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CONTINUED WORK ON MEASURING THE MOBILISATION EFFECT OF OFFICIAL DEVELOPMENT FINANCE INTERVENTIONS

Recent developments, proposals and next steps

Formal meeting of the Working Party on Development Finance Statistics (WP-STAT)
13-15 June 2018, OECD Conference Centre, Paris

This note is presented for DISCUSSION under item 6 of the draft annotated agenda DCD/DAC/STAT/A(2018)2.

Over the last two years, the Secretariat has been working under a mandate from the 2016 DAC High Level Meeting on measuring the mobilisation effect of official development finance interventions. This note aims to update members of the WP-STAT about the recent developments in this area. **Members are invited to comment on proposals in paragraph 7 and Annex A as well as paragraph 15, and approve proposals in paragraphs 20-21.**

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CONTINUED WORK ON MEASURING THE MOBILISATION EFFECT OF OFFICIAL DEVELOPMENT FINANCE INTERVENTIONS

1. Introduction

1. Private finance is critical to delivering the 2030 Agenda for sustainable development. At the same time, large-scale private investment is currently limited or even absent in most developing countries due to investment obstacles of different natures. Unlocking private finance through official development finance interventions can play an important role in this context.

2. Over the last two years, the Secretariat has been working under a mandate from the 2016 DAC High Level Meeting on measuring the mobilisation effect of official development finance interventions. The work aims to support the implementation of the 2030 Agenda by better informing policies on how private finance can be mobilised to help achieve the SDGs ("from billions to trillions"). It is also expected to contribute to other ongoing processes such as measuring progress under the United Nations Framework Convention on Climate Change (UNFCCC) towards the commitment made by developed countries to mobilise USD 100 billion for climate action in developing countries. The work is, therefore, conducted jointly with the OECD-hosted Research Collaborative on Tracking Private Climate Finance (Environment Directorate), as well as in close collaboration with the team in Financing for Sustainable Development Division of the OECD working on Blended Finance.

3. This note aims to update members of the DAC Working Party on Development Finance Statistics (WP-STAT) about recent developments in this area. The note is structured as follows:

- **Section 2 invites members' comments** on the Secretariat's proposals to expand the scope of the current measure on mobilisation through:
    - the introduction of two new instruments/mechanisms (standard grants and loans in "simple" co-financing arrangements and project finance schemes), and
    - the broadening of the definition of private finance mobilised to cover not only purely private finance (as defined by the Directives) but all commercial finance.
- **Section 3 invites discussion on the rules for data disclosure** relating to the amounts mobilised.
- **Section 4 informs members on the reporting status and issues** since the measure on mobilisation was implemented in 2017 in regular CRS reporting.
- Finally, **section 5 outlines the next steps** for the Secretariat to move this work forward.

2. Expanding the scope of the measure

2.1. New proposed instruments

4. The Secretariat has been developing methodologies for measuring mobilisation instrument by instrument, with the understanding that reporting will be expanded as and when the WP-STAT progresses on the methodological work. Thus, the data collection on amounts mobilised was implemented in the regular CRS reporting in 2017 (for reporting on 2016 flows) starting with three leveraging instruments – guarantees, syndicated loans and shares in collective investment vehicles. The scope was expanded this year (in 2018 for reporting on 2017 flows) with the introduction of two additional leveraging instruments/mechanisms – direct investment in companies and credit lines.

5. At the June 2017 WP-STAT meeting, the Secretariat suggested work on two additional instruments commonly used for mobilising private finance for development purposes[1]:

   - *Standard grants or loans in simple co-financing arrangements.*

   According to the OECD-DAC statistics, standard grants and loans are still the most frequently used financial instruments in official development finance (concessional and non-concessional). Over the last five years (data for 2012-16), they represented 67% and 22% of bilateral commitments and 24% and 73% of multilateral commitments respectively. Development finance institutions employ standard grants and loans in co-financing with private investors as a means to mobilise additional finance for development purposes. While the methodologies already implemented capture the mobilisation effect of some loans (i.e. loans provided through credit lines, syndications or as direct investment in companies), there is not yet a methodology for standard loans, or grants, extended in "simple" co-financing arrangements with private investors.

   - *Project finance schemes*.

   Large parts of the SDG financing gap relate to investments in infrastructure. Initiatives such as the Sustainable Development Investment Partnership (SDIP) support development co-operation providers' response by facilitating the elaboration of project finance schemes. The methodologies for guarantees, shares in CIVs, credit lines, syndications or direct investment in companies capture a part of, but not the full, mobilisation effect of project finance schemes. In particular, there are cases where a private investment in a project finance scheme is not directly linked to an official intervention already covered by the existing methodologies (e.g. "stand-alone" equity or debt financing).

6. Jointly with the OECD-hosted Research Collaborative on Tracking Private Climate Finance and in consultation with a few members as well as institutions[2], the Secretariat worked on possible approaches for measuring the mobilisation effect of the two above-mentioned instruments. Draft methodologies were presented for discussion at the working

[1] See DCD/DAC/STAT(2017)22/REV.

