DAC methodologies for measuring the amounts mobilised from the private sector by official development finance interventions

Guarantees, syndicated loans, shares in collective investment vehicles, direct investment in companies, credit lines, simple co-financing arrangements and project finance schemes.

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CONTENTS

1. GUARANTEES

Please note that this methodology is also relevant in the context of project finance SPVs (see section 7).

DESCRIPTION

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. The term guarantee refers to both guarantee and insurance scheme.

KEY ASSUMPTION AND ATTRIBUTION

The implicit assumption is that the private investor would not have provided the loan, equity or other finance without the official guarantee. The amount mobilised by a guarantee is the face value of the instrument covered by the guarantee, irrespective of the exposure value of the guarantee.

In the case of co-guarantees, the private finance mobilised is attributed to all official guarantors, pro-rata according to the amount guaranteed by each. The role played by sub-guarantors is out of scope of the measure.

EXAMPLE

A USD 10 million project receives 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 (face value of the loan).

Figure 1: Example of a guarantee, mobilisation of private investment

The **official guarantor** is the reporting agency. **Investor 1** (lender) is private and thus does not report here.

REPORTING INSTRUCTIONS

Table 1. Reporting instructions, guarantees

CRS/TOSSD FIELDS	OFFICIAL GUARANTOR
Field 13 – Amount committed	0*
Field 43a - Leveraging mechanism	6=Guarantee/insurance
Field 43b - Amounts mobilised from the private sector	4 000
Field 43c - Origin of funds mobilised	2=Beneficiary country

* The amount committed is reportable for flows only.

2. SYNDICATED LOANS

Please note that this methodology is also relevant in the context of project finance SPVs (see section 7).

DESCRIPTION

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 thereby encourage private participation. 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. Official arrangers may also seek to syndicate "parallel loans" from other official institutions and participants that are not eligible participants for B-loans[1]. In these cases, the official arranger identifies potential participants, structures the deals, and negotiates with the borrower in coordination with all parallel lenders.

KEY ASSUMPTION AND ATTRIBUTION

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. The amount mobilised is attributed to the arranger and the participant(s) as follows:

- **50%** to the official arranger;
- **The remainder 50%** to all Participant(s), to all official participant(s), pro-rata to their respective financing share in the syndication.

P = volume of private investment mobilised O = volume of official investment

$$\text{Amount mobilised by Arranger } = (P * 50\%) + \frac{O_{Arranger}}{O_{Total}} * (P * 50\%)$$

$$\text{Amount mobilised by Lender 1 } = \frac{O_{Participant}}{O_{Total}} * (P * 50\%)$$

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.

EXAMPLE

Figure 2 below illustrates a typical syndicated loan where an official institution 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 (see scenarios 1 and 2 below).[2]

Figure 2: Example of a typical syndicated loan
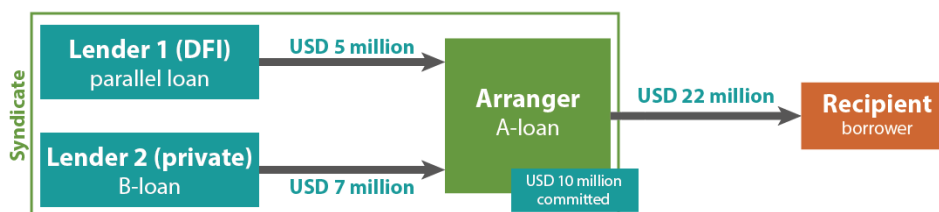
REPORTING INSTRUCTIONS

Scenario 1: arranger is an official institution

Table 2: Reporting instructions, syndicated loans, arranger is an official institution

YOUR INSTITUTION IS... / CRS/TOSSD FIELDS	Arranger	Participant (Lender 1 in figure 2)
Field 33 – Amount committed	10 000	5 000
Field 43a – Leveraging mechanism	1=Syndicated loan, arranger	2=Syndicated loan, participant
Field 43b - Amounts mobilised from the private sector	5 833	1 167
Field 43c – Origin of funds mobilised	3=Third OECD/ high income country	3=Third OECD/high income country
Field X – Type of arranger	Official institution	Official institution
Field X – Amount invested by your institution		
Field X – Total official investment	15 000	15 000
Field X – Private investment before attribution	7 000	7 000

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

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

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

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:

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

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

Scenario 2: arranger is a private company

Table 3. Reporting instructions, syndicated loans, arranger is private

YOUR INSTITUTION IS... / CRS/TOSSD FIELDS	Arranger	Participant (Lender 1 in figure 2)
Field 13- Amount committed		5 000
Field 43a – Leveraging mechanism	n.a.	2=Syndicated loan, participant
Field 15 - Amounts mobilised from the private sector	n.a.	17 000
Field 43c – Origin of funds mobilised	n.a.	3=Third OECD/high income country
Field X – Type of arranger	n.a.	Private institution
Field X – Total official investment	n.a.	5 000
Field X –Private investment before attribution	n.a.	17 000

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

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

3. SHARES IN COLLECTIVE INVESTMENT VEHICLES

DESCRIPTION

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.

