MEASURING MOBILISATION

Briefing on efforts to harmonise OECD and MDB measurement methodologies

DAC Meeting, 10 July 2018

This note is presented for discussion under item 10 of the draft annotated agenda [DCD/DAC/A(2018)10].

The present document is intended to inform the Committee of the ongoing discussion in the harmonisation of OECD and multilateral development bank (MDB) methodologies for measuring the mobilisation of private finance. A first version [DCD/DAC(2018)25] was circulated to DAC members on 25 May 2018 for written feedback by 8 June 2018. This revised version takes into account the comments received, in particular from the World Bank on the MDB methodology (paragraphs 7 through 11). Some updates and clarifications have been made in other paragraphs. The questions for discussion are presented in paragraph 22.

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Mobilisation of private finance and support for the 2030 agenda: Briefing on efforts to harmonise OECD and MDB measurement methodologies

Mobilisation of private finance is critical to delivering the 2030 Agenda for sustainable development. Better, more granular data on mobilisation are required to help build trust in efforts to encourage greater use of leveraging instruments – the data provide a basis for impact measurement but will also help the private sector gain a better understanding of the investment opportunities in developing countries. A call for greater transparency on private finance mobilised was a recurrent theme at the recent IMF/WB spring meetings. However, there are different views on what greater transparency means in concrete terms – what level of granularity is required and what data reporting is feasible in practice. This note informs the Committee of the discussion that is ongoing in this area in the context of work to harmonise the OECD and multilateral development banks’ (MDBs’) measurement methodologies.

Background

1. Under a mandate from the 2014 DAC High Level Meeting (HLM)¹, the OECD Development Co-operation Directorate has been working on developing an international standard for measuring mobilisation of private finance for development. The methodological work has been conducted in close collaboration with the OECD-led Research Collaborative on tracking private climate finance as well as bilateral and multilateral development finance institutions (DFIs). The methods have then been tested through data surveys, refined and approved by the Working Party on Development Finance Statistics (WP-STAT) for inclusion in the regular data collection in the Creditor Reporting System (CRS).

2. So far, data collection is operational for five leveraging instruments: guarantees, syndicated loans, shares in collective investment vehicles (investment funds), direct investment in companies and credit lines. (See data below.) Methodological work is ongoing to cover two additional leveraging mechanisms: project finance structures (PPPs) and standard loans and grants in “simple” co-financing arrangements with private investors (e.g. matching grants). Upon approval of these two additional methodologies the OECD measure on mobilisation can be considered comprehensive. In parallel, the Secretariat is working with data providers to facilitate the data compilation and ensure data quality.

3. Discussions on mobilisation have been held in close contact with the MDBs that have developed their own approach to report collectively on mobilisation. Their work is closely related to the billions to trillions agenda and the request to the MDBs by their respective shareholders to optimise their balance sheet². Recently, the discussion has focused on how


² More about the MDB mandate: http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23758671/DC2017-
the two approaches could be further harmonised, both in terms of definitions and measurement methods.

**Figure 1. Overview of amounts mobilised from the private sector: USD 81.1 billion in 2012-15**

Two approaches – the OECD and the MDB group – and how they differ from one another

4. Mandated by the 2014 DAC HLM, the OECD aims to establish an international standard for collecting transparent (activity-level) data on the mobilisation effect of individual development finance interventions. Transparency at the level of individual projects will help to inform policies, ensure credibility (address concerns about over-inflation of figures) and build trust with the public but also the private sector.

5. Transparency is also a major deliverable under the OECD DAC Blended Finance Principles endorsed by the DAC HLM in October 2017, which emphasise the need to monitor blended finance for results and to ensure public transparency and accountability on blended finance operations (principle 5). The OECD Blended Finance definition, also agreed at the HLM, has mobilisation as the critical goal of Blended Finance. The mobilisation approach is therefore an instrumental element which will underpin Blended Finance going forward and be used in the guidance which will inform the Principles. Market participants in consultations have been supportive of this approach as it provides transparency on activities and therefore builds confidence in the market.

