TOSSD reporting instructions: comparative analysis between the MDB and OECD approaches for measuring private finance mobilised

TOSSD Task Force Issues Paper[1] - Agenda item 8.b

24-25 January 2018

1. In December the Task Force discussed general principles for measuring the resources mobilised from the private sector by official interventions in the TOSSD framework. Members expressed their interest in better understanding how double-counting at the international level could be avoided in practice. Some Task Force members suggested looking at OECD methods and exploring ways to reconcile the different approaches used by different institutions (MDBs, OECD). The Secretariat explained that this also implies looking at attribution methods, which are necessary to avoid double-counting.

2. This note aims to provide additional information on the differences between the OECD and the MDB approaches for measuring private finance mobilised and to highlight concerns with regard to the coherence of these approaches with TOSSD definitions. The objective of the Task Force discussion is to identify how to best move forward in this regard.

Level of granularity in data reporting

3. In December, the Task Force agreed that TOSSD activities will be reportable at the activity level. This will need to also apply to the reporting on resources mobilised from the private sector, as mobilisation occurs for individual projects through a variety of leveraging instruments. Information on cross-border resource flows to TOSSD recipient countries will be accurate only if data on resources mobilised can be broken down by recipient. This is not the case in data currently published by the MDBs.

4. Activity-level reporting is necessary also for quality and consistency checks (in particular to avoid double-counting). Given that the MDB methodology for measuring mobilisation is not defined at the level of activities or instruments, it is unclear the extent to which they could be applied to activity-level reporting. (The optimal level of granularity in presentations of TOSSD data on resources mobilised remains to be clarified.)

Definition of "direct mobilisation"

5. The OECD approach for measuring direct mobilisation requires that there are demonstrated causal links between official and private investments (contractual agreements, financial packages, etc.). The MDBs assess causality according to a "fee-based" criterion. This is, on one hand, quite restrictive as it only attributes resources mobilised to the institution that made available the instrument against a fee (e.g. the arranger in a syndicated loan) – and thus does not take into account the role of other investors (e.g. parallel lenders in the syndication). On the other hand, the MDB approach refers to "other validated evidence of active and direct involvement" which is a very broad concept. It is unclear – using this definition – how risks of double-counting at international level would be addressed.

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Definition of private finance

6. In measuring private resources mobilised, the MDB approach defines a private entity as a "legal entity that is: (a) carrying out or established for business purposes and (b) financially and managerially autonomous from national or local government. Some public entities that are organized with financial and managerial autonomy are counted as private entities. Other examples include registered commercial banks, insurance companies, sovereign wealth funds and other institutional investors investing primarily on a commercial basis".

7. Given that some public entities can be counted as private, this definition is broader than the one used in the IMF Balance of Payments Manual or in the OECD-DAC statistics on development finance[2]. In the TOSSD framework, the proposed definition of "officially-supported resources" would classify all resources from sovereign wealth funds as official, while the MDBs would count the resources they mobilised from these funds as private finance mobilised.

Attribution principles

8. Measuring mobilisation at the international level, while avoiding double-counting, implies looking at attribution methods for reporting purposes. The OECD approach attributes private mobilisation to all public institutions in a transaction – including from recipient countries – according to their role and investment position (i.e. first-loss vs. senior investment tranche). The MDB approach only attributes resources mobilised amongst MDBs and therefore does not take into account the role played by bilateral providers [including their development finance institutions (DFIs)].

9. Discussions during different consultations/workshops organised by the OECD on measuring mobilisation recommended that any attribution method should take into account the different roles and positions of all official actors. This includes, for example, the role of parallel lenders in syndications, usually arranged by MDBs, but also the non-monetary role (e.g. due diligence, standards) that small DFIs could play in attracting private investors. Importantly, methodologies also need to separately identify the role of developing country domestic finance.

10. Annex 1 presents a case comparison on the differences between the OECD-DAC and MDB approaches for three specific instruments. Annex 2 highlights, using examples, the complexities that need to be taken into account when measuring mobilisation and how the OECD-DAC methodologies dealt with them so far.

[2] The IMF and the OECD-DAC reporting directives rather define public/official and private transactions according to an entity's ownership structure. Public/official transactions are those undertaken by central, state or local government agencies at their own risk and responsibility, regardless of whether these agencies have raised the funds through taxation or through borrowing from the private sector. This includes transactions by public corporations i.e. corporations over which the government secures control by owning more than half of the voting equity securities or otherwise controlling more than half of the equity holders' voting power; or through special legislation empowering the government to determine corporate policy or to appoint directors. Other entities are then considered private.

