Inter-Agency and Expert Group on SDG Indicators: Working Group on Measurement of Development Support

Why mobilised private finance is the "cannot miss" component in a measure of development support for the SDGs?

(Contribution by the TOSSD Task Force Secretariat, February 2021)

Introduction

1. This note has been drafted by the TOSSD Task Force Secretariat. It aims to contribute to the ongoing reflection at the IAEG-SDGs working group on measurement of development support regarding the importance of capturing private finance mobilised in such a measure.

I. Why, in times of the COVID-19 pandemic, including private finance mobilised in a measure of development support became even more important?

2. **The COVID-19 pandemic increased the existing financing gap for the implementation of the SDGs in developing countries by USD 1.7 trillion[1], raising it to USD 4.2 trillion[2].** In this context, mobilising all sources of funding, including from the private sector, has become even more critical than before and adds new urgency to the 2030 Agenda. At the same time, the top 100 asset owners controlled USD 20.1 trillion in global assets at the end of 2019 — a 6 percent increase from the year before, according to a new annual ranking[3] - 54% of which were held by the top 20 pension funds and sovereign wealth funds.

3. **Mobilising the trillions of assets available on financial markets toward 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 blended finance solutions such as de-risking approaches (e.g. political, commercial).** The underlying objective is to encourage more private sector engagement in co-financing schemes with the official sector and better alignment of these private investments with the SDGs. With this in mind, a group of key development partners launched, in 2018 on the side-lines of the IMF/World Bank Meeting at the Sustainable Development Forum in Bali, the Tri Hita Karana (THK) international roadmap for blended finance with a view to developing a common framework to mobilise, better target and align additional resources for the SDGs.

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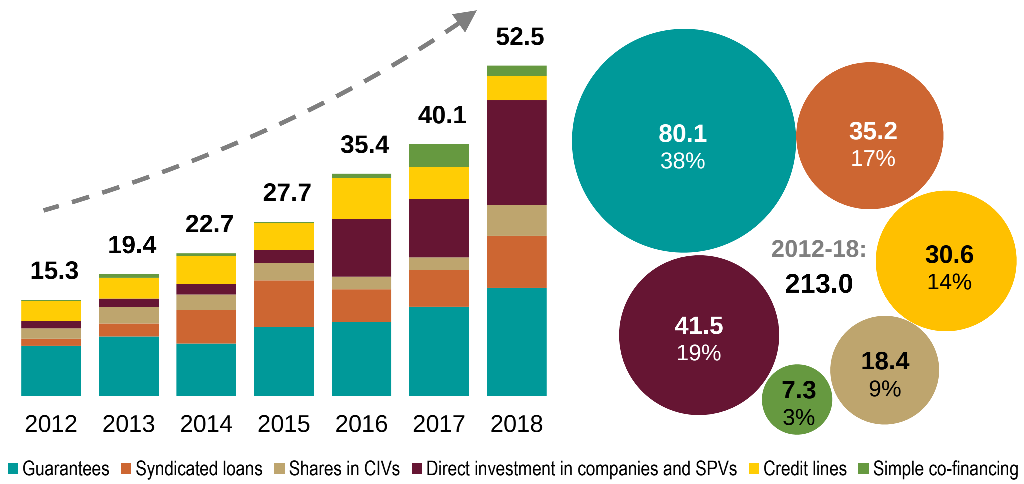
[1] This estimation for 2020 includes USD 1 trillion of additional needs for COVID-19 plus a USD 700 billion drop in external private resources in developing countries. Source: http://www.oecd.org/fr/cad/global-outlook-on-financing-for-sustainable-development-2021-e3c30a9a-en.htm.

[2] This includes the USD 2.5 billion annual financing gap for the SDGs in developing countries estimated by UNCTAD, see: https://unctad.org/en/PublicationsLibrary/wir2014_en.pdf.