KEY ASSUMPTION AND ATTRIBUTION

The amount mobilised through CIVs is defined as the total private investment committed during the fund-raising period. When multiple official institutions invest in CIVs, a pro-rata attribution of the amounts mobilised is needed.[3] 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. 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.

- **The remaining 50%** are attributed to all official participants pro-rata to the official financiers' investment share in the CIV at the moment of the private investment, regardless of the risk taken (i.e. including investors in both the riskiest and mezzanine/senior tranche).

For practical reasons, the maximum fund-raising period during which official investments in both close- and open-ended CIVs can claim to have mobilised private investments **is five years**.[4]

EXAMPLE

In October 2008, two official investors – DFI 1 and DFI 2 – invest USD 10 million and USD 4 million respectively in the riskiest tranche of an open-ended CIV whose inception date was 15 September 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 in the mezzanine/senior tranche 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.

Table 4: Example of investments in a CIV (USD thousand)

Investment year / Investors	October 2008	June 2012	January 2013	April 2013
DFI 1 – Riskiest tranche	10 000			
DFI 2 – Riskiest tranche	4 000			
DFI 3 – Mezzanine/senior tranche			12 000	
Private investor 1		6 000		
Private investor 2				8 000
Total investments	14 000	6 000	12 000	8 000

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[3] 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.

[4] This time limit 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. However, the time limit may not be applicable in cases where a strong causal link exists between official and private investments in a CIV, even more than five years after the inception date (e.g. re-capitalisation).

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.

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

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

Reporting in 2013: the amount invested by Private investor 2 is attributable to DFIs 1, 2 and 3 (50% of the amounts mobilised are attributed equally to the official investors in the riskiest tranche, DFI 1 and DFI 2, to reflect the higher risk exposed to and the resulting larger mobilisation effect. The remaining 50 % are attributed to all three official investors in the CIV pro-rata to their financial share in the official investment).

$$\text{Amount mobilised by DFI 1} = \text{USD 3 538} = \frac{1}{2} * (\text{USD 8 000} * 50\%) + \frac{\text{USD 10 000}}{\text{USD 26 000}} * (\text{USD 8 000} * 50\%)$$

$$\text{Amount mobilised by DFI 2} = \text{USD 2 615} = \frac{1}{2} * (\text{USD 8 000} * 50\%) + \frac{\text{USD 4 000}}{\text{USD 26 000}} * (\text{USD 8 000} * 50\%)$$

$$\text{Amount mobilised by DFI 3} = \text{USD 1 846} = \frac{\text{USD 12 000}}{\text{USD 26 000}} * (\text{USD 8 000} * 50\%)$$

REPORTING INSTRUCTIONS

Table 5: Reporting instructions, shares in CIVs

REPORTING AGENCY / CRS/TOSSD FIELDS	DFI 1	DFI 2	DFI3
Reporting in year 2012			
Field 33 – Amount committed	0	0	n.a.
Field 43a - Leveraging mechanism	4=Shares in the riskiest tranche of structured CIV	4=Shares in the riskiest tranche of structured CIV	n.a.
Field 43b - Amounts mobilised from the private sector	3 643	2 357	n.a.
Field 43c - Origin of funds mobilised	2=Beneficiary country	2=Beneficiary country	n.a.
Field X –Amount invested by your institution	10 000	4 000	n.a.
Field X – Number of official investors in the riskiest tranche	2	2	n.a.
Field X – Number of official investors in the mezzanine/senior tranche	0	0	n.a.
Field X – Total official investment	14 000	14 000	n.a.
Field X – Private investment before attribution	6 000	6 000	n.a.
Reporting in year 2013			
Field 33 – Amount committed	0	0	12 000
Field 43a - Leveraging mechanism	4=Shares in the riskiest tranche of structured CIV	4=Shares in the riskiest tranche of structured CIV	5=Shares in the mezzanine/senior tranche of structured CIV
Field 43b - Amounts mobilised from the private sector	3 538	2 615	1 846
Field 43c - Origin of funds mobilised	3=Third OECD/high income country	3=Third OECD/high income country	3=Third OECD/high income country
Field X - Amount invested by your institution	10 000	4 000	12 000
Field X – Number of official shareholders in the riskiest tranche	2	2	2
Field X – Number of official shareholders in the mezzanine/senior tranche	1	1	1
Field X – Total official investment	26 000	26 000	26 000
Field X – Private investment before attribution	8 000	8 000	8 000

4. DIRECT INVESTMENT IN COMPANIES

Please note that this methodology is also relevant in the context of project finance SPVs (see section 7).