Issues for discussion

- *Do Task Force members see scope for adjusting the OECD instrument-specific methodologies with a view to better accommodate the MDB approach (e.g. syndicated loans, see Annex 1 and example 2 of Annex 2)?*
- *Whom to consult within the MDB community to explore the feasibility of adapting their data on resources mobilised from the private sector to the TOSSD framework to:*
  - *exclude any resources that would not comply with the TOSSD definition of private transactions (e.g. bilateral development finance institutions and national development banks)?*
  - *to accurately capture the cross-border flows to TOSSD recipient countries?*

ANNEX 1. CASE COMPARISON BETWEEN OECD AND JOINT-MDB METHODOLOGIES FOR MEASURING MOBILISATION

CASE COMPARISON BETWEEN OECD AND JOINT MDB METHODOLOGIES

DEFINITIONS MEASUREMENT ATTRIBUTION COMPARISON

Instrument	Example	OECD Approach	MDB Approach
Guarantee	An MDB guarantees 70% of a loan provided by a private bank, who is the sole lender to a project alongside the private sponsor	The full amount of the private loan is attributed as mobilized private investment	30% of the guaranteed private loan is reported as **PDM** (the rest is added to the MDB's Commitments) 100% of the private sponsor's investment is attributed as **PIM**
Syndicated Loan	An MDB leads a syndicate that includes one private lender and one public lender; the borrower is private	50% of the value of the private lender's investment is attributed to the MDB The other 50% is shared proportionally (by commitment amount) between the MDB and the public lender	100% of the private loan is attributed to the MDB as **PDM** 100% of the sponsor's equity is attributed to the MDB as **PIM** Nothing is attributed to the public lender
Collective Investment Vehicles	One MDB and one public investor commit to a CIV alongside a private investor with investments of USD 50, 30 and 20 million respectively; no direct or active role is played by any of the investors	50% of the private investment attributed 50/50 between the MDB and the public investor The 50% is attributed on a prorated basis of total commitment between the MDB and the public investor	100% of the private investor's commitment is attributed to the MDB as **PIM** Nothing is attributed to the public investor

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(sources: [MDB reference guide on measuring private investment mobilisation])

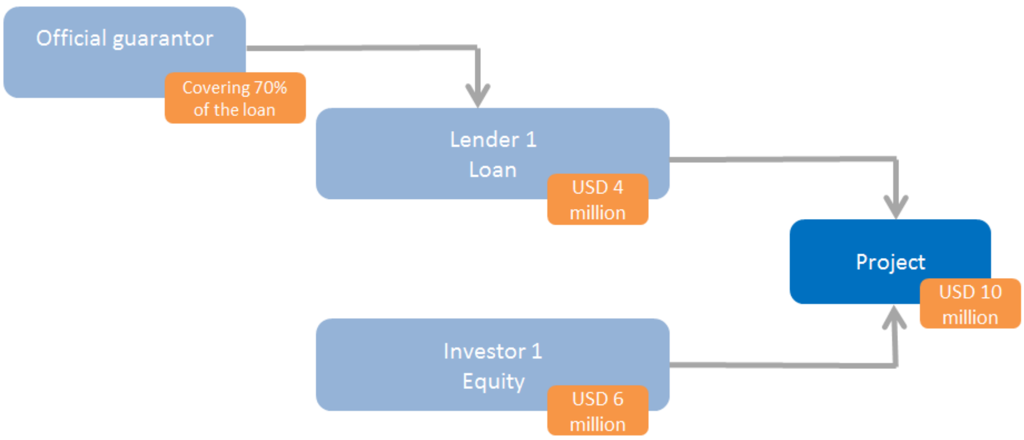
PDM: Private direct mobilisation.
PIM: Private indirect mobilisation.

ANNEX 2. ILLUSTRATION OF COMPLEXITIES AND ISSUES WHEN MEASURING MOBILISATION

EXAMPLE 1: GUARANTEE

1. **A guarantee (or insurance)** is a risk-sharing agreement under which the guarantor (or insurer) agrees to pay part or the entire amount due on a loan, equity or other instrument to the lender/investor in the event of non-payment by the borrower or loss of value in case of investment.

