REFERENCE GUIDE

This reference guide explains how the Multilateral Development Banks (MDBs)* and European Development Finance Institutions (EDFIs)* calculate and jointly report **private investment mobilization**.

The purpose of the methodology is to recognize and measure the private capital mobilized in MDB project activities. "From Billions to Trillions: Transforming Development Finance" outlines the MDBs' joint commitment to mobilizing increased investment from the private sector and institutional investors.

* For brevity in this guide, MDBs will include both DFIs and MDBs.

AFRICAN DEVELOPMENT BANK GROUP

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SOURCES OF FINANCE

DEFINITIONS | MEASUREMENT | ATTRIBUTION | COMPARISON

The methodology is focused on assessing the private financing mobilized by an MDB, which must be assessed on a project-by-project basis, since the financing structure for each or activity is unique. These definitions define the sources of financing in a transaction.

Total Activity Financing (TAF)

is the total financing from all public and private sources provided in connection with a specific activity for which the MDB is providing financing. TAF is composed of the following three components:

1. Commitment *
2. Private Co-financing (incl. private sponsor financing)
3. Public Co-financing

* For non-commercial risk guarantees, TAF consists of the sum of private and public co-financing.

MDB Commitment

is the sum of annual new investment commitment volumes of loans, equity, guarantees*, etc. by an MDB.

MDB commitment for commercial and non-commercial risk guarantees consists of MDB exposure to the project (i.e. the covered portion of underlying investment and any other future investments and financial and ancillary costs as request by the guarantee holder).

Private Co-financing (PCf)

is the investment made by a private entity, which 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.

Public Co-financing

is the investment made by a public entity. Public entities include multilateral and bilateral financial institutions, export credit agencies, and any other institution whose primary purpose is to benefit or promote a specific national interest, regardless of ownership.

***Note**: Public co-financing is not included in this methodology, as its purpose is to measure private mobilization **only** by the participating MDBs*

The methodology focuses on measuring and reporting private investment mobilized. Therefore, the only finance sources that are included in the methodology are MDB Commitment and Private Co-financing (PCf), also referred to as private mobilization. PCf is broken down into two key elements as described below.

Private Direct Mobilization

is 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. **PDM** does not include sponsor financing.

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Private Indirect Mobilization

is 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. **PIM** includes sponsor financing, if the sponsor qualifies as a private entity.

A sponsor is an entity or individual responsible for technical and financial success of activity

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Total Private Mobilization

Private Co-financing

are the sum of all **PDM** and **PIM.**

Infrastructure

The MDBs use a common definition to qualify transactions as infrastructure projects. Infrastructure is defined as underlying physical foundation or civil works (including integral and/or dedicated equipment) that support economic and social development. The following sectors are automatically classified as infrastructure:

- Energy (electricity generation, transmission, distribution)
- Water and waste management (water and sanitation, solid waste, irrigation, flood control)
- Transport (roads, ports, airports, urban transport, railway, fluvial and maritime transport)
- Telecommunications
- IT within infrastructure sectors
- Social infrastructure (schools, hospitals, etc.)

Captive infrastructure, reserved for the sole use of a firm, is excluded

Image by Samir Cabbarov, 2012. Via Wikimedia Commons

TREATMENT OF LONG-TERM FINANCIAL INSTRUMENTS

Long-term financial instruments have a tenor that is at least one year. Short-term (< 12 month tenor) instruments are tracked and reported separately. For some instruments, special treatment is required to differentiate MDB Commitment, **PDM** and **PIM**.

Long-term Loans, Equity & Islamic Finance

Private co-financing is classified as **PDM** when there is a verifiable active and direct role played by an MDB in mobilizing a private financier.

In the case of loans and Islamic finance, examples of **PDM** could include syndicated loans or any other case where an MDB plays a role similar to a mandated lead arranger. Collection of fees or MoUs are examples of auditable evidence.

