BETTER POLICIES FOR BETTER LIVES

METHODOLOGIES TO MEASURE AMOUNTS MOBILISED FROM THE PRIVATE SECTOR

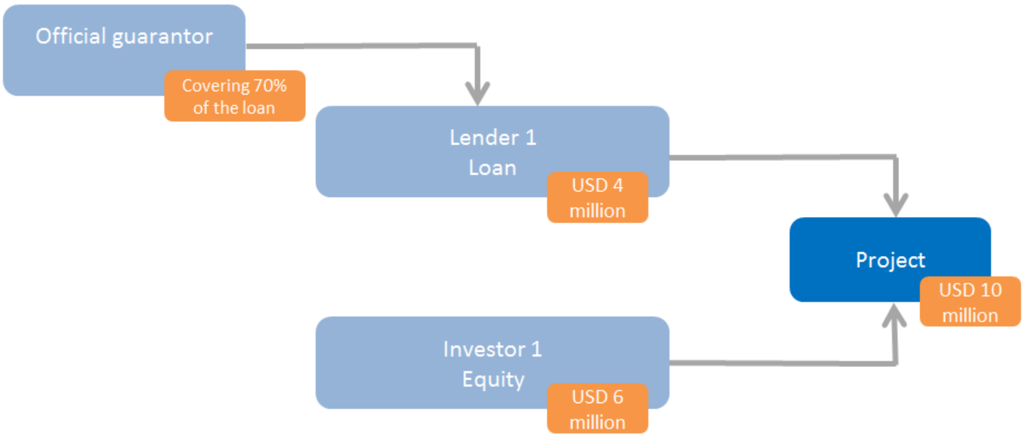
This note describes, with the help of concrete examples, the pilot methodologies developed by the DAC Working Party on development finance statistics for calculating amounts mobilised from the private sector through guarantees, syndicated loans and shares in CIVs extended for development purposes.

I. Guarantees

Example: imagine a USD 10 million project receiving a loan of USD 4 million from Lender 1 – a private investor from the beneficiary country – and equity from Investor 1 for USD 6 million. Lender 1 benefits from an official guarantee covering up to 70% (USD 2.8 million) of the loan (Figure 1).

The amount mobilised from the private investor by the official guarantee is USD 4 million. The implicit assumption is that the private investor would not have provided the loan without the official guarantee. Attribution of the amount mobilised is to the official guarantor(s). In the case of co-guarantees, the amounts mobilised are attributed pro-rata, according to the amounts guaranteed by each guarantor.

Figure 1. Amount mobilised by an official guarantor

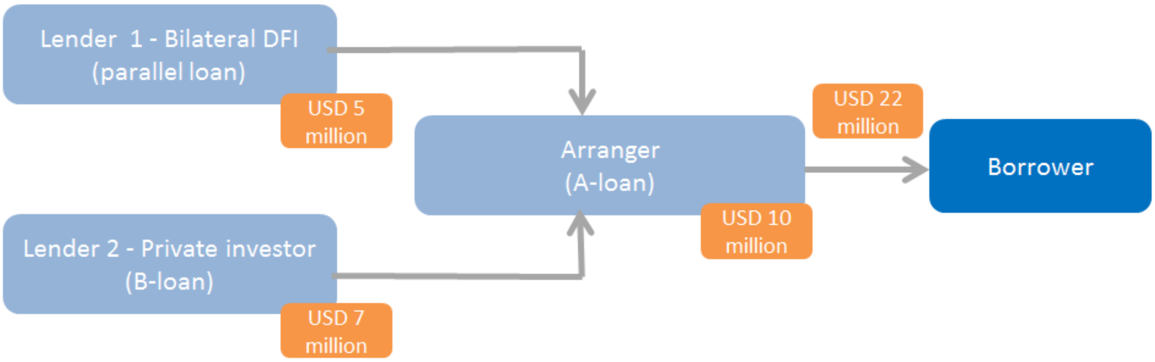


The **official guarantor** is the institution responding to the Survey (see Table 1). **Lender 1** is private and thus does not report here.