Figure 1. Amount mobilised by an official guarantor



Key assumption and reporting methodology

2. In the context of SDG finance, the implicit assumption is that the private investor would not have provided the loan without the official guarantee. Therefore, the resources considered mobilised from the private sector by the guarantee correspond to the face value of the loan/investment being guaranteed (i.e. USD 4 million in figure 1 above). The amount is known to, and can therefore be reported by, the official guarantor(s). In the case of co-guarantees, double counting must be avoided. Therefore, the resources mobilised should be reported pro-rata, according to the amounts guaranteed by each guarantor.

Point of measurement

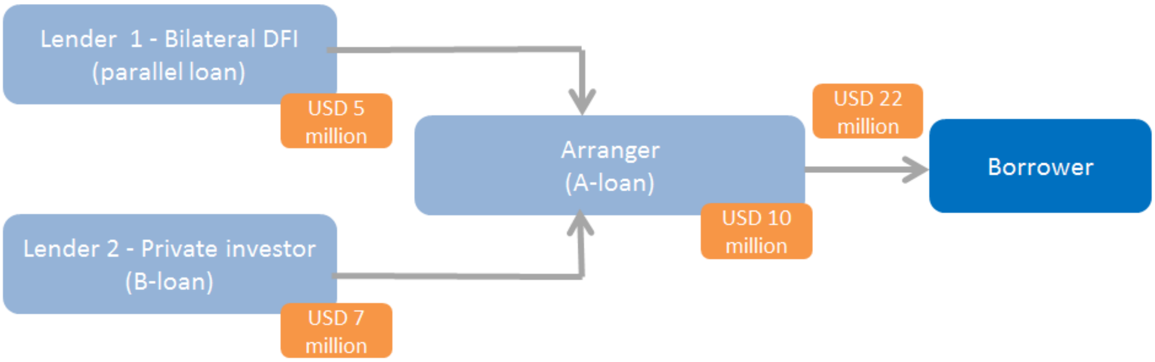
3. The resources mobilised should be reported when the guarantee is issued by the official sector.

EXAMPLE 2: SYNDICATED LOAN

4. A syndicated loan is a loan provided by a group of lenders and administered by an arranger.

5. Figure 2 below illustrates a typical syndicated loan where an official institution from a provider country (e.g. a DFI) provides a parallel loan of USD 5 million (Lender 1), and a private investor from a third country provides the B loan of USD 7 million (Lender 2). In this example, the arranger commits USD 10 million.

Figure 2: illustration of a typical syndicated loan arranged by an official actor.



Key assumption and reporting methodology

6. In case of an official arranger, the implicit assumption is that the private investor would not have provided the loan without the official sector involvement as an arranger or as a participant. According to the OECD method the amount of resources mobilised (i.e. USD 7 million in figure 2) is reportable by the arranger and the participant(s) as follows:

- **50%** by the official arranger (e.g. MDBs, bilateral DFIs, national development banks).
- The remainder **50%** by the Participant(s), pro-rata to the financier's share of the official portion of the loan.

In the case of a **private arranger,** 100% of the amount mobilised is attributed to the official participants.

7. For TOSSD reporting purposes, there is a need to agree on who will provide the information on resources mobilised so that no double counting occurs. One possible option could be that the arranger of the syndication – who has full information about amounts invested by all parties – is designated as the institution responsible for reporting the amounts of resources mobilised from the private sector in the TOSSD framework.

8. The OECD methodology would still remain relevant for assessing the volume of resources mobilised by each provider, according to the role and position of each actor in the syndication.[3] While this approach differs from the one used by the MDBs (see figure 3), it has the merit to ensure that resources mobilised are not counted twice in an international statistical system where all actors report on their own interventions (see illustration of possible double-counting if approaches are mixed in Table 1 below).

Point of measurement

9. The reporting of the resources mobilised is carried out when the syndicated loan is committed by the arranger.

[3] This information is necessary for OECD DAC statistics.

Figure 3. Comparison between OECD-DAC and MDB approaches for syndicated loans

OECD/DAC approach	MDBs' fee-based approach
• 50% of private loan attributed to the arranger; • 50% of private loan attributed pro rata to all official participants (incl. arranger). If arranger is private, 100% of private is attributed pro rata to all official participants.	• 100% attributed to the arranger; No recognition of **the role of other bilateral official actors** involved in the syndication through e.g. parallel loans * DFIs explicitly requested to be taken into account; * How about developing countries which may participation from domestic sources?