For MDB equity investments, a verifiable role that demonstrates an MDB playing an active and direct role must occur for private co-financing to be classified as **PDM**. Being an anchor investor is not sufficient justification and is classified as **PIM**. If MDB is General Partner (GP), other private investments in the fund committed at same financial close are considered **PDM**. If MDB is Limited Partner (LP), other private investments in the Fund committed at same financial close are considered **PIM** unless LP has an active and direct role in bringing in LPs.

Lines of credit are loans from the MDB to financial intermediaries for on-lending to investment projects undertaken by final beneficiary companies. The lending by the private intermediary, as governed by the credit line agreement signed with the MDB, is classified as **PIM**. Any private sponsors' own funds at beneficiary project level would be reported as **PIM**.

Guarantees

The total amount of the loan or equity being guaranteed by the MDB is counted as **PDM**. This includes both commercial risk guarantees and non-commercial risk guarantees. For commercial risk guarantees, the **PDM** is counted net of any amount reported as an MDB commitment.

Guarantees by sponsors are counted as **PIM** and subject to attribution.

In the case of Trade Finance. the portion of risk in a program not funded or guaranteed by an MDB that is funded or guaranteed by a private partner financial institution and a private confirming bank is counted as **PDM**.

The portion of risk distributed by an MDB on an unfunded or funded basis to private insurance companies or other private third parties is counted as **PDM**. For unfunded risk distributions, these flows would only be counted as **PDM** only if the three criteria for URTs are met (see next page).

Short-term Finance (STF)

STF includes but is not limited to trade finance, supply chain finance and other programmatic support for real economic activity where the tenor is less than 12 months.

TREATMENT OF OTHER MOBILIZATION SITUATIONS

Unfunded Risk Transfer (URT)

An unfunded transfer of credit risk associated with loans or guarantees from an MDB to a third-party guarantor (like an insurance company or a commercial bank). Qualifies as **PDM** if it meets all three of the following conditions:

1. The risk transfer is in respect of the specific set of assets which the MDB is financing from its commitments
2. The timing of the commitment of the third-party insurer and the MDB's financing commitment are within twelve months of each other
3. The MDB reduces its reported commitments by the same amount as the coverage of the risk transfer.

Client Bond Issuance

When an MDB supports the issuance of a bond by a client, the total amount raised by the client from bond issuance to private entities counts as **PDM** when the MDB can demonstrate an active and direct role in bringing private investors into the bond issuance (while complying with legal requirements). Being an anchor investor to the bond issuance is not considered an active and direct role.

