Emerging TOSSD Reporting Instructions: measuring mobilisation in TOSSD

TOSSD Task Force Issues Paper[1] *- Agenda item 3.c*

5-8 November 2018

1. At its third meeting in January 2018, the Task Force was invited to reflect on the general principles for measuring amounts mobilised from the private sector by official development finance interventions as well as the relevance, for the TOSSD framework, of the methods developed by the OECD and the multilateral development banks (MDBs) respectively.[2] This note presents, for discussion at the sixth Task Force meeting, possible definitions and general reporting guidance in this area. Section 1 addresses the scope of the measure and the key definitions of "mobilised" and "private" resources. Section 2 invites reflection on the point of measurement of mobilisation in TOSSD pillar I (cross-border resource flows) and suggests defining the boundaries of the measure with the help of a list of leveraging instruments. Finally, section 3 proposes draft text for the emerging Reporting Instructions on the method for calculating and reporting on the amounts mobilised while avoiding double counting.

Discussion point 1: scope of the measure

Definition of "mobilisation"

2. To measure resources mobilised in an internationally comparable manner, it is important to ensure a common understanding of "mobilisation" and how this term differs from "catalysation", a broader concept which is difficult to measure statistically.

i. **"Mobilisation"** (or leveraging) refers to the ways in which specific mechanisms stimulate the allocation of additional financial resources to particular objectives; it implies a causal link between finance made available for a specific project and the leveraging instrument used.

ii. **"Catalysation"** refers to actions aimed at stimulating positive change. The result of such actions – the catalytic effect – may be financial (funds mobilised) or non-financial (transfer of knowledge, sharing of new practices, introduction of a policy, employment creation, business climate improvement, etc.).

3. Based on these definitions, and noting that the CSOs have expressed particular concerns over the inclusion of mobilised private finance in TOSSD, the measure of mobilisation should be limited to cases where a clear causal link between the private finance and the official intervention can be established. The catalytic (or more indirect) impact of official interventions is out of scope.

---

[1] Jointly drafted by Cécile Sangare (cecile.sangare@oecd.org) and Julia Benn (Julia.Benn@oecd.org).

[2] See for reference the issues paper circulated in January available here.

Definition of "private" finance

4. Measuring "private finance mobilised" also requires a clear delineation between "official" and "private" finance. As for mobilisation, there is no common understanding of what "private finance" actually covers and different definitions are being used among the different policy communities and actors working on mobilisation, and blended finance more generally. Official statistics (e.g. IMF, OECD) define private transactions based on the shareholding structure of, and voting power in, the entities extending the finance. In other fora (e.g. the MDB community), private finance is rather understood as investments made with a commercial, for-profit objective. In this case, private finance can be referred to as "commercial finance" and includes resources from publicly-owned companies. The underlying rationale is that publicly-owned enterprises are often autonomous from the government and operate with the same profit-making logic as private companies. The delineation is thus based on what sets the finance in motion (i.e. "what drives the money") rather than on the legal ownership (or voting power) of an entity.

5. In the TOSSD context, one could argue that measuring mobilisation of "commercial finance" rather than strictly "private finance" would increase the relevance of the data for tracking the resources for the SDGs, in particular, to measure blended finance[3] for sustainable development. TOSSD could thus be a tool to monitor the recently agreed "Tri Hita Karana Roadmap for Blended Finance" which aims to anchor blended finance in the SDGs and crowd in commercial finance that is currently not deployed to support development outcomes[4]. Expanding the scope of the measure to "commercial finance mobilised" would also contribute to the ongoing efforts for harmonising the OECD and MDB approaches for measuring mobilisation.

6. However, as shown in figures 1 and 2 below, measuring resources mobilised from commercial sources may, in the TOSSD framework, lead to overlaps and double counting at the total flow level. Indeed, the current draft TOSSD Reporting Instructions [see paragraph 13.a.ii)] already include in the scope of data collection activities undertaken by "state-owned companies and enterprises under government control". To eliminate the overlap, this paragraph would need to be removed or adjusted to clarify the treatment of amounts mobilised from publicly-owned companies.