II. *Syndicated loan*

Figure 2 below illustrates a typical syndicated loan where an official institution (e.g. a DFI) provides a parallel loan of USD 5 million (Lender 1), and a private investor from an OECD country provides the B loan of USD 7 million (Lender 2). In this example, the arranger commits USD 10 million. The characteristics of the arranger determine the extent to which private finance mobilised is attributed to the different actors of the syndication.[1.]

Figure 2. Example of a typical syndicated loan



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. In this Survey, the amount mobilised is attributed to the arranger and the participant(s) as follows:

- **50%** to the official arranger (e.g. MDBs, bilateral DFIs).[2]
- The remainder (50%) to 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. The assumption is that private investors (including the arranger) would not have invested without the presence of official participants in the syndication.

The expected reporting from respondents to the Survey on the different cases is illustrated below.

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[1] In case of syndicated loans with participants bearing different levels of risk due to contractual arrangements, for the sake of simplicity, the different levels of seniority are not taken into account in the calculations.

[2] In comparison with the version presented to the WP-STAT in March 2015, and taking into account Members' comments received, the methodology has been simplified to attribute the amounts mobilised to the official arrangers equally, regardless of the preferred creditor status or not of the institution. However this information is still captured in field 17 to allow for further analysis of this aspect if needed.

Calculation of the amounts mobilised from the private sector for example 1 (lender 2 is private and thus does not report):

$$\textbf{Amount mobilised by Arranger} = \textbf{USD 5 833} = (\boldsymbol{USD}\ \mathbf{7\,000} * \mathbf{50\%}) + \frac{\textbf{USD 10 000}}{\textbf{USD 15 000}} * (\boldsymbol{USD}\ \mathbf{7\,000} * \mathbf{50\%})$$

$$\textbf{Amount mobilised by Lender 1} = \textbf{USD 1 167} = \frac{\textbf{USD 5 000}}{\textbf{USD 15 000}} * (\boldsymbol{USD}\ \mathbf{7\,000} * \mathbf{50\%})$$

In case there is more than one official lender involved in the syndication – for example instead of lender 1, there are two official lenders, 1.a and 1.b, investing USD 3 million and USD 2 million respectively – the amounts mobilised would be calculated pro-rata as follows:

$$\textbf{Amount mobilised by Lender 1.a} = \frac{\textbf{USD 3 000}}{\textbf{USD 15 000}} * (\textbf{USD 7 000} * \mathbf{50\%})$$

$$\textbf{Amount mobilised by Lender 1.b} = \frac{\textbf{USD 2 000}}{\textbf{USD 15 000}} * (\textbf{USD 7 000} * \mathbf{50\%})$$

Example 2: case of a private arranger

Calculation of the amounts mobilised from the private sector for example 3 (lender 2 is private and thus does not report):

$$\textbf{Amount mobilised by Lender 1} = \boldsymbol{USD}\ \mathbf{17\,000} = \frac{\textbf{USD 5 000}}{\textbf{USD 5 000}} * (\boldsymbol{USD}\ \mathbf{17\,000} * \mathbf{100\%})$$

III. *Shares in collective investment vehicles (CIVs)*

The amount mobilised through CIVs is defined as the total private investment committed during the fund-raising period, up to five years[3]. Such amounts are attributed to official bodies investing in the riskiest investment tranches, i.e. common equity in flat CIVs or first-loss shares or shares in otherwise riskiest tranches in structured CIVs.[4] When multiple official bodies invest in these tranches, a pro-rata attribution of the amounts mobilised is needed.[5] The calculation method therefore takes into account the number of official investors involved in the CIV: 50% of the amounts mobilised are attributed to each official participant in the riskiest tranche of the CIV equally, and the remaining 50% in proportion to their financial share in the riskiest tranche of the CIV respectively, at the moment of the private investment.

Example: imagine a flat, open-ended CIV, whose inception date was on 15 September 2008, where two official investors – DFI 1 and DFI 2 – invest USD 10 million and USD 4 million respectively in October 2008, a private investor from the beneficiary country invests USD 6 million in June 2012, one official institution (DFI 3) invests USD 12 million in January 2013 and a private investor from a third high income country invests USD 8 million in April 2013 (see Table 4 below). The **amount mobilised** from the private sector during the fund-raising period is **USD 14 million**, of which USD 6 million in 2012 and USD 8 million in 2013. The **implicit assumption** is that the private sector would not have invested in the CIV without the official investment in the riskiest tranche (common equity in this example).