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4 Blended Finance is the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries.
6. The main principle of the OECD methodology for measuring mobilisation is a **demonstrated causal link between the official and private investment.** (So far, the more indirect – “catalytic” – effect has been considered more difficult to track statistically.)
   - The methodologies are instrument-specific to take into account the different financial characteristics and the role and position of all official actors involved. In turn, these elements, including the risk taken by the official sector (e.g. first-loss vs. common shares in collective investment vehicles), determine the attribution method to be applied for reporting on the amounts mobilised.
   - The methodologies strive to be i) fair in terms of attribution (considering the role played by all official actors, including from developing countries); ii) conservative in terms of causality assumptions; and iii) avoid double-counting.
   - The data are made available online at [http://www.oecd.org/development/mobilisation.htm](http://www.oecd.org/development/mobilisation.htm) through a data visualisation tool. A proposal on rules for data disclosure was discussed at the 13-15 June 2018 WP-STAT meeting and will be presented for members’ approval later this year.

7. The MDB approach distinguishes between “direct” and “indirect” mobilisation, as well as catalysation. **Private direct mobilisation (PDM)** is defined as “financing from a private entity on commercial terms due to the active and direct involvement of a MDB leading to commitment”. Evidence of active and direct involvement include mandate letters, fees linked to financial commitment or other validated or auditable evidence of a MDB’s active and direct role leading to commitment of other private financiers. **Private indirect mobilisation (PIM)** is defined as “financing from private entities provided in connection with a specific activity for which an MDB is providing financing, where no MDB is playing an active or direct role that leads to the commitment of the private entity’s finance”. Financing captured under PIM does not fit in the measure of mobilisation under the OECD approach as it represents co-financing where causality is not demonstrated.

8. According to the World Bank the MDB methodology provides a basis for **attribution** which avoids double counting. Under PDM, all private finance mobilised is attributable to the institution that set up the deal. No private finance mobilised is attributable to other official co-financiers (e.g. aid agencies or small DFIs, see the example on syndications in the Annex). As regards PIM, in the view of the Secretariat, the attribution method and how double counting is avoided remain unclear.

9. The OECD and MDB approaches also differ in terms of **country coverage** as many MDBs are also mandated by their shareholders to operate in high-income countries (HICs).

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6 Under the MDB approach, private entity is defined 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.
10. The figures on direct and indirect mobilisation are reported collectively by the MDB group in a joint report with the data broken down by MDB and by recipient income group and region as well as for infrastructure. No activity-level data are disclosed in this joint report. Given that the data seem to be collected at the aggregate level, it remains unclear how quality assurance of the whole dataset (in particular no double-counting on PIM) is ensured.

11. The MDBs welcome any DFI to use the MDB methodology for addition to the joint report; twelve out of the fifteen EDFIs did so for the 2017 report.

Why a need to harmonise OECD and MDB approaches? What are the issues?

12. Members have requested harmonisation of the OECD and MDB approaches as, currently, the publication of data on mobilisation based on two different methodologies is confusing (inconsistent data and messaging) and creates a burden to the institutions involved (double reporting). Discussions on this issue have been ongoing for some time, most recently at the working session on measuring mobilisation held at the OECD on 10 April 2018. Efforts to find a common ground have not succeeded so far. For the OECD, it would be difficult to simply adopt the MDB approach for the following reasons.

13. The criteria used by the MDBs to demonstrate their active or direct involvement leading to commitment reflects some MDBs’ business models but fails to take into account the role of smaller actors that do not necessarily have the capacity to arrange deals but nevertheless provide funding with the specific aim to mobilise private finance. The method does not take into account the role and position – i.e. the risk taken – by the co-financiers. Consequently, under the MDB methodology a DFI that is mandated to promote private finance by mitigating/sharing risk would not get credit for mobilising private finance; the amounts mobilised would be attributed to the arranger – typically an MDB. Such an approach could therefore set disincentives for donor governments to support their DFIs’ engagement in blended finance transactions jointly with MDBs. At the same time, bilateral DFIs are becoming increasingly significant participants in Blended Finance. Between 2000 and 2016, a total of 167 facilities that engage in blending were launched, with a combined volume (as measured by commitments) of approximately USD 31 billion.