DESCRIPTION

For the purpose of this methodology, direct investment in companies refers to on-balance sheet investments in corporate entities which are conducted without any intermediary (e.g. a collective investment vehicle) and which typically consist of or can combine the following instruments/mechanisms: equity, mezzanine finance and senior loans. Official investments in companies constitute a key leveraging instrument for private sector development (business growth, economic and social impact, etc.), in particular in countries where private investors are generally reluctant to invest given the perceived risks.
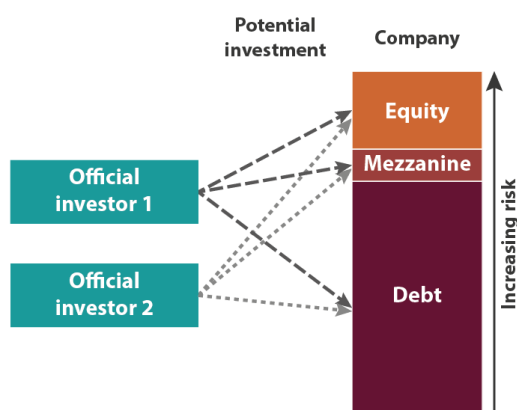
KEY ASSUMPTION AND ATTRIBUTION

The general assumption is that the private sector would not have invested in a given company in a developing country without the official sector involvement. It is further assumed that **equity investors**, regardless whether they represent official or private entities, are exposed to **higher risk** than **mezzanine** and **debt investors**. In case of liquidation, quasi and senior debt investors are reimbursed with priority, shareholders only thereafter to an extent made possible by remaining liquidities.

Building on the above general assumption, it is further assumed that:

- When multiple official actors invest in the same company but take different levels of risk, **official investment in equity has a higher mobilisation impact on private finance** than official investment in mezzanine or senior debt.
- **Mezzanine and senior debt investors are exposed to the same level of risk**, regardless of the presence of equity providers, i.e. they are assumed to have the same probability of default.

Consequently:

- **50%** of the amounts mobilised from the private sector are attributed, equally, to official investors according to **the risk taken,** i.e. to the official investors exposed to higher risk. Therefore, in cases where several official actors take different level of risk – i.e. by investing in both equity and mezzanine/senior debt – these 50% are attributed to equity investors only (see scenario B below).

- **The remaining 50%** are attributed among **all** official investors pro-rata to the official financiers' investment share in the company, at the time when the private sector is investing, and regardless of the risk profile of the investment.[5]

DFI = the official institution – e.g. national or international development finance institution – investing in a company; **n** = the number of official investors; **P** = volume of private investment mobilised;	**O** = volume of official investment; **e** = equity; **m** = mezzanine finance; **d** = senior debt.

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[5] This allows acknowledging the role of small DFIs that often take an active role in a deal but invest relatively small amounts compared to other official agencies.

Investment scenario A: all official investors take the same level of risk

50% of the private investment mobilised is attributed equally to all official investors given that they are all exposed to the same level of risk (i.e. all investments are either equity or mezzanine/debt). The remaining 50% are attributed pro-rata to the official financiers' investment share in the company. The calculation method for estimating the amounts mobilised from the private sector for all official investors would be as follows:

$$\text{DFI1} = \frac{1}{n} * (P * 50\%) + \frac{O_1}{O_{total}} * (P * 50\%)$$

| Mobilisation effect based on the level of **risk** taken. | Mobilisation effect based on the investor's **financial share** in the total official investment in the company. |

Investment scenario B: official investors take different levels of risk

In investment scenario B, official investors invest in the equity as well as mezzanine/debt of the company, i.e. investments have different risk levels. Reporting will be according to the following formula:

$$DFI\ 1_e: \quad \frac{1}{n_e} * (P * 50\%) \quad + \quad \frac{O_{1e}}{O_{total}} * (P * 50\%)$$

$$DFI\ 2_{m/d}: \qquad\qquad\qquad \frac{O_{2m/d}}{O_{total}} * (P * 50\%)$$

DFI $2_{m/d}$ reflects the amount mobilised by the official investor through mezzanine and/or debt finance. Under this scenario, 50% of the amount mobilised from the private sector is attributed to equity investors to reflect the higher risk taken. The remaining 50% is attributed pro-rata to official financiers with shares in the company, including mezzanine and debt providers. Given the presence of other official equity investors, the probability of default of the public mezzanine and debt investors is assumed to be limited.

POINT OF MEASUREMENT

Ideally, the amounts mobilised are measured at the time of the commitment of the official investment. The measurement of the mobilisation effect is limited to a financing round, i.e. a formal (contractual) or informal (yet explicit) relationship between the official and private investment.