[3] Reference: https://www.institutionalinvestor.com/article/b1p7flhqqcgq15/Here-Are-the-World-s-Biggest-Asset-Owners.

Figure 1. Amounts mobilised from the private sector by year and instrument, 2012-18, USD billion



Source: OECD statistics

4. **Evidence-based analyses on private finance mobilisation have been at the core of many international debates on development support for the SDGs.**[4] In 2018, private finance mobilised for sustainable development was estimated at USD 52.5 billion, a 31% increase compare to 2017 (see figure 1 above). However, preliminary figures for 2019 indicate a possible decrease of around 10% in the amounts mobilised by official actors, a trend that is likely to be further accentuated by the current COVID-19 crisis and the reduction in the financing available to developing economies[5]. Tracking and monitoring progress made toward the mobilisation of private finance for the SDGs, as well as transparency on these operations, will be critical to incentivise providers to do more in this area but, also, to build the necessary trust on the markets for the private sector. These amounts already constitute a key component of the TOSSD framework since presenting only "official" flows would not provide the full picture of financial resources available for the SDGs at country level. However, they are presented in a separate heading within the TOSSD framework to avoid mixing official and private flows.

II. Measuring development support with or without private finance mobilised: what difference does it make?

5. The 2019 TOSSD Data Survey showed that including private finance mobilised by official development interventions in the measurement framework prompted reporting on public-private financing partnerships, brought transparency and provided a better understanding of how development-related projects – in particular large infrastructure projects – are funded and reach financial closure. The examples below illustrate the value-added of capturing – at the project level – the amounts mobilised from the private sector, as well as the loss of information if data are not collected.

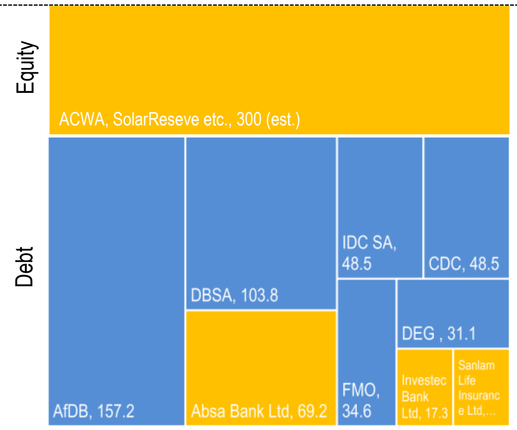
[4] Examples include UNCDF-OECD work on blended finance in the LDCs or donor's 100bn climate goal in the context of the UNFCCC.

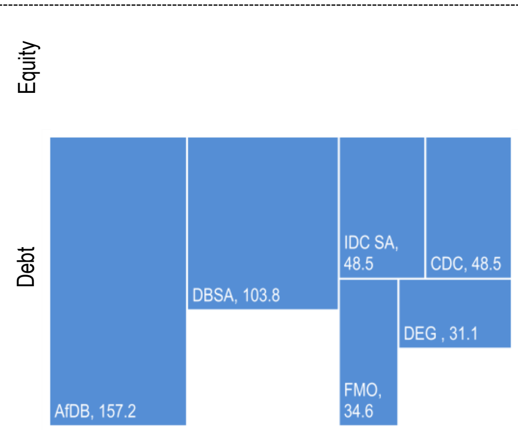
[5] See Page 8 and 9 in "The impact of the coronavirus (COVID-19) crisis on development finance" – June 2020: External private finance inflows to developing economies could drop by USD 700 billion in 2020 compared to 2019 levels, exceeding the immediate impact of the 2008 Global Financial Crisis by 60%.

