Inter-Agency and Expert Group on SDG Indicators: Working Group on Measurement of Development Support

Research item 3: Mobilised Private Finance

TOSSD methodology for the reporting and measurement of private finance mobilised

Contribution by the TOSSD Task Force Secretariat, September 2020

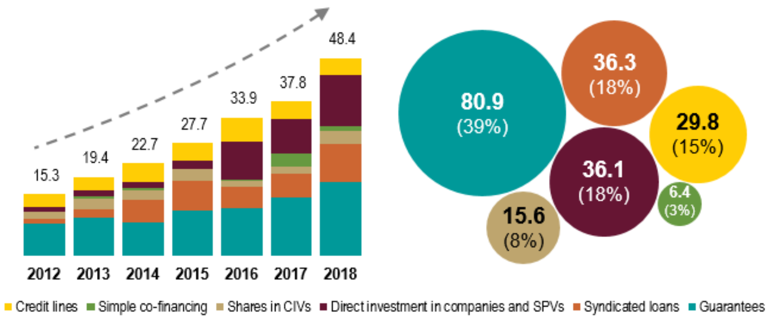
I. Introduction

1. The TOSSD methodology was developed by the International TOSSD Task Force[1]. This note by the Task Force Secretariat describes the discussions on measurement of private finance mobilised and the methodology adopted for the reporting in TOSSD.

II. Context: why should a measure of development support include private finance mobilised?

2. Mobilising all sources of funding, including from the private sector, remains at the heart of the 2030 Agenda to fill the financing gap for the implementation of SDGs, estimated to be at USD 2.5 trillion per year[2]. Mobilising additional financial resources for sustainable development from private investors requires mechanisms to decrease the risks (e.g. political, commercial) perceived by them. Such de-risking mechanisms can encourage private investors to engage in co-financing with the official sector in projects aligned with the SDGs. Private finance mobilised for sustainable development was estimated at USD 48.4 billion in 2018, a 28% increase compare to 2017 (see figure 1). Tracking and monitoring progress made toward the mobilisation of private finance for the SDGs, as well as transparency on these operations, will be critical to incentivise providers to do more in this area but also to build the necessary trust on the markets for the private sector.

Figure 1. Amounts mobilised by year and instrument, 2012-18
USD billion

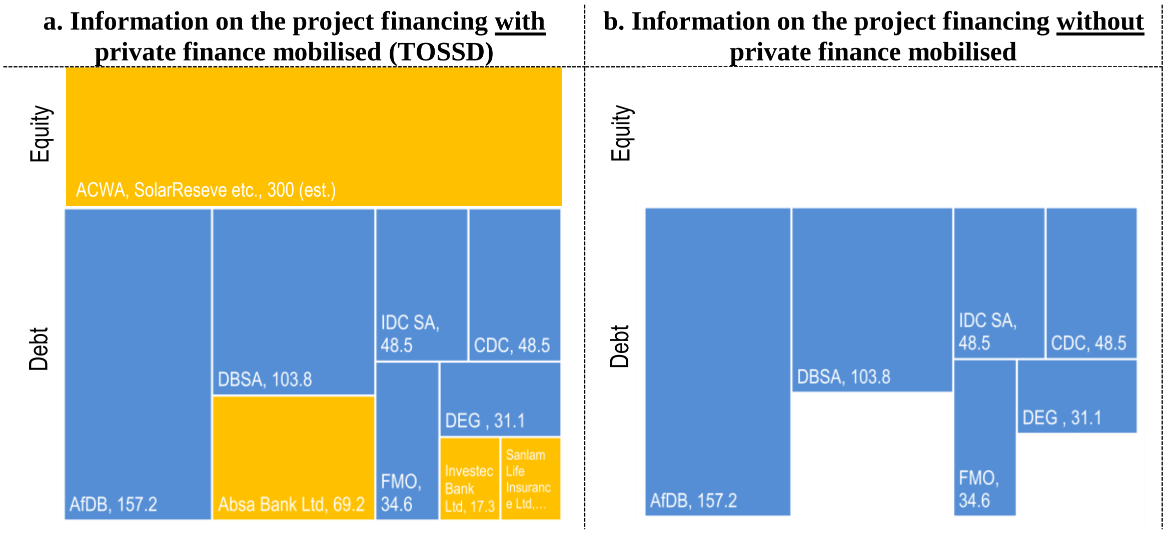


Sources: OECD statistics

[1] See www.tossd.org.
[2] Reference: https://unctad.org/en/PublicationsLibrary/wir2014_en.pdf.

3. However, private finance mobilisation is not well reflected in international measures of development finance. The TOSSD Task Force concluded that limiting the TOSSD framework to only "official" flows would not enable development actors to see the full picture of development finance at country level and, therefore, agreed to include these amounts in TOSSD. However, they are presented under a separate heading to avoid mixing official and private flows. The 2019 TOSSD Data Survey showed that including this element in the measurement framework is prompting reporting on public-private financing schemes, bringing transparency and providing a better understanding of how development-related projects – in particular large infrastructure projects – are funded and reach financial closure (see example in figure 2).