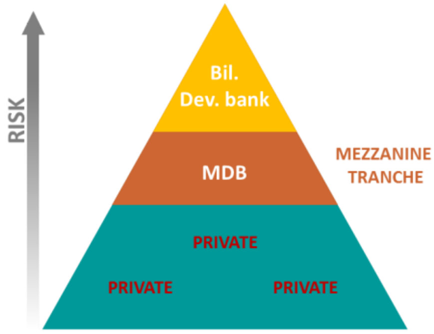
Table 1. Illustration of possible double-counting if mixing both DAC and MDB approaches, Syndicated loan for Oyu Tolgoi mine (Mongolia), arranged by IFC

Lender	**Role**	**Commitment** (USD million)	Private finance mobilised according to		
			OECD-DAC	**MDBs**	**Both approaches mixed**
IFC	Official Arranger	400	736.8	776	**776.0** *(MDB approach)*
KfW	Official Participant	20	17.4	0	**17.4** *(OECD-DAC approach)*
FMO	Official Participant	25	21.8	0	**21.8** *(OECD-DAC approach)*
PRIVATE*	Participant	776	-	-	-
TOTAL MOBILISED			**776.0**	**776.0**	**815.2** *(of which USD 39.2 million double-counted)*

* BNP Paribas, Australia and New Zealand Banking Group, ING Bank, Société Générale, Sumitomo Mitsui Banking Corporation, Standard Chartered Bank, Canadian Imperial Bank of Commerce, Crédit Agricole, Intesa Sanpaolo, National Australia Bank, Natixis, HSBC Bank, The Bank of Tokyo-Mitsubishi UFJ.

EXAMPLE 3: SHARES IN COLLECTIVE INVESTMENT VEHICLES

10. 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 (fund-raising period), while open-ended CIVs can issue and redeem shares at any time.

Key assumption and reporting methodology

11. The amount mobilised through shares in CIVs is defined as the total private investment committed during the fund-raising period. These amounts would be reportable in TOSSD by all the official investors in the CIV, taking into account the risk taken. So far, the MDBs have not developed a specific methodology to capture this information as the mobilisation effect is considered more indirect. Therefore, in order to avoid double counting, the amounts mobilised could be reported following the OECD-DAC methodology as follows:

- **50%** of the resources mobilised would be reportable by each official participant in the riskiest tranche[4] of the CIV, pro-rata.

- **The remaining 50%** would be reportable by **all** official participants, pro-rata to official financiers' investment share in the CIV at the time of the private investment, regardless of the risk taken (i.e. including investors in both the riskiest and the mezzanine/senior tranche).[5]

12. It is recommended that the maximum fund-raising period during which official investments in both close- and open-ended CIVs can claim to have mobilised private investments is **five years** after the inception date of the CIV.[6]

Point of measurement

13. The reporting of the resources mobilised is carried out when the resources mobilised from the private sector are committed.

4 . The rationale here is that first-loss investors, or investors that otherwise carry higher risks than other equity or more senior investors, have the highest impact on the mobilisation of private investors.

5 . A pro-rata attribution based on the volume of the investment would be easy to calculate but would fail to take into account the fact that mobilisation also heavily depends on the official agency's non-monetary contributions (e.g. due diligence). Such an approach would result in a general underestimation of the resources mobilised by small DFIs that often take an active role in a deal but invest relatively small amounts compared to other official agencies.

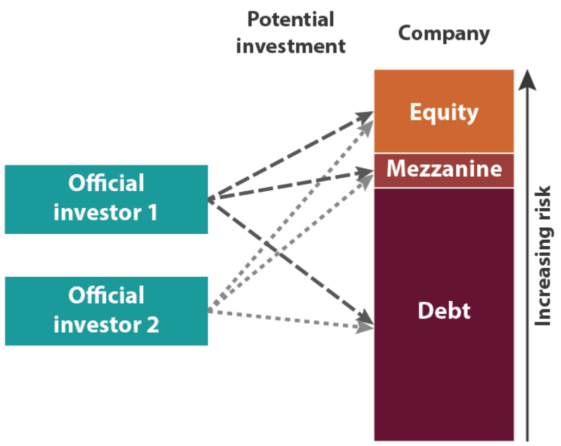
6 . This time limit has been set to recognise the fact that investment in some sectors (e.g. micro finance) is deemed riskier and may thus require a longer fund-raising period than other sectors; the private sector may wait until the CIV has built up a positive track record before investing. However, the time limit may not be applicable in cases where a strong causal link exists between official and private investments in a CIV, even more than five years after the inception date (e.g. re-capitalisation).