[2] Canada (Global Affairs Canada), Czech Republic (CzDA), European Union (EIB), France (AFD, Proparco), Japan (JICA), Nordic Development Fund, United Kingdom (DFID), DFID-funded programmes (e.g. Partnerships for Forests) and SNV Netherlands (FMO).

session with experts from DFIs, MDBs and aid agencies held at the OECD on 10 April 2017. Over 60 participants attended the working session and discussions were very fruitful, both in terms of inputs received for improving the draft methodologies but also in terms of experience and practices shared among the different groups of actors.[3] Building on comments and inputs received, the Secretariat has refined the draft methodologies for *standard grants and loans in "simple" co-financing arrangements* and *project finance schemes*. (See Annex A.)

7. **Members are invited to provide feedback on the proposed methodologies presented in Annex A – including on specific questions highlighted in grey – at the WP-STAT meeting on 13-15 June 2018 and/or in writing by 30 June 2018.**

8. The objective is to further refine the proposed methodologies where needed and pilot them through a new data survey. The survey is expected to be launched early July with a deadline for responses set for mid-September 2018.[4]

2.2. Moving from a measure of the "amounts mobilised from the private sector" to a measure of "amounts mobilised from commercial sources"

9. Initially, the scope of the measure focused on purely private finance mobilised as to ensure no double counting with the official flows already reported through the CRS++ under the Official Development Assistance (ODA) and the Other Official Flows (OOF) categories. The definition used to differentiate between private and official flows in this context was in line with the definition provided in the Reporting Directives (see for reference in box below) and other international statistical standards (Balance of Payments).

BOX. OECD-DAC definition of official and private transactions
[see para. 20 of DCD/DAC/STAT(2018)9/FINAL]

20. 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. Private transactions are those undertaken by firms and individuals resident in the reporting country from their own private funds.

10. However, different definitions of "private finance" are being used among the different policy communities and actors working on mobilisation (e.g. climate, blended finance, DFIs and MDBs). While the OECD-DAC statistical definition of private transactions mainly focuses on the shareholding structure of the extending entities, in other fora – such as the Blended Finance and MDB communities – the definition rather refers to investors' behaviour who operate following a commercial and for-profit logic. For example, the

[3] A summary is available online at: http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/Mobilisation-workshop-with-DFI-and-MDB-experts-10-April-2018-SUMMARY.pdf.

[4] While initially planned before the WP-STAT meeting in June with a few interested members, the Secretariat will pilot the methodologies after the meeting (to allow sufficient time) and among all countries and institutions currently reporting to the OECD-DAC.

OECD definition of blended finance is "the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries", with 'additional finance' referring primarily to commercial finance. The underlying rationale is that publicly owned enterprises are often managed autonomously and subject to the same profit-making logic as private entities. This suggests that the distinction should rather be based on what sets the finance in motion (i.e. "who drives the money") rather than on the legal ownership (or voting power) of an entity.

11. At the 10 April working session, the Secretariat tested with participants the idea of broadening the scope of the current measure by moving from "amounts mobilised from the private sector" to "amounts mobilised from commercial sources". Most participants welcomed the suggestion and confirmed that it would increase the relevance of the measure for tracking the mobilisation of resources for the SDGs and, in particular, the call to move from billions to trillions of financing in support of the 2030 Agenda. Participants considered that this change would also contribute to the ongoing efforts for harmonising the OECD and MDB approaches for measuring mobilisation. [For more information on this particular issue, see the separate note available under reference DCD/DAC(2018)25].

12. Based on the above, the Secretariat would like to suggest implementing this change in scope in the regular reporting on mobilisation. In practice, this would imply renaming field *"43b. Amounts mobilised from the private sector"* to *"43b. Amounts mobilised from commercial sources"*.

13. In order to avoid double counting with activities already reported in the OECD-DAC system, *the amounts mobilised from commercial sources* would however need to exclude:

    - Financing by entities with a development mandate (e.g. DFIs, MDBs, aid agencies, national development banks, private philanthropic foundations).
    - For-profit financing by central, state or local government agencies at their own risk and responsibility[5].

14. On the other hand, the measure on mobilisation could include transactions undertaken by business-oriented and autonomously managed majority or minority government-owned entities. The Secretariat is confident that such a change in scope would have a small impact on the consistency of the data series on mobilisation as several institutions do not currently distinguish between purely private and commercial finance from government-owned companies. However, the Secretariat would encourage members to make this distinction in their reporting.

15. **Members are invited to express their views on:**

    - **the proposed change in the scope of the measurement of the mobilisation effect of official development finance interventions** i.e. from "*amounts mobilised from the private sector"* to "*amounts mobilised from commercial sources"*.
    - **the need to add a new field in CRS++ to differentiate between purely private sector finance and commercial finance from government-owned companies.**

[5] Inclusion of financing from these institutions as amounts mobilised would result in double counting at the level of total resource flows to developing countries.

16. Based on feedback received, the Secretariat may circulate a proposal with relevant excerpts of the Directives for approval through the written procedure. If approved, this change would be implemented in 2019 reporting on 2018 flows.