EXAMPLE

A crop producer decided to expand its company and sought external financing. The first financing round included two official equity investors – DFI 1 and DFI 2 – and a private equity investor from the beneficiary country, investing USD 10 million, USD 4 million and USD 6 million respectively. In a second financing round, DFI 2 provided additional equity financing of USD 12 million, complemented with debt financing of USD 8 million from DFI 3 and mezzanine financing of USD 5 million from a private investor 2, based in a third high income country. Finally, in a third financing round, DFI 4 provided a subordinated loan of USD 2 million and DFI 3 a senior loan of USD 7 million to the company in order to support an additional equity investment by the private sponsor 1 amounting USD 1 million.

Table 6: Direct investment in companies

		Financing round 1	Financing round 2	Financing round 3
Equity	DFI 1	10000		
	DFI 2	4000	12000	
	Private 1	**6000**		**1000**
Debt	DFI 3		8000	7000
Mezzanine	DFI 4			2000
	Private 2		**5000**	

Reporting for financing round 1: The amount invested by Private investor 1 is attributable to DFI 1 and DFI 2. The first half of the private investment 1 is attributed to DFI1 and DFI2 equally (given that the both invested in equity), while the second half is attributed pro-rata to their financial share.

Amounts mobilised by DFI 1 = USD 3 643 $= \frac{1}{2} * (USD\ 6\ 000 * 50\%) + \frac{10000}{14000} * (USD\ 6\ 000 * 50\%)$

Amounts mobilised by DFI 2 = USD 2 357 $= \frac{1}{2} * (USD\ 6\ 000 * 50\%) + \frac{4000}{14000} * (USD\ 6\ 000 * 50\%)$

Reporting for financing round 2: The amount invested by the private investor 2 is attributable to DFIs 2 and 3. 50% of the amounts mobilised through the financing round 2 are attributed to DFI 2 only, given that it invested in the equity, and 50% are attributed to both the DFI 2 and DFI 3 pro-rata to their financial shares.

Amounts mobilised by DFI 2 = USD 4 000 $= \frac{1}{1} * (USD\ 5\ 000 * 50\%) + \frac{12000}{20000} * (USD\ 5\ 000 * 50\%)$

Amounts mobilised by DFI 3 = USD 1 000 $=\qquad \frac{8000}{20000} * (USD\ 5\ 000 * 50\%)$

Reporting for financing round 3: The amount invested by the private investor 1 in this financing round is attributable to DFIs 3 and 4. The attribution calculation is therefore the following: 50% of the USD 1 million is attributed to DFIs 3 and 4 equally – in the absence of other official investors in equity and given the same level of risk exposed to – and 50% pro-rata to their financial shares in the total official investment in the company at the moment of the private investment.

Amounts mobilised by DFI 3 = USD 639 $= \frac{1}{2} * (USD\ 1\ 000 * 50\%) + \frac{7000}{9000} * (USD\ 1\ 000 * 50\%)$

Amounts mobilised by DFI 4 = USD 361 $= \frac{1}{2} * (USD\ 1\ 000 * 50\%) + \frac{2000}{9000} * (USD\ 1\ 000 * 50\%)$

REPORTING INSTRUCTIONS

Table 7: Reporting instructions, direct investment in companies

Reporting for financing round 1.

REPORTING INSTITUTION / CRS/TOSSD FIELDS	DFI 1	DFI 2	DFI 3	DFI 4
Field 33 – Amount committed	10 000	4 000		
Field 43a - Leveraging mechanism and role/position	7=Direct investment in companies, Equity	7=Direct investment in companies, Equity		
Field 43b - Amount mobilised from the private sector	3 643	2 357		
Field 43c - Origin of funds mobilised	2=Recipient country	2= Recipient country		
Field X – Amount invested by your institution	10 000	4 000		
Field X – Number of official investors in the riskiest tranche (equity)	2	2		
Field X – Number of official investors in mezzanine/senior tranche	0	0		
Field X – Total official investment	14 000	14 000		
Field X – Private investment before attribution	6 000	6 000		

Reporting for financing round 2.

REPORTING INSTITUTION CRS/TOSSD FIELDS	DFI 1	DFI 2	DFI 3	DFI 4
Field 33 – Amount committed		12 000	8 000	
Field 43a - Leveraging mechanism and role/position		7=Direct investment in companies, Equity	8=Direct investment in companies, Mezzanine or Senior Debt	
Field 43b - Amount mobilised from the private sector		4 000	1 000	
Field 43c - Origin of funds mobilised		3=Third OECD/high income country	3=Third OECD/high income country	
Field X – Amount invested by your institution		12 000	8 000	
Field X – Number of official investors in the riskiest tranche (equity)		1	1	
Field X – Number of official investors in mezzanine/senior tranche		1	1	
Field X – Total official investment		20 000	20 000	
Field X – Private investment before attribution		5 000	5 000	

Reporting for financing round 3.