Investments in the CIV (USD thousand)

Investors \ Investment year	October 2008	June 2012	January 2013	April 2013
DFI 1	10 000			
DFI 2	4 000			
DFI 3			12 000	
Private investor 1		6 000		
Private investor 2				8 000
Total investments	14 000	6 000	12 000	8 000

The expected reporting from the official investors is illustrated in table below. The amounts mobilised are calculated as follows:

Reporting in 2012: the amount invested by Private investor 1 is attributable to DFIs 1 and 2.

$$\textbf{Amount mobilised by DFI 1} = \textbf{USD 3 643} = \frac{1}{2} * (\textbf{USD 6 000} * \textbf{50\%}) + \frac{\textbf{USD 10 000}}{\textbf{USD 14 000}} * (\textbf{USD 6 000} * \textbf{50\%})$$

$$\textbf{Amount mobilised by DFI 2} = \textbf{USD 2 357} = \frac{1}{2} * (\textbf{USD 6 000} * \textbf{50\%}) + \frac{\textbf{USD 4 000}}{\textbf{USD 14 000}} * (\textbf{USD 6 000} * \textbf{50\%})$$

3 For practical reasons, the maximum fund-raising period through which official investments in CIVs can claim to have mobilised private investments is five years. This time limit applies equally to close- and open-ended CIVs and 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).

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. To facilitate calculations and reporting, there is no attribution to more senior tranches of the investment.

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 amounts mobilised by small DFIs that often take an active role in a deal but invest relatively small amounts compared to other official agencies.

Reporting in 2013: the amount invested by Private investor 2 is attributable to DFIs 1, 2 and 3. (The amounts mobilised are attributed to all three official investors in the CIV. The implicit assumption is that official investments have a mobilisation effect for up to five years, from the creation of the CIV.)

$$\textbf{Amount mobilised by DFI 1} = \textbf{USD 2 872} = \frac{1}{3} * (\textbf{USD 8 000} * \textbf{50\%}) + \frac{\textbf{USD 10 000}}{\textbf{USD 26 000}} * (\textbf{USD 8 000} * \textbf{50\%})$$

$$\textbf{Amount mobilised by DFI 2} = \textbf{USD 1 949} = \frac{1}{3} * (\textbf{USD 8 000} * \textbf{50\%}) + \frac{\textbf{USD 4 000}}{\textbf{USD 26 000}} * (\textbf{USD 8 000} * \textbf{50\%})$$

$$\textbf{Amount mobilised by DFI 3} = \textbf{USD 3 179} = \frac{1}{3} * (\textbf{USD 8 000} * \textbf{50\%}) + \frac{\textbf{USD 12 000}}{\textbf{USD 26 000}} * (\textbf{USD 8 000} * \textbf{50\%})$$

The results of the calculation of amounts mobilised are shown in Tables below.

ANNEX 3 – TERMINOLOGY AND KEY DEFINITIONS

Amounts mobilised are the resources invested by the private sector as a result of an investment or a fee-based financial service provided by surveyed institutions.

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 or loss of value in case of investment.

Official (or public) sector / institutions refer, for the purposes of this Survey, to aid agencies, bilateral and multilateral development banks and development finance institutions. Following the DAC definition of *official transactions* below, most DFIs are considered as official institutions in this Survey. (OeEB which is privately-owned executing a public mandate from the Austrian Government is also assimilated to an official institution in the Survey.)

Official (or public) transactions are defined in DAC statistics as 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 (Source: DAC converged statistical reporting directives, paragraph 13). By contrast, **Private transactions** refer to those undertaken by firms and individuals from their own private funds or on behalf of a private third party.

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.