Figure 2 – Illustration of information on a project financing in a measure of development support <u>with</u> or <u>without</u> private mobilisation

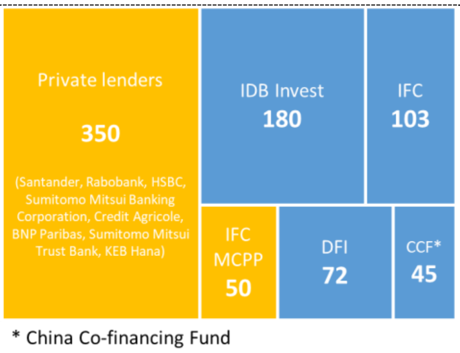
<u>WITH</u> *(as in TOSSD)*	**<u>WITHOUT</u>**

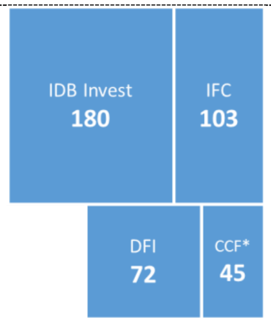
Example 1. South Africa's 100 MW Redstone Concentrated Solar Power Project, USD million[6]





Example 2. Klavin's Puma II project for Brazilian Pulp and Paper Industry[7]





Example 3. Azito Thermal Power Plant in Côte d'Ivoire[8]

None as unfunded contingent liabilities such as guarantees are not captured in a flow-based system (unless activated).

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[6] Sources: AfDB, ACWA, CDC Group – https://www.cdcgroup.com/en/our-impact/investment/acwa-power/; https://www.fmo.nl/project-detail/55499; https://www.afdb.org/en/news-and-events/south-africa-african-development-bank-approves-a-zar-3-billion-loan-to-bolster-renewable-energy-in-south-africa-18760; https://www.acwapower.com/en/projects/redstone-csp-opp/.

[7] Sources : https://www.idbinvest.org/en/news-media/idb-invest-leads-800-million-financing-klabin-and-supports-growth-and-improved; https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=18524.

[8] Sources: https://www.miga.org/project/azito-energie-sa.

III. What are the key methodological considerations to take into account when measuring private finance mobilised at the international level?

6. Measuring private mobilisation at the international level requires following a number of principles to ensure no-double counting when aggregating the figures, as well as to bring transparency on how and where private finance was mobilised for a specific project or activity. In the context of TOSSD, the methodology used to capture and measure mobilisation strives to abide by the following principles:

Principle 1: ensure a clear causal link between an official intervention and the provision of private finance

7. In order to be credible and realistic, measuring the resources mobilised from private sources by official development finance interventions requires that a clear causal link between the provision of the private finance (orange boxes in figure 2) and the official intervention is well-established and documented. The scope of the measure should also exclude commercial finance from public sources, which is reportable as official flows (e.g. the National Development Bank of South Africa, DBSA in figure 2).[9][10]

Principle 2: track the origin of the funds mobilised

8. As recalled in the 2030 Agenda, aid will not be sufficient to implement the SDGs in developing countries and it will be critical to mobilise additional finance from all possible sources, public and private, external and domestic. In this context, capturing the mobilisation of all private finance is important, whatever the origin of these funds, as long as a causal link with an official development finance intervention can be clearly demonstrated. However, for transparency purposes, it is important to also track the origin of the funds mobilised (i.e. provider country vs. recipient country, other), alongside information collected on the leveraging instrument used by the official institution and the amounts mobilised. Illustrations of activities that mobilised private finance locally, in the recipient country, include for example:

- The Nachtigal Hydropower Project in Cameroon, for which the IBRD extended a guarantee to local financial institutions, enabling a local currency debt investment in the project of USD 200 million.[11]
- As part of its Global Loans policy, the EIB extended a credit line of up to EUR 50 million to the APEX Bank in Armenia for local SME development which mobilised additional EUR 50 million in top-up funds from the local finance institution's own sources.[12]

Principle 3: properly reflect the role played by the different leveraging mechanisms in stimulating private co-investment

9. Data on resources mobilised from the private sector should enable analyses, as well as knowledge-sharing, on the use and impact of the different leveraging instruments/mechanisms used by official providers: i.e. guarantees/insurance, syndicated loans, shares in collective investment vehicles (CIVs), credit lines, direct investment in companies, grants and loans in simple co-financing arrangements and project finance schemes. In addition, in order to increase the relevance and usefulness of the information provided, it is important that the resources mobilised be reported at the level of the transaction with the recipient country. In the case of funds or facilities, data on resources mobilised could be sought from the facilities so as to capture the cross-border transaction with the recipient country.