REPORTING INSTITUTION CRS/TOSSD FIELDS	DFI 1	DFI 2	DFI 3	DFI 4
Field 33 – Amount committed			7 000	2 000
Field 43a - Leveraging mechanism and role/position			8=Direct investment in companies, Mezzanine or Senior Debt	8=Direct investment in companies, Mezzanine or Senior Debt
Field 43b - Amount mobilised from the private sector			639	361
Field 43c - Origin of funds mobilised			2=Beneficiary country	2=Beneficiary country
Field X – Amount invested by your institution			7 000	2 000
Field X – Number of official investors in the riskiest tranche (equity)			0	0
Field X – Number of official investors in mezzanine/senior tranche			2	2
Field X – Total official investment			9 000	9 000
Field X – Private investment before attribution			1 000	1 000

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5. CREDIT LINES

DESCRIPTION

A credit line refers to a standing credit amount which can be drawn upon at any time, up to a specific amount and within a given period of time. Borrowers (LFIs) decide how much of the agreed funding they wish to draw down and interest is paid only on the amount which is actually borrowed and not on the amount made available.
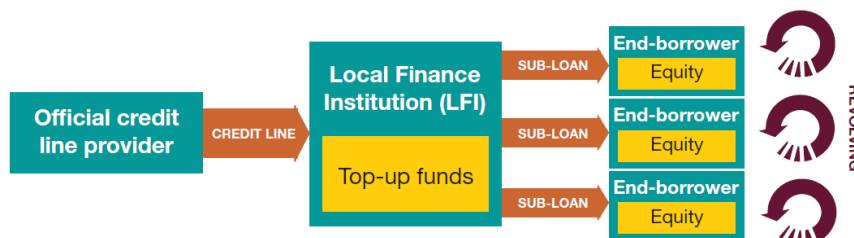
The maturity of the official credit line is usually longer than that of the individual sub-loans extended by the LFI to its clients, allowing the LFIs to on-lend to local end-borrowers (companies, project developers, etc.) **on a revolving basis** during the lifetime of a credit line.

KEY ASSUMPTIONS AND ATTRIBUTION

The analysis of the causality for credit lines may be complex due to the number of actors potentially involved and the difficulty to access all the information, especially at the level of LFIs and end-borrowers. However, in the context of development finance, the main objective of credit lines is to support the private sector through the intermediation of the LFI. Therefore, it is assumed that the private sector (i.e. top-up financing by private LFIs, whether originating from their own resources or raised from the market, as well as private end-borrowers' equity) would not have invested without the credit line provided by the official sector. Based on these assumptions, the **total private finance mobilised** is composed of:

- **Top-up funds from the LFI** (in the case of a private LFI), including additional/external private funds raised by the LFI, and ➔ *first level of mobilisation*

- **Equity investments by the private end-borrowers,** calculated using the average end-borrowers' equity. If applicable, they can be *multiplied* by a revolving factor (see box below). ➔ *second level of mobilisation*

In most cases, the credit line agreement specifies the type of projects eligible for funding by the LFI (sub-loans) and may also require other actors to take on some risks along with the official credit line provider (to align interests of the different investing institutions).

Use and calculation of the revolving factor (RF)

If the maturity of a credit line is longer than that of individual sub-loans extended by the LFI, on-lending occurs on a revolving basis during the lifetime of a credit line. In such cases, a revolving factor could be applied taking into account:

- the difference between the maturity of the credit line (plus grace period) and the average maturity (plus average grace period) of the sub-loans, and
- the (estimated) average use of credit lines.

$$\text{Revolving factor (RF)} = \frac{\text{Credit line maturity} + \text{grace period}}{\text{Average maturity of subloans} + \text{average grace period}} \times \text{Average use of credit lines}$$

If no information is available to calculate the RF or if the maturity of the credit line is not longer than that of the sub-loans, the revolving factor can be set at 1.

The total private finance mobilised through the credit line is <u>attributed</u> pro-rata to the financial share of the official credit line provider (taking into consideration the official co-investors documented in the credit line contract and the case where the LFI is public).

DFI1, DFI2 = amounts mobilised by official institutions providing the credit line; *CL1, CL2 = credit extended by official institutions providing the credit line;* *LFI$_P$ = top-up/additional/external funds by private LFI;*	*LFI$_O$ = top-up/additional/external funds by public LFI;* *B = Average end-borrowers' equity;* *RF = revolving factor.*

Scenario A[1]: Private LFI

$$DFI1 = \frac{CL1}{CL1+CL2} \times (LFI_P + B \times RF)$$

- Attribution factor
- Amounts mobilised at LFI level
- Amounts mobilised at end-borrower level