3. Data disclosure and presentation

17. Better, more granular data on mobilisation are required to help build trust in efforts to encourage greater use of leveraging instruments. Such data may also help the private sector gain a better understanding of the investment opportunities in developing countries. However, no decision has been taken so far on the level of data disclosure for data on amounts mobilised. Activity-level data are currently treated as confidential; data on mobilisation are made available online in semi-aggregate form through a data visualisation tool[6].

18. At the 30-31 January 2018 WP-STAT informal meeting, the Secretariat presented a draft proposal on possible rules for data disclosure and dissemination on the amounts mobilised (i.e. information included in CRS++ items 43a, 43b and 43c). It suggested that data disclosure on amounts mobilised could follow the rules pertaining to the reported project/activity, i.e.:

    - For activities recorded as ODA, there would be no restrictions on data disclosure.
    - For activities recorded as OOF, there would be no restriction on data disclosure provided aggregates by sector category within a recipient from each donor combine at least three activities.
    - For bilateral guarantees, there would be no restriction on data disclosure.
    - For multilateral outflows, there would be no restrictions either (any confidential information is filtered upstream of their reporting to the OECD).

19. In general, members agreed to further disclose this information. However, two members expressed concerns about the proposal to disclose activity-level information for guarantees and one member was reluctant to disclose information on the amounts mobilised through OOF activities at semi-aggregate level and suggested to only publish total amounts mobilised by institution. The Secretariat is of the view that such disclosure policy for the amounts mobilised by OOF would be too restrictive for analytical purposes. As a minimum data users should have access to data that enable reproducing the same charts as in the latest survey report[7]. It is also recalled that **confidential and sensitive information on OOF, such as the name of the private sector clients/co-investors, is not required and can be filtered by the data providers upstream.**

[6] See at http://www.oecd.org/development/mobilisation.htm.

[7] See Benn, J., C. Sangaré and T. Hos (2017), "Amounts Mobilised from the Private Sector by Official Development Finance Interventions: Guarantees, syndicated loans, shares in collective investment vehicles, direct investment in companies, credit lines", OECD Development Co-operation Working Papers, No. 36, OECD Publishing, Paris, http://dx.doi.org/10.1787/8135abde-en.

20. Based on members' comments, **the proposal on rules for data disclosure on amounts mobilised has been revised as follows** (changes from previous version are highlighted in grey):

- For activities recorded as bilateral ODA, there would be no restrictions on data disclosure.
- For activities recorded as bilateral OOF, there would be no restriction on data disclosure provided aggregates by sector category within a recipient from each donor combine at least three activities.
- For bilateral developmental guarantees, the same rules as OOF would apply (see bullet above).
- For multilateral outflows, there would be no restrictions on data disclosure (any confidential information is filtered upstream of their reporting to the OECD).

21. **Members are invited to approve the above suggested rules for data disclosure on information relating to the amounts mobilised from the private sector as reported in CRS++ items 43a, 43b and 43c**. If approved, the decision would be implemented in 2019 publications.

4. Review of the first year of implementation in CRS reporting

22. Reporting on the amounts mobilised was implemented in the regular data collection in 2017 for reporting on 2016 flows through CRS ++ fields 43a, 43b and 43c. However, in 2017 and 2018 the Secretariat invited data providers to complement their CRS reporting on amounts mobilised with an auxiliary data file[8]. The objective of collecting this additional information is to facilitate members' reporting on mobilisation as well as the quality assurance work of the Secretariat.

23. The Table below shows that, in 2017, thirteen members, ten multilateral institutions and two PPPs reported data on amounts mobilised in 2016. In most cases, data fields in the auxiliary form were complete, enabling the Secretariat to validate the reported amounts. No data were reported by DEG of Germany, DGGF and FMO of the Netherlands, JICA and JBIC of Japan, COFIDES of Spain and the AfDB. The IFC did not report on mobilisation in the requested format in 2017, however data on amounts mobilised through their guarantees can be derived from their regular submission.[9] The Secretariat will be working with relevant institutions to complete the data for 2016.

24. Some providers did not transfer in their CRS++ reporting the information provided in the auxiliary data file which is common to the two templates, i.e. fields *43a*, *43b* and *43c*. In cases where the information on the CRS identification was provided in the auxiliary data file (field 4), the Secretariat was able to triangulate information with their CRS++ and fill

[8] See email STAT (2018)25 dated 27 April 2018.

[9] IFC does not consider guarantees as part of its core mobilisation but rather as financing from its own account. However, for comprehensiveness and comparability purposes, it was agreed with the IFC that the information would be presented in the OECD analysis alongside other institutions' guarantee portfolios.

the missing information. However, in a number of cases, the triangulation was not possible (CRS identification number or other identification information was either not provided in, or inconsistent with, the auxiliary data file), which complicated linking them to individual data records in the CRS submission. In these cases, the Secretariat had to create new CRS records.

25. In addition, no clear guidance exists in the Directives, on which type of flow should be assigned when reporting on amounts mobilised from the private sector by official development guarantees/insurance. As a temporary solution, and pending an agreement on how to better reflect in ODA donor effort in the use of private sector instruments (PSI), including guarantees, it is suggested to use type of flow "40 – non flow".

