Issues to resolve on Mobilized Private Finance (MPF)

(as of 25 April 2021)

Review of discussion so far and materials

1. The Secretariat produced a research note on MPF in July 2020. The note pointed out that the term "mobilization" as used in SDG targets applies to many different actors and a wide variety of types of finance. However, the only data series called "mobilized private finance" currently being compiled arise from two methods, one developed by multilateral development banks (MDBs) and the other by the OECD. They give figures for private finance mobilized through MDBs, bilateral development finance institutions (DFIs) and other national agencies. The research note gave references which included an OECD comparison of the two methods here and an MDB comparison here.

2. The July 2020 Secretariat paper posed eight questions about MPF for consideration by the Group. Some of them (questions b to e in the paper) were about which country should be attributed as the source of the MPF. But these questions will not now need to be answered if the Working Group agrees to pursue the Secretariat's current proposal, which is to show only developing country receipts, and not source country outflows, under indicator 17.3.1.

3. At the Group's third meeting in August 2020, it was decided that MPF should be one of three items on the Group's research agenda and a wiki platform was set up to facilitate the work on the agenda.

4. Responding to the Secretariat research note on the wiki platform,[1] the TOSSD Task Force Secretariat (TOSSD-TFS) stated its view that coverage of private flows should be limited to MPF, including those mobilized by emerging provider countries. The TOSSD-TFS observed that TOSSD Task Force members had agreed to exclude from TOSSD private resources not mobilized by official interventions (i.e. those outside the government's control), namely FDI, portfolio investments and remittances, and that "data on these flows are generally confidential and not available at the activity level (the reporting standard in TOSSD)."

5. The TOSSD-TFS also observed that "Private flows mobilized should include private finance already present in developing countries before it is mobilized. In TOSSD, the Task Force has chosen to focus on "mobilizing" and shifting the volume of private finance for projects with expected positive impacts on the SDGs, regardless of the origin of the funds. The reason for this is that the inclusion of private finance mobilized from all sources enables developing countries to get a full picture of schemes mobilizing private finance."

6. The TOSSD-TFS elaborated on these points in its two notes available on the wiki. The second, entitled "Why mobilized private finance is the "cannot miss" component in a measure of development support for the SDGs?" pointed out that the Covid-19 pandemic

[1] The comprehensive response of 8 September 2020 also includes a methodological note. A second methodological note by the TOSSD-TFS was posted on 16 February 2021.

had increased the financing gap for implementing the SDGs in developing countries by $1.7 to $4.2 trillion and that mobilizing the "the trillions of assets available on financial markets towards the achievement of the SDGs in developing countries requires governments and all stakeholders (i.e. DFIs, MDBs and NDBs) to increase the use of innovative financing instruments."

7. At its fourth meeting in September 2020, the Group's opinions were divided about including MPF in the indicator. An argument for its inclusion was its importance for the 2030 Agenda. A counter-argument was that it would leave out the vast majority of private flows for which universally accepted measurement standards already existed. Several countries had concerns about its inclusion without providing specific reasons.

8. In further comments on the wiki, Cuba favored limiting consideration of private flows in the new indicator 17.3.1 to MPF, and favored the OECD methodology "because it establishes direct causal link with the mobilization effect, it focus on the long term flows of more [than] 1 year maturity like ODA and FDI included in the current 17.3.1 and also attributes…shares of mobilized amounts to all official participants or investors".

9. Norway added that "[t]he OECD has been working for a number of years to establish an international standard for measuring and collecting data on private finance mobilized by development finance interventions. The aim is to provide robust and transparent evidence to inform international processes, including the implementation of the Addis Ababa Action Agenda."

What will the indicator measure, and what are its limitations in general terms?

10. If either the OECD or the MDB method is used, ***the indicator will measure the volume of private finance committed in each year*** that has been associated with certain instruments and actions of external development agencies.