Scenario B[1]: Public LFI

$$DFI1 = \frac{CL1}{CL1+CL2+LFI_O} \times (B \times RF)$$

- Attribution factor
- Amounts mobilised at end-borrower level
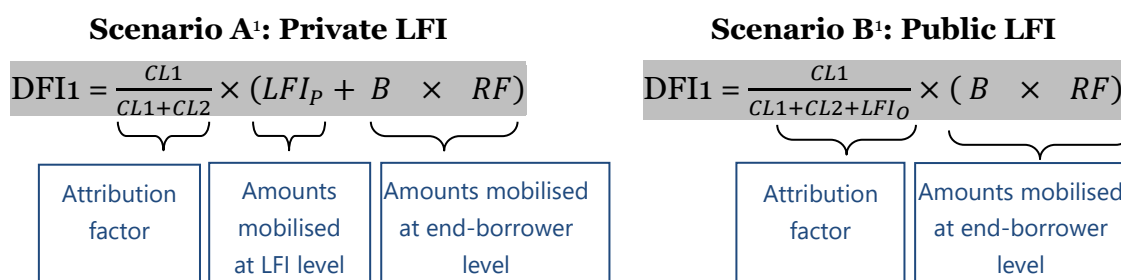
1. In cases where several official institutions provide credit lines to the same private LFI (scenario A), the attribution factor can only be used when the top-up amount and the end-borrower equity are known. If these amounts are estimated based on the credit lines' requirements, the attribution factor should not be used. However, an attribution factor should always be used in cases where the LFI is public (scenario B), and this even if only one DFI provides the credit line so as to reflect the role of the developing countries and to not overestimate mobilisation by development co-operation actors.

POINT OF MEASUREMENT

The reporting of the amounts mobilised is carried out ex-ante, i.e. when the credit line is committed by the official sector.

EXAMPLES AND REPORTING INSTRUCTIONS

a) Example 1 - LFI is private

In 2014, an official institution (DFI1) extends a 90 000 USD credit line (CL1) to a private financial institution based in a developing country. An international financial institution (DFI2) decides to also invest in the credit line and contributes to an additional 10 000 USD (CL2).

The credit line has a maturity of **20 years** (no grace period) and requires the LFI to top up the loan by at least 10% (10% * 100 000 = 10 000 USD).

Finally, the LFI invests 18 000 USD and raises 2 000 USD locally, for a total of USD 20 000 (LFI$_P$)[6]: the funds available for sub-loans therefore amount to 120 000 USD (100 000 + 20 000).

The LFI extends loans to end-borrowers (SMEs/project developers) in the developing country with an average maturity of **5 years** (no grace period). However, based on credit lines extended in the past, they are not fully utilised during all their life and it is estimated that the average utilisation of credit lines reaches **55%**. The credit line contract also requires additional investment by the end-borrowers in the form of equity. The development bank does not have information on the average end-borrowers' equity investment but it is known that the minimum own-equity ratio of end-borrowers corresponds to 20% of the credit line.

Reporting in 2014 *(USD thousand)*

Revolving factor = 2.2 $= \frac{20}{5} \times 55\%$

Average end-borrower equity = *USD 24* $=(120 \times 20\%)$

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6. In this example, the "top-up" is known while in many cases, it is only estimated (e.g. based on credit lines' requirements). In this case, there is no need to use an attribution factor.

$$DFI_1 = USD\ 65.5 = \frac{90}{90+10} \times (\ USD\ 20 + USD\ 24 \times 2.2\ )$$

$$DFI_2 = USD\ 7.3\ = \frac{10}{90+10} \times (\ USD\ 20 + USD\ 24 \times 2.2\ )$$

Table 8: Reporting instructions, credit lines, LFI is a private entity

CRS/TOSSD FIELDS / REPORTING INSTUTION	DFI1	DFI2
Field 33 - Amount committed	90 000	10 000
Field 43a - Leveraging mechanism and role/position	9=Credit line	9=Credit line
Field 43b – Amounts mobilised from the private sector	65 520	7 280
Field 43c – Origins of funds mobilised	2=Recipient country	2=Recipient country
Field X – Amount invested by your institution	90 000	10 000
Field X – Total official amount (in the credit line)	100 000	100 000
Field X – Private investment before attribution (top-up funds by LFIs)	20 000	20 000
Field X – Revolving factor	2.2	2.2
Field X – End-borrowers' equity	24 000	24 000

b) Example 2 - LFI is public

Scenario A still applies with only one difference: the LFI in the recipient country is a public institution. This attribution method takes into account the role of the public LFI, regardless of whether this latter reports to the DAC.

