient countries):

- Grants and long term capital transactions effected by governments or the official sector of DAC countries;
- Private flows which are long term (over one year) capital transactions by UK residents (as defined for balance of payment purposes) with aid recipient countries, or through multilateral agencies for the benefit of such countries. They include all forms of investment, including bank lending and export credits where the original maturity exceeds one year. Private flows are reported to DAC separately for direct investment, export credits and bank lending.
- Grants by private voluntary agencies (often referred to as "private grants").

It excludes:

- **Military equipment or services**: grants, official loans, or credits (guaranteed or not) for the supply or financing of military equipment or services. However from 1993 onwards forgiveness of debt generated by military lending is recorded as OOF.

- **Transfers to private individuals**: transfer payments to private individuals are not included unless they are part of technical co-operation or relief programmes.
- **Transfers by private individuals**: private payments are excluded except for grants by private voluntary organisations for development assistance and welfare purposes (see third bullet above).

Official Development Assistance (ODA)

Official development assistance is defined as those flows to developing countries and multilateral institutions provided by official agencies or by their executive agencies, each transaction of which meets the following tests:

- It is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
- It is concessional in character and conveys a grant element of at least 25 per cent.

Official development assistance is shown both gross and net of loan repayments. From 2005 only aid to countries on the DAC List of Recipients of Official Development Assistance is eligible to be recorded as ODA.

Other Official Flows (OOF)

Other Official Flows are defined as flows to developing countries by the official sector which do not satisfy both criteria necessary for ODA (i.e. can be either non-concessional and convey a grant element of less than 25 per cent or non-developmental purposes or both).

Annex B. Summary of CDC Group PLC (formerly Commonwealth Development Corporation)

CDC is the world's first Development Finance Institution and was set up in 1948. It is fully owned by the UK government. CDC's business model has changed considerably over time. In the period 2004-2012, CDC operated exclusively as a fund of funds, investing in private equity funds across a range of emerging markets including South East Asia and Latin America. Following a review in 2010-11, DFID and CDC agreed a fundamental change in CDC's strategy and business model.

CDC's mission now, set out in its 2012 Investment Policy[9] is to "support the building of businesses throughout Africa and South Asia, to create jobs and make a lasting difference to people's lives in some of the world's poorest places". CDC's objectives are to:

- Invest in businesses and activities, especially when private investors are reluctant to do so, so as to contribute to sustainable development and economic growth that directly or indirectly benefits the poor, and in particular to create lasting employment opportunities:
- Demonstrate that profitable, commercially sustainable and responsible investments can be made and/or developed over time in these environments and, where possible, mobilise both direct and indirect private investment in these countries, states or territories.

CDC executes its mission by making investments in businesses that have a strong likelihood of creating good quality, permanent employment opportunities. CDC seeks to make such investments in countries (or areas) that are particularly difficult to invest in. In addition to its capital, CDC offers to add value to the businesses it invests in by assisting in management, seeking to improve a business's environmental systems, improving its climate footprint and similar developmental improvements.

[9] http://www.cdcgroup.com/Documents/Transparency%20and%20reporting/CDC%20Investment%20Policy%202012_16.pdf