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 thus encourage private investment. 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 of record. Official arrangers may also seek to syndicate "parallel loans" from other official institutions (e.g. IFIs) and other participants that are not eligible participants for B-loans[6]. In these cases, the official arranger identifies investments, structures deals, and negotiates with the borrower in coordination with all parallel lenders.

[6] Typically, in order to be eligible to participate in a syndication through a B-loan, the financial institution needs to be private in nature. Governmental, quasi-governmental or other official agencies including multilateral agencies are not B-loan eligible.

ANNEX 4 – List of institutions targeted by the Survey

African Development Bank – AfDB
Arab Bank for Economic Development in Africa – BADEA
Arab Fund for Economic and Social Development
Asian Development Bank – ADB
Australia
- Australian Agency for International Development – AusAID

Austria
- Austrian Development Agency – ADA
- Austrian Development Bank – OeEB

Belgium
- Directorate General for Co-operation and Development – DGCD
- Belgian Investment Company for Developing Countries – BIO

Canada
- Canadian International Development Agency – CIDA

Caribbean Development Bank – CDB
Climate Investment Funds
Council of Europe Development Bank – CEB
Czech Republic
- Czech development Agency – CzDA

Denmark
- Danish International Development Agency – DANIDA
- Investment Fund for Developing Countries – IFU

Development Bank of Latina America – CAF
European Bank for Reconstruction and Development – EBRD
European Union
- Commission of the European Communities – CEC
- European Development Fund – EDF
- European Investment Bank – EIB

Finland
- Ministry of Foreign Affairs – MFA
- Finnish Fund for Industrial Cooperation Ltd. (Finnfund)

France
- Agence Française de Développement – AFD
- Promotion et Participation pour la Coopération économique – Proparco

Germany
- Kreditanstalt für Wiederaufbau – KFW
- German Investment and Development Company – DEG

Greece
- Ministry of Foreign Affairs – MFA

Iceland
- Icelandic International Development Agency – ICEIDA

Inter-American Development Bank – IDB
International Finance Corporation – IFC
International Fund for Agricultural Development – IFAD
Ireland
- Department of Foreign Affairs and Trade – DFAT

Islamic Development Bank – IsDB
Italy
- Direzione Generale per la Cooperazione allo Sviluppo – DGCS
- Artigiancassa
- Società Italiana per le Imprese all'Estero – SIMEST

Japan
- Japanese International Co-operation Agency – JICA
- Japan Bank for International Co-operation – JBIC

Korea
- Korea International Cooperation Agency – KOICA
- Export-Import Bank of Korea – KEXIM

Kuwait
- Kuwait Fund for Arab Economic Development

Luxembourg
- Ministry of Foreign Affairs – MFA

Multilateral Investment Guarantee Agency – MIGA
Netherlands
- Ministry of Foreign Affairs – MFA
- Netherlands Development Finance Company – FMO

New Zealand
- New Zealand International Aid and Dev. Agency – NzAid

Nordic Development Fund – NDF
Norway
- Norwegian Agency for Development Co-operation – NORAD
- Norwegian Inv estment Fund for Developing Countries - Norfund

OPEC Fund for International Development – OFID
Poland
- Ministry of foreign affairs – MFA

Portugal
- Portuguese Government
- Sociedade para o Financiamento do Desenvolvimento – SOFID

Private Infrastructure Development Group – PIDG
Saudi Arabia
- Saudi Fund for Development –SFD

Slovak Republic
- Slovak Agency for International Dev. Cooperation – SAMRS

Slovenia
- Ministry of foreign affairs – MFA

Spain
- Spanish Agency for International Development Co-operation – AECID
- Compañía Española de Financiación del Desarrollo – COFIDES

Sweden
- Swedish International Development Authority – Sida
- Swedfund International AB

Switzerland
- State Secretariat for Economic Affairs – Seco
- Swiss Investment Fund for Emerging Markets – SIFEM

Turkey
- Turkish Cooperation and Coordination Agency – TİKA

United Arab Emirates
- Abu Dhabi Fund for Development – ADFD

United Kingdom
- Department for International Development – DFID
- CDC Capital Partners PLC

United States
- Agency for International Development – USAID
- Overseas Private Investment Corporation – OPIC

World Bank – IBRD/IDA