14. In the same vain, the MDB methodology for direct mobilisation would not give credit to emerging providers of development finance (e.g. National Development Banks such as BNDS, DBSA) when they provide co-financing to a project arranged by an MDB – their investments get attributed to the lead institution administering the financial package. This has been a major critique by developing countries regarding the measurement of mobilised

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7 According to the World Bank, it is up to each individual MBD to disclose activity-level information according to its own disclosure policies. The fact that the joint report does not include activity-level data does not mean that it is not available to interested parties, but it is not within the scope of the MBD report.

8 Earmarked allocation of development resources (mostly public but sometimes philanthropic) to facilities which are further invested in development projects through a range of instruments including by purchasing shares in collective vehicles such as funds. There is no blending as such within facilities; rather facilities provide finance that supports blending further downstream at the fund or project level (OECD 2018).

9 The World Bank notes that if national development banks were to adopt the methodology, the attribution process for them would follow the same approach as for the MDBs and EDFIs currently.
climate finance. It could become an issue also in the contexts of measuring total official support for sustainable development (TOSSD) where the buy-in from developing countries is critical and the measurement and reporting discussions that are ongoing in the International Development Finance Club (IDFC).

15. The MDB approach for measuring PIM is also problematic as it does not attribute private finance mobilised back to individual official institutions co-financing a project. The total private co-financing is reported collectively by the MDBs as a group. In an international statistical system, where all countries and institutions report individually on their own responsibility, such an approach would inevitably lead to double counting and inflating the figures, ultimately undermining public trust in our collective efforts to bring private finance into the 2030 financing mix.

16. Finally, the Secretariat believes that it is not sufficient to publish only aggregate figures on mobilisation. The credibility of the figures is dependent on the possibility for the public to access information (ideally at the project level) on the purpose and recipients of funds. In that respect, the MDB approach does not provide the statistical depth to facilitate analysis, accountability, decision-making and accurate measurement of the provider and recipient country. Transparency is also necessary to build trust with the private sector which needs to gain a better understanding of the opportunities and challenges in investing in developing countries.

Pending harmonisation, what can be done?

17. Pending progress in harmonising the methodologies it has been agreed to clarify the differences between the OECD and MDB approaches: a common narrative was developed and published to explain the differences between the two systems, with the understanding that MDBs would report on mobilisation to the OECD according to the DAC approach for comparability and accuracy purposes (see extract from the MDB methodological guide issued in April 2017 in Annex 1). The underlying rationale was that mixing the two approaches in an international statistical system would result in double-counting and undermine the credibility of data on mobilisation. (See illustration in Annex 2.) However, in the most recent version of the methodological guide, this recommendation has been removed. The World Bank notes that it is up to each individual MDB to determine whether and how they report to the OECD, and that this is not connected to the aggregate mobilisation reporting.

18. In recent discussions with the MDBs, there has been little scope for harmonisation. The MDBs often refer to their shareholders’ mandate to mobilise their investment capacities and note that their methodology has already been agreed by their respective Heads, leaving little room for flexibility. They also consider their work inclusive (their shareholders represent a broad range of countries). The coverage of the data published in the joint report is increasing – in addition to the bilateral DFIs members of the IDFC have been invited to join the MDB collective reporting on mobilisation.

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11 At the workshop on mobilisation organised by OECD on 10 April but also at the margins of the 2018 Spring Meetings in Washington.
19. For the OECD, the fact that DAC members’ DFIs feature in the MDB report has become a pressing issue, in particular as some of these DFIs have been reluctant to provide data to the DAC CRS system on their operations in developing countries. At the same time, non-reporting to the CRS on mobilisation goes against the 2014 HLM agreement (paragraph 14) which states that the DAC “will also collect data on resources mobilised by official interventions from the private sector using leveraging instruments such as guarantees. We support continued work to establish an international standard for measuring the volume of private finance mobilised by official interventions”.