Table. Reporting status on amounts mobilised for 2016 by data provider known to use at least one of the three leveraging instruments

Provider			Leveraging instruments reported			Template used	
	Country	Institutions	Guarantees	Syndicated loans	Shares in CIVs	Auxiliary data form	Standard CRS++
Bilateral	Austria	OeEB		YES	YES	YES	YES
	Belgium	BIO		YES	YES	YES	YES
	Denmark	IFU	YES		YES	YES	
	Finland	Finnfund		YES		YES	
	France	AFD	YES			YES	YES
		Proparco		YES	YES	YES	YES
	Germany	KfW			YES	YES	
		DEG	No data reported				
	Japan	JBIC	No data reported				
		JICA					
	Netherlands	DGGF	No data reported				
		FMO					
	Norway	Norfund	YES		YES	YES	YES
	Portugal	Camoes Institute	YES			YES	YES
		SOFID	YES			YES	YES
	Spain	MFA (FONPRODE)			YES	YES	YES
		COFIDES	No data reported				
	Sweden	Sida	YES			YES	YES
		Swedfund		YES		YES	YES
	Switzerland	SIFEM		YES	YES	YES	
	United Kingdom	DFID			YES	YES	
		CDC			YES	YES	
		DECC/BEIS			YES	YES	
	United States	USAID	YES				
		OPIC	YES		YES	YES	
Multilateral and PPPs	AfDB		No data reported				
	AsDB		YES	YES		YES	YES
	CGIF		YES			YES	YES
	EBRD		YES	YES	YES	YES	
	GGF			YES		YES	YES
	IBRD		YES			YES	
	IDA		YES			YES	
	IDB			YES		YES	
	IDB Invest			YES		YES	
	IFC		YES*				
	MIGA		YES			YES	YES
	NDF		YES			YES	YES
PPPs	GEEREF				YES	YES	NO
	PIDG		YES	YES		YES	NO

*: Data on IFC's guarantees are derived from its regular reporting, see footnote 8.

5. Next steps

26. As suggested in paragraphs 7-8, based on comments received from members on the new draft methodologies presented in Annex A for standard grants and loans in “simple” co-financing arrangements and project finance schemes, the Secretariat will refine the proposals and launch early July a data survey with a deadline for responses mid-September aiming at: 1) piloting the new approaches, and 2) updating the data on credit lines and direct investment in companies with 2016 figures [10].

27. Based on the survey results, the two methodologies piloted for standard grants and loans in “simple” co-financing arrangements and project finance schemes will be adjusted if necessary and proposed for implementation in the CRS++ reporting through the written procedure.

28. In the meantime, the Secretariat will continue to offer support to data providers to develop and strengthen their statistical capacity in this field.

29. In terms of methodological work, the Secretariat will continue exploring possible improvements of the existing methodologies such as how to capture the second level of mobilisation for *shares in CIVs*. This work will be done jointly with the Research Collaborative on Tracking Private Climate Finance, and in close collaboration with the team in the Financing for Sustainable Development Division working on Blended Finance.

30. For the time being no work is planned in the context of DAC statistics to try capturing the more indirect (or “catalytic”) effect of official development finance interventions. However, various streams of OECD work, including blended finance and the Research Collaborative on Tracking Private Climate Finance, may explore this further. The Secretariat will keep members updated on discussions in this area in other fora.

[10] While the 2016 Survey collected this information for 2012-15, the methodologies for these two new instruments were implemented on in 2018 for reporting on 2017 flows. A data gap therefore exists for 2016.

Annex A. Proposed new draft methodologies

I. Draft methodology for standard grants and loans in "simple" co-financing arrangement

1. Description

1. Standard grants and loans[11] in "simple" co-financing arrangements can take the form of a wide range of financing modalities[12]. Financing modalities for which standard grants and loans are the most likely to have a direct mobilisation effect on private investment are the following: project-type interventions (C01) and special-purpose programmes and pooled funds (B03 and B04). Table A1 provides examples of the potential mobilisation effect of these instruments.

2. Causality assumptions

2. The measurement of private finance mobilised in the context of development finance is based on the general assumption that the private sector would not have invested without the official interventions (additionality assumption). The causal link between a standard grant or loan and a private co-investment is considered demonstrated if and only if the provision of **official funds (or at least a portion) is formally conditioned (i.e. through a contractual or another type of formal agreement) to either private sector co-financing or achievement of previously-agreed results:**

- The amount of private sector co-financing may be required explicitly (through the project contract/documentation) or implicitly (through the project implementation).
- Result-based financing mechanism refers to cases where an official grant or loan to the private sector is made contingent on the achievement of previously-agreed results, which necessitate financial participation by the private sector.

3. In principle, in both cases, the project cost needs to exceed the amount provided by the official agency. Examples of arrangements where the causal link can be demonstrated on the basis of these criteria include various business partnerships, business surveys, B2B programmes, matching arrangements as well as various result-based approaches. Arrangements that do not include a contractual or formal requirement are excluded, as the causal link would be more difficult to demonstrate.

[11] The mobilisation effect of some loans is already captured in the methodologies for syndicated loans, shares in CIVs, credit lines and direct investment in companies.

[12] See Annex 11 "Types of aid and tying status" of Addendum 1 of the Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire.