The OECD-DAC has developed two additional instrument-specific methodologies for measuring private finance mobilised: direct investment in companies and credit lines. The principles of these methodologies follow a provider perspective and may need to be adjusted if applied in the context of TOSSD. Work is ongoing to cover a broader range of instruments / mechanisms such as standard loan or grant in co-financing scheme with private investors and complex finance structures (e.g. project finance).

DIRECT INVESTMENT IN COMPANIES

14. For the purpose of this methodology, 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 or senior loans. Official investments in companies constitute a key leveraging instrument towards private sector development (business growth, economic and social impact, etc.), in particular in countries where private investors are reluctant to invest given the perceived risks.

Figure 4: Direct investment in companies



Key assumption and reporting methodology

15. The general assumption is that the private sector would not have invested in a given company in a developing country without the official sector involvement. It is further assumed that **equity investors**, regardless whether they represent official or private entities, are exposed to **higher risk** than **mezzanine** and **debt investors**. In case of liquidation, quasi and senior debt investors are reimbursed with priority, shareholders only thereafter to an extent made possible by remaining liquidities.

16. Building on the above general assumption, and for the purpose of this methodology, it is further assumed that:

- When multiple official actors invest in the same company but take different level of risk, **official investment in equity has a higher mobilisation impact on private finance** than official investment in mezzanine or senior debt.

- **Mezzanine and senior debt investors are exposed to the same level of risk**, regardless of the presence of equity providers, i.e. they are assumed to have the same probability of default.

17. The reporting methodology proposed is the following:

- **50%** of the resources mobilised from the private sector are reported, in equal parts, by official investors according to **the risk taken** (see assumptions above). Therefore, in cases where several official actors take different level of risk – i.e. by investing in both equity and mezzanine/senior debt – these 50% are reported by equity investors only.
- **The remaining 50%** are reported by **all** official investors pro-rata to the official financiers' investment share in the company, at the time when the private sector is investing, and regardless of the risk profile of the investment.[7]

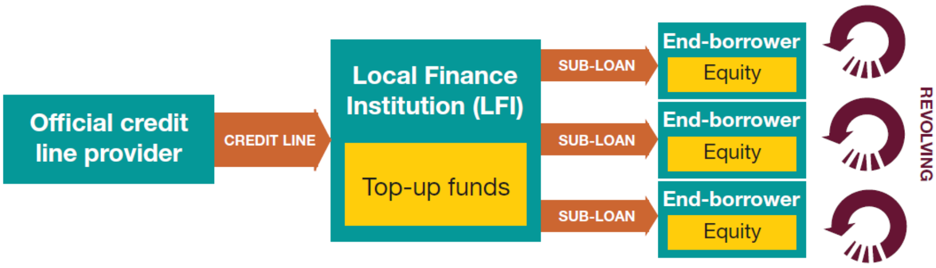
Point of measurement

18. The reporting of the resources mobilised is carried out when the private investment is committed.

CREDIT LINES

19. 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 – i.e. local finance institution (LFIs) – 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.

20. 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.



Key assumptions and reporting method

21. The analysis of the causality for credit lines may be complex due to the number of actors potentially involved and the difficulty to access all the information, especially at the level of LFIs and end-borrowers. However, in the context of development finance, the main objective of credit lines is to support the private sector through the intermediation of the LFI. Therefore, it is assumed that the private sector (i.e. top-up financing by private LFIs, whether originating from their own resources or raised from the market, as well as private end-borrowers' equity) would not have invested without

7 . This allows acknowledging the role of small DFIs that often take an active role in a deal but invest relatively small amounts compared to other official agencies.

the credit line provided by the official sector. Based on these assumptions, the **total private finance mobilised** is composed of:

- **Top-up funds from the LFI** (in the case of a private LFI), including additional/external private funds raised by the LFI, and → *first level of mobilisation*
- **Equity investments by the private end-borrowers,** calculated using the average end-borrowers' equity. If applicable, they can be *multiplied* by a revolving factor. → *second level of mobilisation*

22. In most cases, the credit line agreement usually specifies the type of projects eligible for funding by the LFI (sub-loans) and may also require other actors to take on some risks along with the official credit line provider (to align interests of the different investing institutions).

23. The total private finance mobilised through the credit line is reported pro-rata to the financial share by the official credit line provider (taking into consideration the official co-investors documented in the credit line contract and the case where the LFI is public).

Point of measurement

24. The reporting of the resources mobilised is carried out ex-ante, i.e. when the credit line is committed by the official sector.