Reporting in 2014 *(USD thousand)*

$$DFI_1 = USD\ 39.6 = \frac{90}{90+10+20} \times (\ USD\ 24 \times 2.2\ )$$

$$DFI_2\ = USD\ 4.4 = \frac{10}{90+10+20} \times (\ USD\ 24 \times 2.2\ )$$

$$LFI_p\ = USD\ 8.8 = \frac{20}{90+10+20} \times (\ USD\ 24 \times 2.2\ )$$

Table 9: Reporting instructions, credit lines, LFI is public entity

CRS/TOSSD FIELDS / REPORTING INSTITUTION	DFI1	DFI2
Field 33 - Amount committed	90 000	10 000
Field 43a - Type of leveraging mechanism and role/position	9=Credit line	9=Credit line
Field 43b – Amounts mobilised from the private sector	39 600	4 400
Field 43c – Origins of funds mobilised	2=Recipient country	2=Recipient country
Field X – Amount invested by your institution	90 000	10 000
Field X – Total official amount (in the credit line)	120 000	120 000
Field X – Private investment before attribution (top-up funds by LFIs)	0	0
Field X – Revolving factor	2.2	2.2
Field X – End-borrowers' equity	24 000	24 000

6. SIMPLE CO-FINANCING ARRANGEMENTS

DESCRIPTION

Simple co-financing arrangements refer to various business partnerships, B2B programmes, business surveys, matching programmes and similar, but also result-based approaches.

Figure 2. Possible schemes of simple co-financing arrangements
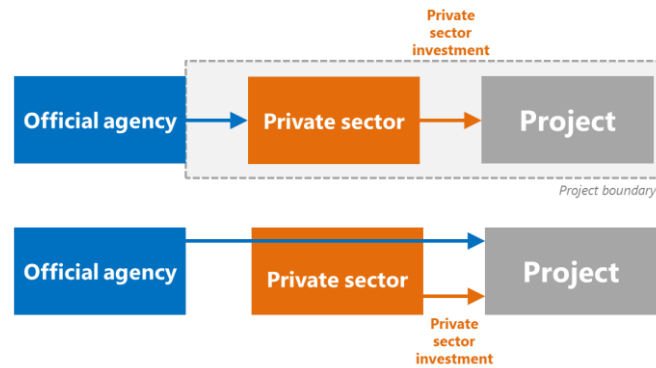
KEY ASSUMPTIONS

The measurement of private finance mobilised is based on the general assumption that the private sector would not have invested without the official finance interventions (additionality assumption). A causal link between a standard grant or loan and a private co-investment is established only if it can be demonstrated (e.g. through contractual/financial agreement, project documentation) that the provision of **official funds are conditioned[7] to:**

- Private sector co-financing, or
- Specific outcomes of private sector investment (in the case of result-based financing mechanisms).

In either case, the total project costs have to exceed the amount provided by the official agency.

ATTRIBUTION METHOD

Private finance mobilised through a simple co-financing arrangement is attributed to official actors pro-rata to their respective financial share in the deal.

$$\text{Amounts mobilised by A} = \frac{O_A}{O_{total}} \times P$$

O_A = Investment by the official actor; O_{total} = Total official investment; P = Private investment

Project boundaries are defined as financial arrangements and specifications agreed among the official provider and recipient private entity, for a specific activity and as recorded in the provider's documentation.

Financing committed outside defined financial arrangement (whether upstream of downstream) is considered out of scope.

POINT OF MEASUREMENT

The point of measurement may vary, depending on the modality and data availability. Mobilisation by standard grants and loans in simple co-financing arrangements is ideally measured at the commitment stage or, alternatively, when the private investment takes place.

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[7] The provision of technical assistance (capacity building, feasibility study etc.) can be claimed to mobilise private finance only for projects where causality - i.e. direct link with private investments - is demonstrated in the project documentation or financial agreement.

EXAMPLES AND REPORTING INSTRUCTIONS

Example 1: single official actor

Based on the results of an open competition, an aid agency awards a grant of USD 2 million to a private company in the provider country to implement a development project with a total project cost 3 million.

Table 10: Reporting instructions, grants and loans in co-financing arrangements

Reporting agency CRS/TOSSD FIELD	Aid agency
Field 11 – Financial instrument	110=standard grant
Field 33 – Amount committed	2000
Field 43a – Leveraging mechanism	10=Simple co-financing arrangement
Field 43b – Amounts mobilised from the private sector	1000
Field 43c – Origin of funds mobilised	1=provider country
Field X - Amount invested by your institution	2000
Field X - Total official investment	2000
Field X - Private finance before attribution	1000

Scenario 2: multiple official actors

An IFI and a bilateral aid agency partnered with a private company in the beneficiary country to co-finance a project of USD 5 million. The project documentation indicates that an IFI finances a USD 2.5 million loan, the bilateral aid agency provides a technical assistance grant amounting to USD 0.5 million and the remaining USD 2 million originates from private sources.