Table A1. Assessment of the potential nature of the causal link between standard loans or grants and private co-financing (by aid modality)

Creditor Reporting System types of aid classification				Considerations relating to private finance mobilisation		
Code	**Type of aid**	**Type of loans & grants generally covered**	**Description of the type of transactions covered**	**Direct mobilisation effect?**	**Example**	**Note**
B03	**Contributions to specific-purpose programmes and funds managed by international organisations**	Standard grants or loans, reimbursable grants	Donors' bilateral contributions to specific programmes and trust funds set up by international organisations with clearly identified sectoral, thematic or geographical focus.	*Possible* at first level (inflows) in case of private co-financing. *Possible* at second level (outlows) depending on nature of projects funded.	IFC – Canada Climate Change Program www.eu-africa-infrastructure-tf.net	If mobilisation occurs at the inflow level → relevance of the methodology on "shares in CIVs"
B04	**Basket funds and pooled funding**	Standard grants or loans, reimbursable grants	The donor contributes funds to an autonomous account, managed jointly with other donors and/or the recipient. The account will have specific purposes, modes of disbursement and accountability mechanisms, and a limited time frame. Basket funds are characterised by common project documents, common funding contracts and common reporting/audit procedures with all donors.	*Possible* at first level (inflows) in case of private co-financing. *Possible* at second level (outlows) depending on nature of projects funded.	-	If mobilisation occurs at the inflow level → relevance of the methodology "shares in CIVs"
C01	**Project-type interventions (including project-level technical assistance)**	Standard grants or loans	Activities agreed with the partner country to reach specific objectives within a defined timeframe, geography and budget. This also includes earmarked aid channelled through entities to implement donors' projects and programmes. Projects vary in complexity and duration. Large projects with different components ("programmes") are included. Funding of feasibility studies, appraisals and evaluations as well, whether part of projects or through dedicated funding arrangements.	*Possible* at the first level for both projects and programmes in case private co-financing is involved.	Business partnerships, Matching arrangements. Projects by Sida, LUX, Australia, JICA, CZAID. Programmes of Dutch Sustainable Water Fund, NDF.	

3. Accounting boundaries

4. Project boundaries are defined as financial arrangements and specifications agreed among the official provider and recipient entity, for a specific activity and as recorded in the provider's documentation. In the case of funding channelled through specific-purpose programmes or pooled/basket funds, the accounting boundaries include activities financed by such programmes or pooled/basket funds.

5. Financing committed outside the defined financial arrangement (whether upstream of downstream) is not considered.

4. Point of measurement

6. The point of measurement may vary, depending on the modality and data availability. Mobilisation by stand-alone grants and loans could be measured at the commitment stage of official finance (e.g. for matching grants and simple project-level co-financing arrangements) or when the private investment takes place (e.g. for result-based approaches, business surveys).

7. In the case of standard grants and loans channelled through specific-purpose programmes, pooled/basket funds or facilities, resources mobilised are measured at the level of outflows from the facility to individual activities. A practical distinction needs to be made between single-donor and multiple-donor funds and facilities[13]:

Single-donor funds and facilities

- The official contributor reports on the amounts mobilised by the individual activities, thus considering the programmes and pooled funds as channels of delivery. This requires that the programmes or pooled funds report amounts mobilised to the official donor in a timely manner to enable the donor to report to the DAC.

Multiple-donor funds and facilities

- The programmes or pooled funds report on the amounts mobilised by individual activities at the outflow level. Attribution back to the official donor is discussed in section 6 below.

5. Attribution method

8. Building on the accounting boundaries and causality assumptions above, several scenarios can be considered for attributing amounts mobilised from the private sector to the development finance provider(s):

- *Scenario 1: only one official provider involved.* The whole amount of private finance considered as mobilised is attributed to the single official provider.
- *Scenario 2: multiple official co-financers involved in the project, playing equal role.* The amounts of private finance mobilised would be attributed to all official actors following a volume pro-rata approach (i.e. pro-rate to their financial share in total official finance).

[13] Taking into account the need to avoid unnecessary reporting burdens.

- *Scenario 3: multiple official co-financers are involved in the project, with one or more playing a "leading" role or assuming a higher level of risk.* Private co-financing is attributed according to existing methodologies where applicable (i.e. *syndicated loans, shares in CIVs* or *direct investment in companies*).

6. Attribution back to donors of private finance mobilised by multi-donor facilities

9. The amounts mobilised by the multi-donor facility can be attributed back to individual donors based on the monetary value of their respective contributions to the facility.

7. Illustrations

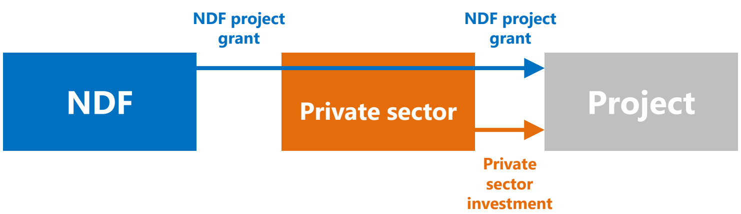
10. Three examples – taken from portfolios of official development finance providers – are provided to illustrate how the methodology can be applied in practice. All of them relate to standard grants but the proposed approach can equally apply to standard loans (as long as they do not fall under the existing methodologies for syndicated loans, credit lines, DIC or shares in CIVs).