11. In the OECD's latest methodology, the instruments covered are guarantees, syndications, credit lines, shares in collective investment vehicles, direct investment in companies, project finance and simple co-financing arrangements. The MDB method claims to cover all instruments. Both the MDB and the OECD methods leave out all private finance mobilized by developing countries themselves through bond issues, international loans, and other measures.

What are the problematic issues?

12. ***The concept of mobilization requires assumptions about causation***. For example, in the case of guarantees, the OECD method makes "The implicit assumption…that the private investor would not have provided the loan, equity or other finance without the official guarantee." For syndicated loans, "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." Such assumptions are open to question: the activity, or something like it, may have happened anyway.

13. Both the MDB and the OECD measures are essentially designed to apportion credit to official donor agencies for mobilizing private flows to developing countries. ***The***

methods do not apportion credit to the other parties involved, including developing countries.

14. Both methods count private flows mobilized in developing countries themselves. This means that, if included, ***MPF would be the only Target 17.3 indicator that included non-cross-border flows***. It could be argued that funds already in developing countries are not "additional financial resources" for them. Such funds might also still have been applied to sustainable development purposes, even had they not been mobilized by outside bodies.

15. ***MPF are amounts <u>committed</u> by the private sector, not amounts <u>spent</u> by the private sector***. Some commitments may never result in actual spending: projects may not go ahead, or may not be completed, and credit lines may not be drawn upon, and then lapse. MPF would be the only finance under 17.3 measured as commitments instead of actual disbursements.

16. ***The volume of MPF is rather small***. According to recently-posted 2019 TOSSD data, total MPF by all bilateral and multilateral agencies combined was $47.1 billion. Moreover, $36.2 billion of this total was stated as going to "Developing countries, unspecified", with only $10.9 billion being allocated to specific developing countries or regions. Most developing countries show no MPF receipts. Earlier OECD data on MPF flows were geographically allocated, so this may be a temporary problem. However, even if fully country-allocated, total MPF may not be considered sufficiently significant to warrant a dedicated indicator, given the exclusion of other much larger private flows to developing countries, such as bond lending.

17. The 2019 TOSSD data also show $34.9 billion of MPF to "unallocated/unspecified" sectors. Without more specific information ***it would be difficult for developing countries to verify or challenge their sustainable development purpose***, notwithstanding any sustainability tests that might have been applied by the financing institutions involved.

18. ***An MPF indicator would involve a significant overlap with FDI data***. Of the six instruments in the OECD methodology, the private finance mobilized by investment guarantees (though not loan guarantees), shares in collective investment vehicles, and direct investment in countries would all enter FDI if and when it materialized. Among flows that would not overlap with FDI, if loan guarantees were to include ***export credits***, these are typically extended by private firms for commercial objectives, not initiated by governments for developmental reasons.

19. ***The relevance of this indicator from a recipient perspective is not entirely clear.*** The indicator may not be suitable to incentivize efforts of providers if measured from a recipient perspective. At the same time, the indicator may be viewed as incomplete from a recipient perspective as private flows mobilized by developing countries themselves are excluded. Recipients may find amounts do not translate to additional resources wherever commitments do not result in disbursements, lines of credit are not used etc.

Could there be a better measure for MPF?

20. There are numerous possibilities for better measurements of MPF. Both the OECD and the MDB methodologies have been developed gradually, and further improvements are possible.

21. Views will differ as to whether alternative approaches would be better than the existing ones. Agencies' future enhancements to their methodologies are most likely to extend their coverage. However, given the issues noted above, it may be more relevant for the purposes of measuring MPF in the context of SDG Target 17.3 to consider more restrictive approaches, e.g.:

    (a) Take action to measure only actual disbursements of MPF, not MPF commitments
    (b) Exclude amounts mobilized from the developing country's own private sector
    (c) Exclude investments that would be counted anyway in FDI when they eventuated
    (d) Exclude guaranteed private export credits
    (e) Leave MPF out of the Group's indicator proposal for the 2022 Statistical Commission, but include it as a recommended area for future work.

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