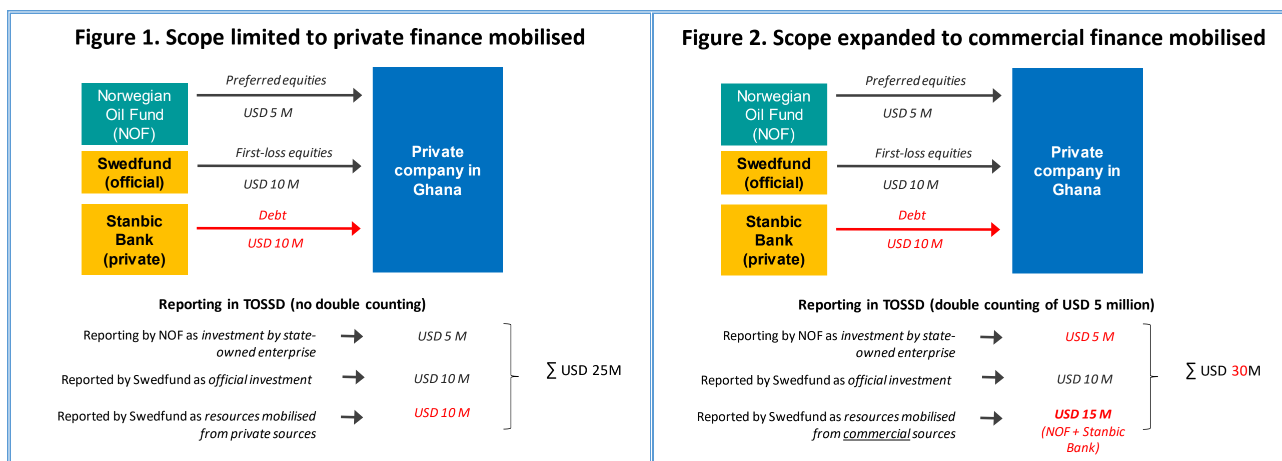


Figure 1. Scope limited to private finance mobilised | **Figure 2. Scope expanded to commercial finance mobilised**

Note: In Figure 2, double counting would occur because contribution by NOF would be reported both by NOF (as an official flow) and by Swedfund (as commercial finance mobilised).

[3] Blended finance denotes the strategic use of development finance for the mobilisation of additional finance (commercial finance) towards sustainable development in developing countries.

[4] The Roadmap was released in October 2018 by Indonesian Authorities, at the Annual Meetings of the World Bank in Bali, in partnership with the OECD, development finance institutions and private sector entities.

7. The two options to consider are therefore:

- **Option 1: expand the scope of the measure of mobilisation to "commercial finance",** which also includes resources from public profit-making corporations. However, to avoid double counting of these resources, they would need to be excluded from any reporting by these public corporations as official entities. Paragraph 13.a.ii) of the emerging Reporting Instructions would need to be edited accordingly (see shaded text below):

  TOSSD aims to capture the entirety of instruments and modalities of development co-operation provided by, or supported by, the official sector, including mechanisms that mobilise resources from the private sector, for sustainable development. Therefore, in the context of TOSSD, "officially-supported resources" are defined as:

  a) resources provided by:

  i) official agencies, including state and local governments, or by their executive agencies, and

  ii) public corporations. [5]

  b) commercial resources mobilised by official interventions, where a direct causal link between the official intervention and the commercial resources can be demonstrated.

- **Option 2: limit the scope of the measure of mobilisation to purely "private finance"** as defined by the IMF and the OECD, in which case the TOSSD definition of "officially-supported" resource flows in paragraph 13 would remain unchanged.

8. The text to be inserted in the placeholder in section 2.3.2 of the emerging TOSSD Reporting Instructions, could then read as follows:

Mobilisation (or leveraging) refers to the ways in which specific mechanisms stimulate the allocation of additional financial resources to particular objectives; it implies a causal link between finance made available for a specific project and the leveraging instrument used.

Option 1: *TOSSD measures the resources mobilised by official development finance interventions from commercial sources, where a causal link between the provision of the commercial finance and the official intervention can be established. Commercial sources include the private sector and any public profit-making corporations.*

Option 2: *TOSSD measures the resources mobilised by official development finance interventions from private sources, where a causal link between the provision of the private finance and the official intervention can be established. Transactions are classified as official or private according to who owns or controls the financing entity (see paragraph 13). Any resources mobilised from public entities should be excluded from the mobilisation measure.*

[5] *Public corporations should exclude from their reporting any resources they make available under guarantees or other leveraging instruments (see list in paragraph xx of the Reporting Instructions) as these resources will be reported by official government entities.*

Issues for discussion

- **Which option do Task Force members prefer for defining the scope of the measure (commercial or private resources mobilised)?**
- **Do Task Force members have comments on the proposed text for the Reporting Instructions?**

Discussion point 2: project boundaries and point of measurement

Project boundaries

9. Defining project boundaries is also critical to avoid double counting of resources mobilised, especially in the case of large projects (e.g. in the infrastructure sector) that involve different financial instruments and multiple investors from both the official and private sectors. For example, the boundaries of a highway project might be considered to be limited to the actual construction of the highway, or be broadened to include other related investments, such as the construction of toll gateways, gas stations and other services along the road. Depending on where the project boundary is set, the number of official actors as well the amount of private investment mobilised for the project could vary significantly. The broader the boundaries, the more difficult it will be to establish the causal links between public and private investment.