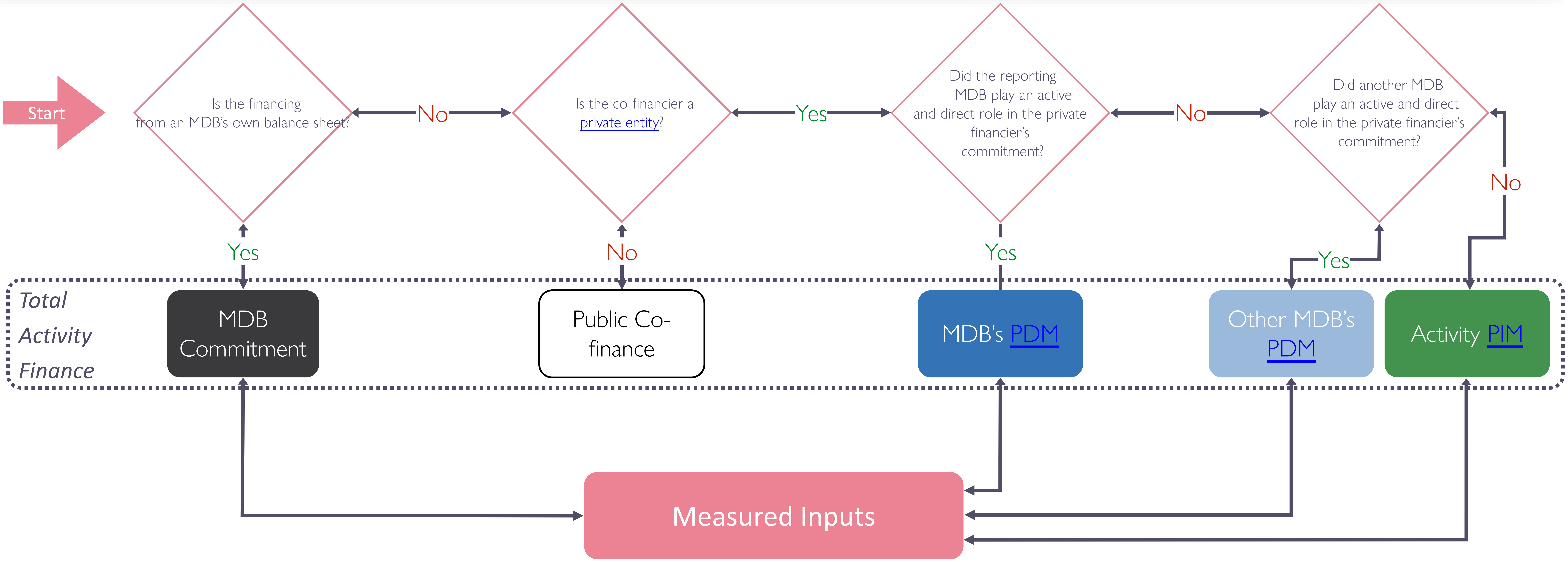
Direct Transaction Support

MDBs may also provide advisory services and related assistance to a client where these services are linked to the procurement of funds for a specific activity. Procurement of private financing linked to the provision of advisory services counted as **PDM**.

DECISION TREE: CLASSIFYING & MEASURING INPUTS

This decision tree outlines how a reporting MDB would classify financing flows into a project.

This decision tree applies to all instruments and situations where an MDB is co-financing alongside one or more private investor.



OTHER REPORTING CONVENTIONS

These include protocols and other data uniformity conventions agreed to by the MDBs.

Timing of Measurement

1. Timing of measurement for **PDM** is normally the commitment date of the **PDM**.
2. Timing of measurement for **PIM** is normally the **PIM** commitment date if available. If not, PIM would be measured and reported based on the MDB's **PDM** commitment date, or the MDB commitment date when the **PDM** commitment date is not available.
3. If no commitment date is available, the approval date of the MDB Commitment will be used.
4. Where the MDB's financing contribution is made in several tranches over more than one calendar year, and a commitment date is not available, private co-financing is to be measured on a pro rata basis using the share of the MDB's financing commitments in each year to the total amount approved by the MDB for the activity.

Reporting Period

is the calendar year, covering all commitments made during that year.

Reporting Currency

is USD, at the applicable exchange rate as of the end of the calendar year being reported.

ATTRIBUTING PRIVATE CO-FINANCING

Treatment of cross-regional projects which involve countries from more than one region, as defined by the TF. **PcF** is attributed on a prorated basis.

Proration Formula

There might be cases in which projects take place in more than one region. The percentage of **PcF** attributed to a region A is the share of region A in the total number of countries in all regions of the project.

If this calculation cannot be made, we advise the responsible manager to work with the respective project team to estimate the regional distribution.

$$\left(\frac{\text{\# of countries in region A}}{\text{\# of total countries in region A and B}} \right) = \text{\% of PcF attributed to region A}$$

Treatment of regional projects which involve countries of more than one income group. **PcF** is attributed on a prorated basis.

Proration Formula

There might be cases in which projects contain countries of more than one income group.

$$\left(\frac{\text{\# of LIC in the region}}{\text{Total \# of countries in the region}}\right) = \text{LIC \% of PcF}$$

$$\left(\frac{\text{\# of MIC in the region}}{\text{Total \# of countries in the region}}\right) = \text{MIC \% of PcF}$$

$$\left(\frac{\text{\# of HIC in the region}}{\text{Total \# of countries in the region}}\right) = \text{HIC \% of PcF}$$

ATTRIBUTING PRIVATE DIRECT MOBILIZATION

PDM is attributed at its full value, less any adjustments in the case of guarantees or URTs, to the MDB which demonstrates the active and direct role.