Example 1: Nordic Development Fund (NDF) grant matching programmes (with a demonstrated causal link)

The Bukaleba Charcoal Project

The project aimed to build two clean and sustainable high yielding charcoal plants to reduce the impact charcoal production and deforestation has on climate change. It was co-financed by the NDF and private companies based in Norway and Uganda. While the NDF provided 22.5% of the total project costs (as a grant), the remaining proportion was covered by the private sector partners. The NDF selects its grantees through public competition on the implementation of specific projects, including financing plans.

NDF grant matching programmes



Source: NDF website. https://www.ndf.fi/project/ncf-bukaleba-charcoal-project-ndf-c3-b14

A clear causal link can be drawn between the NDF financing and the private sector participation, given the private grantees were selected through an explicit formal interaction between the NDF and private companies, i.e. public competitions including financial plan.

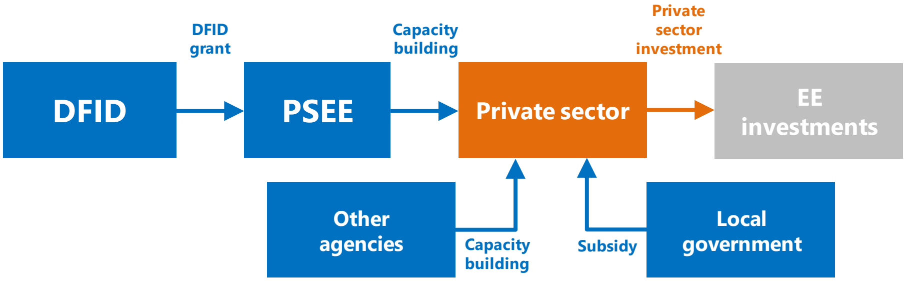
Since NDF is the sole official investor in this very project – no attribution is required to avoid double-counting.

Example 2: DFID upstream capacity building grant programmes (without a demonstrated causal link)

UK Private Sector Energy Efficiency Programme (PSEE)

The PSEE assisted more than 3500 small-sized businesses with energy efficiency-related remote advice, provided more than 900 medium-sized businesses with fully-funded four-day energy surveys and longer-term support in developing energy saving strategies, and supported 37 large companies with up to 60% subsidised energy-reduction consultancies over an eight-month period as well as fully-funded specialised energy audits. Ex-post self-assessment from the PSEE programmes highlights that the initiative has led to energy efficient investments worth close to USD 6 million. Other pre-dating or parallel international and domestic capacity building programmes may have played a complementary role.

UK Private Sector Energy Efficiency Programme (PSEE)



Source: McNicoll, L., et al. (2017), "Estimating Publicly-Mobilised Private Finance for Climate Action: A South African Case Study", *OECD Environment Working Papers*, No. 125, OECD Publishing, Paris. http://dx.doi.org/10.1787/a606277c-en.

By helping private companies benefiting from the programme to identify energy efficiency investment opportunities, the PSEE grant can be considered as having had an indirect or catalytic effect on the actual subsequent investments made by some of these companies.

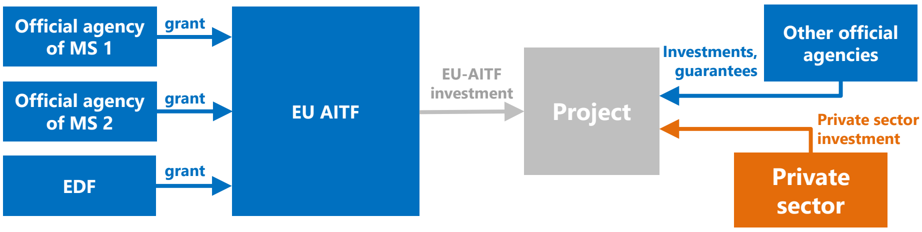
To count as mobilisation, the DFID grant to the PSEE capacity-building programme would have needed to include a formal requirement towards the beneficiary companies to invest certain amounts to concrete projects during/after the successful conclusion of the PSEE programme i.e. cases where profitable energy efficiency savings investment opportunities are identified. In this way, the provision of the capacity-building technical assistance would be made contingent on the private sector investment.

Example 3: Bilateral contributions to a pooling vehicle

EU-Africa Infrastructure Trust Fund (EU-AITF)

The European Development Fund (EDF) and several European Union Member States pool contributions in the EU-Africa Infrastructure Trust Fund (AITF) with the objective of promoting infrastructure projects in Sub-Saharan Africa with a regional impact. The EU-AITF provides support to individual projects or companies in the form of technical assistance, grants, interest rate subsidies as well as other financial instruments, such as guarantees, equity or quasi-equity investments or other risk-sharing instruments in order to mitigate the risks of private investments in Africa-based projects and companies.

Bilateral contributions to EU-AITF



Source: EU-Africa Infrastructure Trust Fund (EU-AITF) : http://www.eu-africa-infrastructure-tf.net/about/index.htm

As only official investors contribute to the EU-AITF, no mobilisation effect takes place at the fund level. However, mobilisation effect may occur at the outflow level, when EU-AITF uses any of the above-mentioned financial instruments.