10. In order to facilitate the identification of project boundaries when reporting on mobilisation, it is proposed to include a list of leveraging mechanisms in the TOSSD Reporting Instructions where interactions between the different co-investors and sequences of investments in a project are clearly identifiable. The text to include in the placeholder in section 2.3.2 could then read as follows (see Annex for more detail on each of the instruments):

> *Data on resources mobilised from the [commercial OR private] sector are collected for the following leveraging instruments/mechanisms:*
>
> *i. Guarantees/insurance;*
> *ii. Syndicated loans;*
> *iii. Shares in collective investment vehicles (CIVs);*
> *iv. Credit lines;*
> *v. Direct investment in companies;*
> *vi. Grants and loans in simple co-financing arrangements;*
> *vii. Project finance schemes.*

Issues for discussion

Do Task Force members have any comments on or additions to the list of instruments/mechanisms for which the mobilisation effect will be measured in TOSSD?

Point of measurement

11. In the TOSSD system, it is important that the reporting, including on the resources mobilised, be the closest possible to the ultimate transaction with the recipient country. However, mobilisation may occur at different stages of project implementation depending on the instrument used, thus affecting the availability of relevant information to the provider at the point of transferring the funds.

12. In cases where project-type interventions are undertaken directly with recipient countries (e.g. project finance, credit lines to local financial institutions, loan/equity guarantee for a specific project), i.e. with no intermediation, providers know the ultimate recipient country at the time of the transfer of funds. However, there are other cases where the information available on the final recipient may be rather limited, particularly when funds are mobilised through CIVs (funds, blended finance facilities), companies or Special Purpose Vehicles (SPV). Consider for example the case of CDC Group acquisition of stakes in Healthcare Global Africa, a joint venture for providing affordable and accessible cancer treatment in African countries. CDC is mobilising private funds through the joint venture; however, although CDC has transferred its funds to the joint venture, information on the ultimate beneficiary countries is not available at the time of the transfer; only the beneficiary region – i.e. Africa – is known.

13. To follow the logic of measuring in TOSSD the cross-border flows to developing countries as closely as possible, the point of measurement for mobilisation should ideally be at the level of the transactions with the recipient countries. As illustrated in the CDC example above, this is not always possible for the provider. As regards the amounts mobilised through contributions to large official CIVs, funds and facilities, it will be important to seek information directly from these vehicles.

14. In light of the above, the TOSSD Reporting Instructions could clarify the *point of measurement* as follows:

> *The point of measurement of resources mobilised is at the level of the transaction with the recipient country. In the case of funds or facilities, data on resources mobilised are sought from the facilities so as to capture the cross-border transaction with the recipient country.*

Discussion point 3: Who reports what? How to avoid double counting in TOSSD totals?

15. One of the main challenges in the reporting on resources mobilised from the private sector in an international statistical system is possible double counting when more than one official provider is involved in a co-financing arrangement. As mentioned in the introduction of this note, the OECD and the MDBs have already developed methods to measure mobilisation. These methods mainly consist of calculating each provider's share of the private finance mobilised in a specific project or investment with a view to demonstrating the provider's contribution. Although the TOSSD pillar I does not necessitate attribution of finance mobilised to individual providers, the Task Force still considered it an efficient means to avoid double counting at a total flow level.

16. In January, Task Force members generally indicated that the OECD approach could be suitable for TOSSD reporting purposes as it takes into account the role of all official actors – including at a national level in developing countries – according to their respective roles and positions (e.g. risk taken). In the meantime, the OECD and the MDBs have engaged in a comparison exercise to get a better understanding of where the differences stand and explore the feasibility of harmonising the two approaches. Therefore,

it is expected that a common approach will emerge for international reporting purposes and that TOSSD could build on it.

17. Pending a common approach, it will be essential that reporting on mobilisation in TOSSD be done at the activity/project level and be transparent about the methodology used. In this context, a unique identifier for projects could be particularly useful to facilitate data triangulation and remove any potential double counting. The question that arises is how to implement this in practice.

18. In concrete terms, data on amounts mobilised are collected through fields [*X]* to [*Y]* of the TOSSD reporting format.