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[9] In the TOSSD framework, the delineation between official and private transactions rely on who owns or controls the financing entity.

[10] By contrast, private resources not mobilised by official interventions (i.e. those outside the government's control), are excluded from TOSSD, namely FDI, portfolio investments and remittances. Data on these flows are generally confidential and not available at the activity level (the reporting standard in TOSSD). Activity-level information greatly increases the usefulness of the data for developing countries and makes it possible to assess whether or not a flow indeed contributes to sustainable development.

[11] More information available at http://documents1.worldbank.org/curated/en/119421547128746160/pdf/ITK171540-201900100856.pdf.

[12] More information available at https://www.eib.org/en/projects/loans/all/20140045.

Principle 4: Avoid double-counting when aggregating the amounts mobilised, while ensuring a fair representation of the role played by all official providers, including from developing countries

10. In a statistical system where data are collected mostly from providers, it is important to have a methodology that avoids double counting of resources mobilised in any aggregation. Such a methodology should, however, properly and transparently reflect the role played by all providers, including from developing countries (e.g. through national development banks). This is why, in TOSSD, reporting on mobilisation is done activity by activity (for transparency and quality assurance) and official actors involved in a co-financing project only report their respective share of the private finance mobilised. For ease of reporting, reporters can use either the OECD or the MDB methodology to calculate their respective share of private finance mobilised.[13] However, in order to avoid double-counting and for comparability purposes, TOSSD Task Force members decided to present information according to a single approach and, for that purpose, agreed to use the OECD methodology. They considered the latter most suitable to accurately represent the leveraging effect of the different interventions. In practice, this implies that amounts are adjusted at the central level by the TOSSD Secretariat using the additional information collected for checking purposes only.[14]

MDB and OECD methodologies for measuring mobilisation:
two methodologies serving different purposes

A comparative analysis between the MDB and OECD approaches for measuring private finance mobilised was presented and discussed at the TOSSD Task Force.[1] It showed that both approaches have their own merits but also serve different purposes: while the MDB methodology was developed to enable MDBs jointly reporting to shareholders on progress toward their "billions to trillions" agenda, the OECD methodology was developed under a High Level mandate from its members to establish an international standard for measuring mobilisation, taking into account the role of all official development finance actors, including governments from provider and recipient countries, as well as bilateral and multilateral development finance institutions.

[1] See: "TOSSD reporting instructions: comparative analysis between the MDB and OECD approaches for measuring private finance mobilised"

Conclusion

11. In times of a COVID-19 pandemic, including the resources mobilised from the private sector in a measure of development support appears, more than never, instrumental to properly inform the development community on the range of options available to scale up the volume and impact of financial resources for the SDGs. Beyond traditional aid modalities, public interventions, by offering de-risking solutions, can help shift private resources toward sustainable development, a core aspect of the SDG 17. As shown by a number of TOSSD country pilots[15], transparency on such information will help inform development co-operation policies, both at the domestic and international levels.

[13] Presented in Annex F of the TOSSD Reporting Instructions: http://www.oecd.org/dac/tossd/TOSSD%20Reporting%20Instructions_February%202020.pdf.

[14] However, for a number of institutions, information on the amounts mobilised from the private sector is subject to confidentiality regimes and data sharing agreements may be needed, both to enable the transmission of this information at the project level and to agree on the level of detail in reports and publications.

[15] See at http://www.oecd.org/dac/tossd/tossd-country-pilot-studies.htm.