For the Reporting MDB

Each MDB differentiates, at the project level, (i) its own Private Direct Mobilization; (ii) the Private Direct Mobilization of other MDBs; and (iii) Private Indirect Mobilization that is neither (i) nor (ii).

To avoid double-counting and assign attribution properly, each MDB reports 100% of (i), 0% of (ii), and a prorated share (iii) equal to the MDB's share in total MDBs' commitments of the activity.

For the Counterpart MDB

Any private co-financing flows classified as the **PDM** of another MDB are ***not reported***.

ATTRIBUTING PRIVATE INDIRECT MOBILIZATION

PIM is attributed on a prorated basis, according to the reporting MDB's share of all Commitments attributed to all MDBs in an activity.

Proration Formula

The ratio of the reporting MDB's Commitments* to the total of all MDB Commitments is the way **PIM** is prorated and attributed to the reporting MDB.

In this way, the activity **PIM** is not double counted across both MDBs' reports. Instead, it is apportioned between the MDBs. The cases starting on the next page illustrate this in practice.

* Excludes MDB commitments as part of PDM attributed to another MDB.

$$\left(\frac{\text{Reporting MDB's Commitment}}{\text{Reporting MDB \& Other MDB's Commitments}} \right) \times \text{Activity PIM} = \text{PIM attributed to reporting MDB}$$

COMPARISON: MDB JOINT CLIMATE CO-FINANCE (CCF) APPROACH

The private mobilization methodology and climate co-finance approach are conceptually the same, with differences arising from the underlying purpose of the reporting initiative.

Report available here

Equivalences

- Both are joint approaches developed by the MDBs
- Both seek to report total private co-financing provided alongside MDB transactions
- Both prorate the co-finance flows based on the proportion of total MDB commitments made by the reporting MDB; this is in order to mitigate double counting
- Both only prorate amongst the MDBs, as both approaches are framed as assessments of co-financing invested alongside MDB commitments
- Both cover the same range of transaction types

Differences

- CCF only reports climate-related projects and not the whole universe of MDBs' projects
- CCF reports co-financing from both private and public sources.

COMPARISON: OECD AMOUNTS MOBILIZED FROM THE PRIVATE SECTOR

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

Report available here

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 official development finance interventions in a project (*additionality* assumption); the MDB approach only attributes this amongst MDBs contributing to the joint report .
- The OECD approach is work in progress. Currently, the measure covers five instruments (guarantees, syndicated loans, shares in collective investment vehicles, credit lines and direct investments in companies). Work is on-going for standard grants/loans and project finance schemes. 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.).

CASE COMPARISON BETWEEN OECD AND JOINT MDB METHODOLOGIES

DEFINITIONS MEASUREMENT ATTRIBUTION COMPARISON

Instrument	Example	OECD Approach	MDB Approach
Commercial Risk Guarantee	An MDB guarantees 70% of a loan provided by a private bank, who is the sole lender to a project alongside the private sponsor	The full amount of the private loan is attributed to the guarantor (i..e. the MDB) as mobilized private investment.	30% of the guaranteed private loan is reported as **PDM** (the rest is added to the MDB's Commitments) 100% of the private sponsor's investment is attributed as **PIM**
Syndicated Loan	An MDB leads a syndicate that includes one private lender and one public lender; the borrower is private	50% of the value of the private lender's investment is attributed to the arranger, (i.e. the MDB). The other 50% is shared proportionally (by commitment amount) between all public lenders in the syndication (incl. the MDB if applicable).	100% of the private loan is attributed to the MDB as **PDM** 100% of the sponsor's equity is attributed to the MDB as **PIM** Nothing is attributed to the public lender
Collective Investment Vehicles	One MDB and one public investor commit to a CIV (flat structure) alongside a private investor with investments of USD 50, 30 and 20 million respectively; no direct or active role is played by any of the investors.	50% of the private investment is attributed equally between all public investors in the CIV, 50/50 to the MDB and the public investor in this example. The other 50% is attributed on a prorated basis of total commitment between all public investors.	100% of the private investor's commitment is attributed to the MDB as **PIM** Nothing is attributed to the public investor
Non-Commercial Risk Guarantee	An MDB guarantees 90% of a non-shareholder loan provided by a private bank, who is a lender to a project alongside other private sponsors.	The full amount of the private loan is attributed to the guarantor (i..e. the MDB) as mobilized private investment.	100% of the guaranteed loan is reported as **PDM** 100% of the private sponsors' investments are attributed to **PIM**