19. Additional text for TOSSD Reporting Instructions in section 2.3.2 could read:

Information collected on resources mobilised includes the leveraging instrument used, the amounts mobilised, the origin of the funds mobilised as well as the number and names of other official actors involved in the projects. Reporting on mobilisation is done activity by activity. This is essential for transparency and quality assurance.

In order to avoid double counting of resources mobilised in TOSSD totals, official actors involved in a project should only report their respective share of the [commercial] [private] finance mobilised, using one of the two methodologies in Table 1. Data providers should use the same methodology across their reporting and inform the Secretariat of the methodology used.

Issues for discussion

- **How could a unique project identifier be implemented at the operational level?**
- **Do Task Force members have any comments on the proposed additional text for the Reporting Instructions?**

Table1. Methods to report on resources mobilised in TOSSD

Leveraging instrument	OECD Methodology	MDB Methodology[6]
Guarantee	100% of the face value of the transaction being guaranteed.	For commercial risk guarantee, the difference between the face value of the guaranteed transaction and the guarantor's exposure value in case of default is reported as mobilised. For non-commercial risk guarantee, 100% of the face value of the transaction guaranteed is reported as mobilised.
Syndicated loans	Arranger reports 50% of syndicated private finance. Official lenders in the syndication report the remaining 50%, volume pro-rata. In the case of private arrangers, the funds mobilised are reported by official lenders pro-rata.	All private finance in the syndication is reported by the arranger. *[In the case of private arrangers, unclear how this should be reported in the MDB approach].*
Shares in collective investment vehicles (CIVs) Direct investment in companies (DIC) Project finance special purpose vehicles (SPVs)	50% of the private investment is reported by official actors in the riskiest investment tranche of the vehicle. The remaining 50% is reported by all official actors in vehicle, volume pro-rata. Private finance mobilised in a CIV, company or SPV which is also part of a syndication or covered by a guarantee scheme should not be included in the calculation as it is already captured by the methodologies above. *NB: The OECD methodologies for shares in CIVs, DIC and project finance SPV are very similar. They have been merged and simplified for TOSSD purposes.*	Following guidance on indirect mobilisation*, all private finance mobilised through CIVs is reported by investing MDBs, volume pro-rata, irrespective of the risk taken. *[* Regarding shares in collective investment vehicles and investments in companies, publicly available guidance only relates private indirect mobilisation. Guidance is not provided on the basis of individual leveraging mechanisms.]*
Credit lines	The official provider of the credit line reports the additional funds invested by the recipient of the credit line (usually a local finance institution) and, if requested by the credit line, co-investments, on a revolving basis if applicable, by end-borrowers (MSMEs).	Credit line providers report the funds added by credit line users (local finance institutions). Funds invested by end-borrowers are not considered mobilised.
Grants & loans in simple co-financing arrangements	Providers report the private co-financing, pro-rata to their financial share (provided, as for any other leveraging instrument, that a causal link can be demonstrated - e.g. in the project documentation, the financial agreement).	Following guidance on indirect mobilisation, providers report the private co-financing, pro-rata to their financial share.

[6] The description of the MDB methodologies in the table is based on information in the *Joint MDB reporting on private investment mobilization: methodology reference guide* available at http://documents.worldbank.org/curated/en/495061492543870701/pdf/114403-REVISED-June25-DocumentsPrivInvestMob-Draft-Ref-Guide-Master-June2018-v4.pdf.

ANNEX

Guarantees

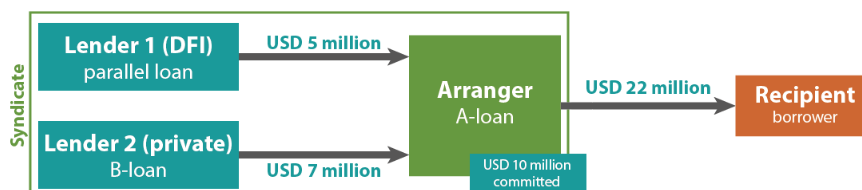
Guarantees refer to legally binding agreements under which the guarantor agrees to pay part or the entire amount due on a loan, equity or other instrument in the event of non-payment by the obligor, loss of value in case of investment, expropriation or other. The term guarantee refers to both guarantee and insurance scheme.