The European Commission (as the manager of the EU-AITF) could report to the OECD-DAC on the mobilisation effect of EU-AITF activities at the outflow level, according to methodologies on direct investment in companies, shares in CIVs, guarantees etc. The private finance mobilised by the Facility could possibly be attributed back to relevant EU member states and EDF (pro-rata to their respective financial share in the facility).

II. Draft methodology for project finance schemes

1. Description

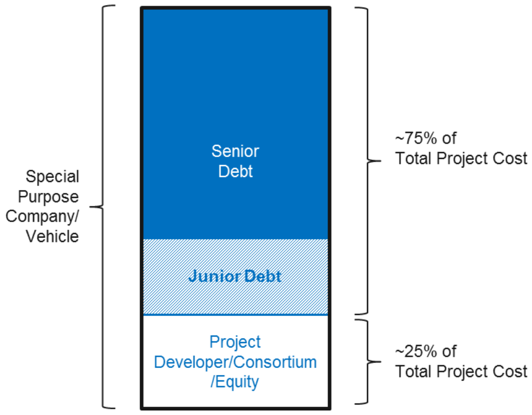
11. For the purpose of this methodology, *project finance* refers to non-recourse or limited recourse financing[14] of projects via special purpose vehicles (SPVs). Typical project finance instruments include equity instruments, senior debt, as well as credit enhancements such as guarantees. It follows 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

[14] Non-recourse or limited recourse financing refers to a financial structure, where the investors and lenders rely either exclusively (non-recourse) or mainly (limited recourse) on the cash flow generated by the project to repay their loans and earn a return on their investments.

repayment over all other forms of finance. That is, repayment risks for senior lenders are lower than for equity investors[15].

12. This methodology provides guidance on when to apply or combine existing methodologies for guarantees, syndicated loans and direct investment in companies to attribute private finance mobilised by official development finance interventions in a project finance structure (SPV).

Figure A1. Simplified typical financial structure of an SPV



2. Causality assumption

13. The basic assumption is that, in the context of development finance, the private sector would not have invested in the project finance SPV without the involvement of the official sector (*additionality* assumption).

14. It is further assumed that, in project finance, the causal link between official and private investment is stronger in a syndication or a guarantee scheme.[16]

3. Project boundaries

15. Project boundaries are defined by the balance sheet of the SPV, as well as potential guarantee arrangements, and as recorded in the providers' documentation, particularly the financial closure arrangements. Financing committed outside the SPV is not considered.

4. Point of measurement

16. For the purpose of this methodology it is suggested to measure the amounts mobilised from the private sector at the financial closure stage, i.e. the point in time where all agreements related to the project finance SPV have been signed and all required conditions (including financial commitments) have been concluded. If the project is divided in several phases with subsequent financial closure(s), the amounts mobilised are attributed after the financial closure of each phase.

[15] Please see EPEC PPP Guide, available at http://www.eib.org/epec/g2g/annex/1-project-finance/

[16] This assumption was confirmed by DFI and MDB experts at the 10 April 2018 working session. See summary at http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/Mobilisation-workshop-with-DFI-and-MDB-experts-10-April-2018-SUMMARY.pdf.

5. Attribution method

17. Project finance SPVs can be structured following four main scenarios, each scenario driving the attribution method to be applied (based on existing methodologies). Table A2 below presents and illustrates the different scenarios and provide guidance on how existing methodologies could be combined for attributing each private investment component mobilised in an SPV.

18. Given the assumption that a stronger causal link exists between official and private finance part of a syndication or a guarantee scheme (see para. 14 of this Annex), the attribution methods strive to apply the following general principles:

- Private finance part of a syndication and/or a guarantee scheme is attributed according to the relevant instrument-specific methodology (i.e. *syndicated loan* or *guarantee* methodologies);
- The remaining private finance in the SPV (not officially guaranteed or included in syndication arrangements) can be attributed according to:
  - **Option 1:** the methodology on *direct investment in companies*
  - **Option 2:** a *pure volume pro-rata* approach.

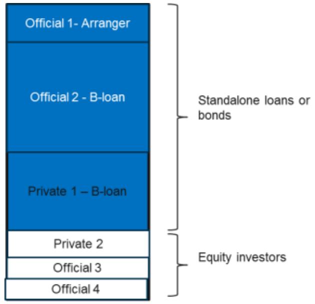
  At the 10 April working session on mobilisation, most participants were in favour of option 1 as it rewards the risk taken. However, some others also mentioned that, in the context of development finance and project finance in particular, debt can also help mobilise private sponsors and expressed their preference for a pure pro-rata approach (more neutral and practical).

  Members are invited to comment and indicate which option they would favour for attributing to official actors in a project finance the private finance not captured by the existing syndication and guarantee methodologies.
- In cases where instrument-specific methodologies overlap (e.g. a private B-loan in a syndication also benefits from an official guarantee), private finance mobilised is attributed by:
  - **Option 1: sharing equally**, implying that 50% is attributed to the official participants in the syndicated loan (*syndicated loan methodology*) and 50% to the official guarantor(s) (*guarantee methodology*).
  - **Option 2: prioritising the guarantor**. 100% of the private B-loan is attributed to the official guarantor (with the understanding that the causal link between the guarantor and private B-loan provider is stronger).