APPENDIX: COUNTRY LIST BY REGION

Africa: Angola; Benin; Botswana; Burkina Faso; Burundi; Cabo Verde; Cameroon; Central African Republic; Chad; Comoros; Congo, Democratic Republic of; Congo, Republic of; Côte d'Ivoire; Equatorial Guinea; Eritrea; Ethiopia; Gabon; Gambia, The; Ghana; Guinea; Guinea-Bissau; Kenya; Lesotho; Liberia; Madagascar; Malawi; Mali; Mauritania; Mauritius; Mozambique; Namibia; Niger; Nigeria; Rwanda; São Tomé and Principe; Senegal; Seychelles; Sierra Leone; Somalia; South Africa; South Sudan; Sudan; Swaziland; Tanzania; Togo; Uganda; Zambia; Zimbabwe.

Asia: Afghanistan; Azerbaijan; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; China; Fiji; India; Indonesia; Iran, Islamic Republic of; Iraq; Kiribati; Korea, Republic of; Lao People's Democratic Republic; Malaysia; Maldives; Marshall Islands; Micronesia, Federated States of; Mongolia; Myanmar; Nauru; Nepal; Pakistan; Palau; Papua New Guinea; Philippines; Samoa; Singapore; Solomon Islands; Sri Lanka; Thailand; Timor-Leste; Tonga; Tuvalu; Vanuatu; Vietnam; Kazakhstan; Kyrgyz Republic; Tajikistan; Turkmenistan; Uzbekistan.

Europe: Albania; Andorra; Armenia; Austria; Belarus; Belgium; Bosnia and Herzegovina; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; Faroe Islands; Finland; France; Georgia; Germany; Gibraltar; Greece; Greenland; Hungary; Iceland; Ireland; Isle of Man; Italy; Kosovo; Latvia; Liechtenstein; Lithuania; Luxembourg; Macedonia, FYR of; Malta; Moldova; Monaco; Montenegro; Netherlands; Norway; Poland; Portugal; Romania; Russian Federation; San Marino; Serbia; Slovak Republic; Slovenia; Spain; Sweden; Switzerland; Turkey; United Kingdom; Ukraine.

Latin America and the Caribbean: Antigua and Barbuda; Argentina; Bahamas; Barbados; Belize; Bolivia; Brazil; Chile; Colombia; Costa Rica; Dominica; Dominican Republic; Ecuador; Grenada; Guatemala; Guyana; Haiti; Honduras; Jamaica; St. Kitts and Nevis; St. Lucia; Mexico; Nicaragua; Panama; Peru; Paraguay; El Salvador; Suriname; St. Vincent and the Grenadines; Trinidad and Tobago; Uruguay; Venezuela, Republica Bolivariana de.

Middle East: Algeria; Bahrain; Djibouti; Egypt, Arab Republic of; Iran, Islamic Rep; Iraq; Israel; Jordan, Kuwait; Lebanon; Libya; Morocco; Oman; Qatar; Saudi Arabia; Syrian Arab Republic; Tunisia; United Arab Emirates; West Bank and Gaza; Yemen, Republic of.