20. More generally, the two approaches and data solicitations are likely to create confusion in the processes of monitoring the implementation of commitments and pledges of development finance and climate finance (SDGs, USD 100 billion for climate action), in particular if total amounts are not consistent. This was underlined in the written comments of Spain12, as well as by a few other members at the 11 June 2018 DAC meeting where they expressed concerns over the current situation, noting that it could also affect the ongoing work on TOSSD. The World Bank has stated it does not believe the MDB methodology creates confusion but rather helps to provide a common understanding for private mobilisation and allows for comparability leading to aggregation which shows private investment flows contributing to the financing mix for the 2030 agenda.

Possible next steps

21. The Secretariat remains in close contact with the MDB group to pursue dialogue and efforts to find a common ground for future harmonisation. It has also been suggested that the Secretariat and some MDBs work together on concrete examples of projects to compare the results of the two approaches to get a better understanding on the extent to which they differ quantitatively and to see if the two can be bridged. This work will be carried out over the next few months. To facilitate continued joint technical work, the issues outlined in this note have been signalled to the MDBs at the executive level.

22. This note is presented for discussion at the 10 July 2018 DAC meeting. The Committee members are invited to:

- express their views and provide guidance on how the issue of harmonisation could be moved forward;
- remind their respective DFIs of the reporting obligations to the OECD on their operations in developing countries, including the amounts mobilised from the private sector;
- encourage the MDBs to continue reporting to the OECD on mobilisation according to the DAC methodology, for comparability purposes and to avoid double-counting at total flow level.

12 Spain also signalled another issue regarding the treatment of export credits in the context of measuring private climate finance mobilised. While export credits are out of the scope of the DAC measure on mobilisation (as the focus is on development finance), these interventions may be relevant in the context of climate finance.

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

Both approaches have common underlying principles, but the scope of application and formulas used are different.

**Similarities**
- Both seek to demonstrate the private mobilization achieved through public interventions for the benefit of developing countries.
- Both only attribute private investment mobilization where there is concrete linkage or a direct and active involvement of a public institution.
- Both rely on validating evidence of the public institutions' mobilization role.

**Differences**
- The OECD approach does not differentiate between direct and indirect mobilization as defined by the MDB approach.
- The OECD approach attributes private mobilization to all public institutions in a transaction; the MDB approach only attributes this amongst MDBs.
- The OECD approach is in progress. So far, it covers five instruments: guarantees, syndicated loans, shares in collective investment vehicles, credit lines, and direct investments in companies. The MDB approach covers all instruments.
- The OECD approach defines infrastructure to include only economic infrastructure (roads, energy, etc.) while the MDB approach includes part of social infrastructure (hospitals, schools, etc.).

MDB: Methodology for Private Investment Mobilization - Reference Guide - April 2017

Report available here

(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

Comparison between OECD-DAC and MDB approaches for syndicated loans

<table>
<thead>
<tr>
<th>OECD/DAC approach</th>
<th>MDBs’ fee-based approach</th>
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</table>
| • 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? |

Illustration of possible double-counting if mixing both DAC and MDB approaches,

**Syndicated loan for Oyu Tolgoi mine** (Mongolia), arranged by IFC

<table>
<thead>
<tr>
<th>Lender</th>
<th>Role</th>
<th>Commitment (USD million)</th>
<th>Private finance mobilised according to</th>
<th>Both approaches mixed</th>
</tr>
</thead>
<tbody>
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<td></td>
<td></td>
<td></td>
<td>OECD-DAC</td>
<td>MDBs</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>736.8</td>
<td>776</td>
</tr>
<tr>
<td>IFC</td>
<td>Official Arranger</td>
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<td></td>
<td>17.4</td>
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<tr>
<td>KfW</td>
<td>Official Participant</td>
<td>20</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>FMO</td>
<td>Official Participant</td>
<td>25</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>PRIVATE*</td>
<td>Participant</td>
<td>776</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>TOTAL MOBILISED</td>
<td></td>
<td>776.0</td>
<td>776.0</td>
<td>815.2 (of which USD 39.2 million double-counted)</td>
</tr>
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