Figure: Example of a typical guarantee scheme

Syndicated loans

Syndicated loans are defined as loans provided by a group of lenders (called a syndicate) who work together to provide funds for a single borrower. The main objective is to spread the risk of a borrower default across multiple lenders, and thereby encourage private participation. A syndicated loan arranged by an official institution may include financing from the market through the so-called "A/B loan" structure. The official institution often retains a portion of the loan for its own account (A Loan), and sells participations in the remaining portion to other participants (B Loan). The borrower signs a single loan agreement with the lender. Official arrangers may also seek to syndicate "parallel loans" from other official institutions and participants that are not eligible participants for B-loans. In these cases, the official arranger identifies potential participants, structures the deals, and negotiates with the borrower in coordination with all parallel lenders.

Figure: Example of a typical syndicated loan



Shares in collective investment vehicles (CIVs)

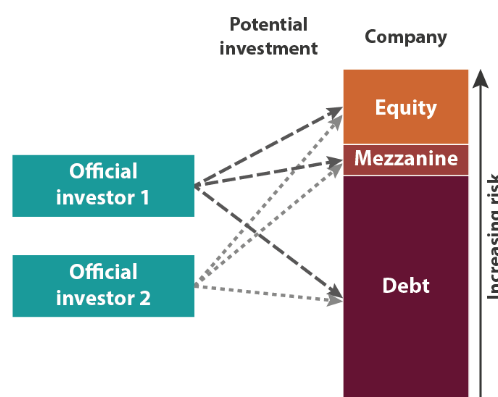
Shares in collective investment vehicles (CIVs) are those invested in entities that allow investors to pool their money and jointly invest in a portfolio of companies. A CIV can either have a flat structure – in which investment by all participants has the same profile with respect to risks, profits and losses – or have its capital divided in tranches with different risk and return profiles, e.g. by different order of repayment entitlements (seniority), different maturities (locked-up capital versus redeemable shares) or other

structuring criteria. Moreover, CIVs can be close- or open-ended. Close-ended CIVs have a limited period of time during which new investments in the CIV may be made (fundraising period), while open-ended CIVs can issue and redeem shares at any time.

Direct investment in companies

Direct investment in companies refers to on-balance sheet investments in corporate entities which are conducted without any intermediary (e.g. a collective investment vehicle) and which typically consist of or can combine the following instruments/mechanisms: equity, mezzanine finance and senior loans. Official investments in companies constitute a key leveraging instrument for private sector development (business growth, economic and social impact, etc.), in particular in countries where private investors are generally reluctant to invest given the perceived risks.

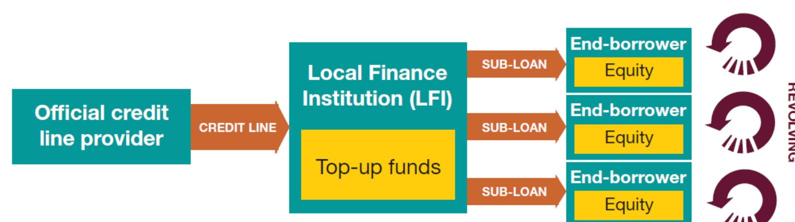
Figure: Example of a direct investment in companies



Credit lines

A credit line refers to a standing credit amount which can be drawn upon at any time, up to a specific amount and within a given period of time. Borrowers (usually local finance institutions) decide how much of the agreed funding they wish to draw down and interest is paid only on the amount which is actually borrowed and not on the amount made available. The maturity of the official credit line is usually longer than that of the individual sub-loans extended by the LFI to its clients, allowing the LFIs to on-lend to local end-borrowers (companies, project developers, etc.) on a revolving basis during the lifetime of a credit line.

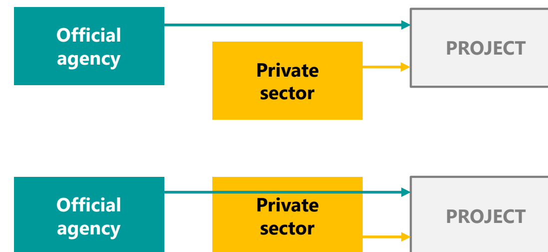
Figure: Example of a typical credit line



Grants and loans in simple co-financing arrangements

Simple co-financing arrangements refer to various business partnerships, B2B programmes, business surveys, matching programmes and similar, but also result-based approaches.

Figure: Example of a co-financing arrangement



Project finance

Project finance refers to non-recourse or limited recourse financing of projects via special purpose vehicles (SPVs). Typical project finance instruments include equity instruments, senior debt, as well as credit enhancements such as guarantees. It follows that project finance usually involves multiple actors including at least private and/or official project sponsors/developers investing the equity, and debt providers such as development banks, development finance institutions, or commercial banks. Senior debt enjoys priority in terms of repayment over all other forms of finance (i.e. repayment risks for senior lenders are lower than for equity investors).