  Building on feedback from the 10 April 2018 meeting, there are two possible options. **Members are invited to comment and indicate which option they would favour.**

Table A2. Attribution method per project finance scenario

Senior debt and mezzanine finance   Equity

<table>
<tr>
<th></th>
<th>Scenario 1 – Debt is not syndicated; no guarantee in project finance.</th>
<th>Scenario 2 – Debt is not syndicated; private equity (and/or debt) is officially guaranteed.</th>
<th>Scenario 3 – Debt is syndicated. Private B-loan is not guaranteed.</th>
<th>Scenario 4 – Debt is syndicated; private B-loan in the syndication is also officially guaranteed (methodologies overlap).</th>
</tr>
<tr>
<td>Project finance structure</td>
<td>
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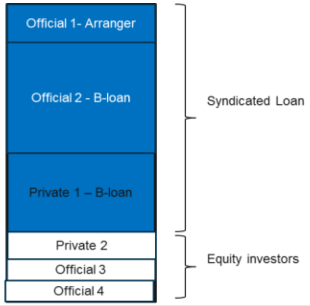
<td>
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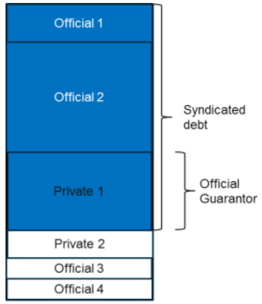
<td>
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</tr>
<tr>
<td>Attribution method</td>
<td>All private investment in the SPV (Private 1 and 2) is attributed to all official actors in the SPV (officials 1, 2, 3 and 4) according to [direct investment in companies methodology OR pure volume pro-rata approach, see para. 18 of this Annex].</td>
<td>Private equities (private 2) is attributed to the official guarantor according to the guarantee methodology.
Private debt (Private 1) is attributed to all official actors in the SPV (officials 1, 2, 3 and 4) according to [direct investment in companies methodology OR pure volume pro-rata approach, see para 18 of this Annex].</td>
<td>Private B-loan (Private 1) is attributed to official actors involved in the loan syndication (official 1 and official 2) according to the syndicated loan methodology.
Private equities (private 2) is attributed to all official actors in the SPV (officials 1, 2, 3 and 4) according to [direct investment in companies methodology OR pure volume pro-rata approach, see para 18 of this Annex].</td>
<td>Private equities (private 2) is attributed to all official actors in the SPV (officials 1, 2, 3 and 4) according to [direct investment in companies methodology OR pure volume pro-rata approach, see para 18 of this Annex].
Private B-loan (private 1) is attributed by [sharing equally.
50% to the official participants in the syndicated loan according to the syndicated loans methodology
50% to the official guarantor(s) according to the guarantee methodology.
OR prioritising the guarantor
100% of the private B-loan is attributed to the official guarantor according to the guarantee methodology (with the understanding that the causal link between the guarantor and private B-lender is stronger).
See para. 18 of this Annex.]</td>
</tr>
</table>

6. Examples of project finance structures

Elazig Hospital (Scenario 1)

The Project Company was mandated to design, build, finance, equip, and maintain an integrated hospital campus in Elazig, Turkey. The project sponsors include one official and three private financiers, supported by debt (stand-alone loans and bonds) provided by Proparco, FMO, IFC and two private banks.

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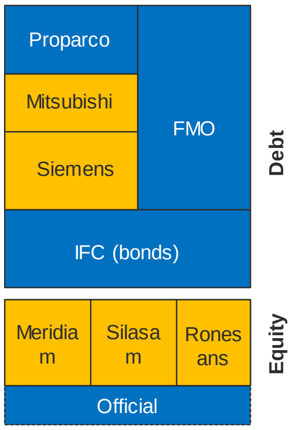
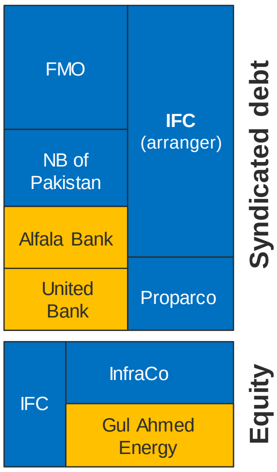


Gul Ahmed Wind Power Ltd. (scenario 3)

Gul Ahmed Wind Power Limited is an SPV established to build and operationalise a wind farm in the Sindh Province in the northeast of Karachi, Pakistan. The project SPV is sponsored by IFC, InfraCo and the Gul Ahmed Energy and further financed through a syndicated loan arranged by IFC. Private financiers occur in both the syndicated debt and equity tranche. No official guarantee is involved in this project.



Bujagali Hydropower Project (scenarios 2 and 4)

The Bujagali Hydropower Project is a power-generating facility on the Victoria Nile River near Jinja, Uganda. The project SPV was sponsored by two private companies, benefitting by an official guarantee by MIGA. Senior debt was provided as a syndicated loan involving seven DFI and MDBs and one private bank. The private debt investment was supported by a guarantee provided by IDA.