Figure 2. South Africa's 100 MW Redstone Concentrated Solar Power Project, USD million[3]



III. What is private finance mobilised in the context of TOSSD?

4. TOSSD measures the resources mobilised from private sources by official development finance interventions where a causal link between the provision of the private finance (orange boxes in figure 2.a.) and the official intervention can be documented. The scope of the measure on the resources mobilised from the private sector excludes commercial finance from public sources, which is reportable as official flows (e.g. the National Development Bank of South Africa, DBSA in figure 2). In the TOSSD framework, transactions are classified as official or private according to who owns or controls the financing entity.

5. Information collected on resources mobilised includes the leveraging instrument used by the official institution, as well as the amounts and the origin of the funds mobilised. TOSSD includes the resources mobilised regardless of the origin of the funds as the objective is to mobilise and shift the volume of private finance for projects with expected positive impacts on the SDGs. Illustrations of activities that mobilised private finance locally, in the recipient country, include for example:

- The Nachtigal Hydropower Project in Cameroon, for which the IBRD extended a guarantee to local financial institutions, enabling a local currency debt investment in the project of USD 200 million.[4]
- As part of its Global Loans policy, the EIB extended a credit line of up to EUR 50 million to the APEX Bank in Armenia for local SME development which mobilised additional EUR 50 million in top-up funds from the local finance institution's own sources.[5]

[3] Sources: AfDB, ACWA, CDC Group – https://www.cdcgroup.com/en/our-impact/investment/acwa-power/; https://www.fmo.nl/project-detail/55499; https://www.afdb.org/en/news-and-events/south-africa-african-development-bank-approves-a-zar-3-billion-loan-to-bolster-renewable-energy-in-south-africa-18760; https://www.acwapower.com/en/projects/redstone-csp-opp/.

[4] More information available at http://documents1.worldbank.org/curated/en/119421547128746160/pdf/ITK171540-201900100856.pdf.

[5] More information available at https://www.eib.org/en/projects/loans/all/20140045.

6. By contrast, private resources not mobilised by official interventions (i.e. those outside the government's control), are excluded from TOSSD, namely FDI, portfolio investments and remittances. Data on these flows are generally confidential and not available at the activity level (the reporting standard in TOSSD). Activity-level information greatly increases the usefulness of the data for developing countries and makes it possible to assess whether or not a flow indeed contributes to sustainable development.

IV. How are resources mobilised from the private sector measured in TOSSD?

7. Data on resources mobilised from the private sector are collected for the following leveraging instruments/mechanisms: guarantees/insurance; syndicated loans; shares in collective investment vehicles (CIVs); credit lines; direct investment in companies and special purpose vehicles; grants and loans in simple co-financing arrangements; and project finance schemes. In addition, the resources mobilised are reported 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.

8. In order to avoid double counting of resources mobilised in TOSSD totals, official actors involved in a project only report their respective share of the private finance mobilised, using either the OECD or the MDB methodology.[6]

9. A comparative analysis between the MDB and OECD approaches for measuring private finance mobilised was presented and discussed at the TOSSD Task Force.[7] While Task Force members considered the OECD approach more suitable for TOSSD reporting purposes as it takes into account the role of all providers (including from developing countries, e.g. through national development banks), it was agreed that data providers could report using either methodology.[8] However, data providers should use the same methodology consistently in their reporting and inform the Secretariat of the methodology used. Additional information on mobilisation collected for checking purposes serves to adjust the data, where needed, at central level by the TOSSD Secretariat to remove any double-counting and harmonise calculations for comparability purposes.

10. In TOSSD, reporting on mobilisation is done activity by activity as this is essential for transparency and quality assurance. However, for a number of institutions, information on the amounts mobilised from the private sector is subject to confidentiality regimes and data sharing agreements may be needed, both to enable the transmission of this information at the project level and to agree on the level of detail in reports and publications.

V. Conclusion

11. Measuring the resources mobilised from the private sector for the SDGs is critical to properly understand the progress made toward the financing of the implementation of the 2030 Agenda. Public interventions, by offering de-risking solutions, can help shift private resources toward sustainable development, a core aspect of the SDG 17. Transparency on such information will help inform development co-operation policies, both at the domestic and international levels. For example, the recent TOSSD pilot study on Burkina Faso highlighted that the Government lacks information on public-private co-financing arrangements. Accessing this information through TOSSD would help to assess the impact and effectiveness of these schemes and encourage the private sector to invest in a more sustainable manner.

[6] Presented in Annex F of the TOSSD Reporting Instructions (also copied for ease of reference at the end of this note).
[7] See at http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/TOSSD-Third-Task-Force-Item8b.pdf.
[8] See Action Points from the meeting.

ANNEX F of the Reporting Instructions
Methods and supplementary data on resources mobilised

Figure 8: Presentation of the OECD and MDB methodologies for reporting on resources mobilised

Leveraging instrument	OECD Methodology	MDB Methodology[9]
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.

[9] 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.