Table 11: Reporting instructions

Reporting agency CRS/TOSSD FIELD	IFI	Aid agency
Field 11 – Financial instrument	421=Standard loan	110=standard grant
Field 33 – Amount committed	2500	500
Field 43a – Leveraging mechanism	10=Grants & loans in simple co-financing arrangement	10=Grants & loans in simple co-financing arrangement
Field 43b – Amounts mobilised from the private sector	1666.67	333.33
Field 43c – Origin of funds mobilised	. 3=beneficiary country	3=beneficiary country
Field X - Amount invested by your institution		
Field X - Total official finance		
Field X - Private finance before attribution		

REPORTING GUIDANCE FOR PROJECT FINANCE SCHEMES

This section provides guidance on when to apply or combine existing methodologies for guarantees, syndicated loans and direct investment in companies to attribute private finance mobilised by official development finance interventions in a project finance structure (SPV).

DESCRIPTION

For the purpose of this Survey, project finance refers to non-recourse or limited recourse financing[8] of projects via special purpose vehicles (SPVs). Typical project finance instruments include equity instruments, senior debt, as well as credit enhancements such as guarantees. It follows that project finance usually involves multiple actors including at least private and/or official project sponsors/developers investing the equity, and debt providers such as development banks, development finance institutions, or commercial banks. Senior debt enjoys priority in terms of repayment over all other forms of finance. That is, repayment risks for senior lenders are lower than for equity investors.

KEY ASSUMPTIONS

The basic assumption is that the private sector would not have invested in the project finance SPV without the involvement of the official sector (additionality assumption). It is further assumed that, in project finance, the causal link between official and private investment is stronger in a syndication or a guarantee scheme.

Project boundaries are defined by the balance sheet of the SPV, as well as potential guarantee arrangements, as recorded in the providers' documentation, particularly the financial closure arrangements. Financing committed outside the SPV is not considered.
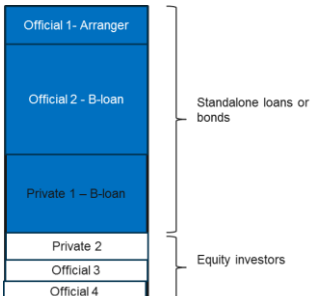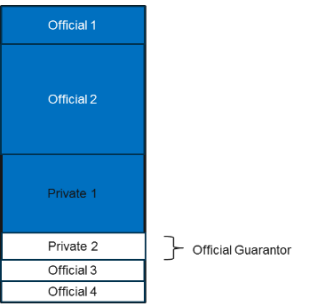
ATTRIBUTION METHOD
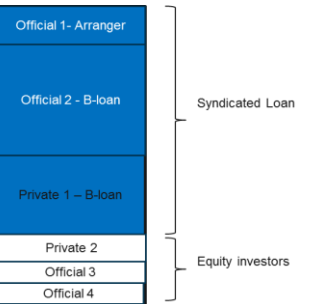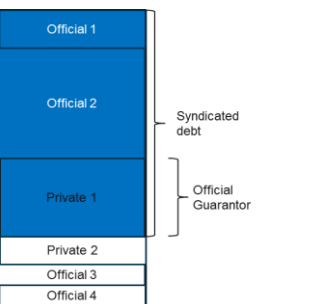
Private finance can be mobilised in a project finance SPV by official interventions, and therefore attributed according to four main scenarios (see Table 12 below).

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[8] Non-recourse or limited recourse financing refers to a financial structure, where the investors and lenders rely either exclusively (non-recourse) or mainly (limited recourse) on the cash flow generated by the project to repay their loans and earn a return on their investments.

Table 12. Attribution method per project finance scenario

■ Senior debt and mezzanine finance   □ Equity

	Scenario 1 – Debt is not syndicated; no guarantee in project finance.	Scenario 2 – Debt is not syndicated; private equity (and/or debt) is officially guaranteed.	Scenario 3 – Debt is syndicated. Private B-loan is not guaranteed.	Scenario 4 – Debt is syndicated; private B-loan in the syndication is also officially guaranteed (methodologies overlap).
Project finance structure	Official 1- Arranger / Official 2 - B-loan / Private 1 – B-loan — Standalone loans or bonds; Private 2 / Official 3 / Official 4 — Equity investors	Official 1 / Official 2 / Private 1; Private 2 / Official 3 / Official 4 — Official Guarantor	Official 1- Arranger / Official 2 - B-loan / Private 1 – B-loan — Syndicated Loan; Private 2 / Official 3 / Official 4 — Equity investors	Official 1 / Official 2 / Private 1 — Syndicated debt; Private 1 / Private 2 — Official Guarantor; Private 2 / Official 3 / Official 4
Attribution method	• Private investment in the SPV (Private 1 and 2) is attributed to all official actors in the SPV (officials 1, 2, 3 and 4) according to the *direct investment in companies methodology* (see section 4 of this note).	• Private equities (private 2) is attributed to the official guarantor according to the *guarantee methodology* (see section 1 of this note). • Private debt (Private 1) is attributed to all official actors in the SPV (officials 1, 2, 3 and 4) according to the *direct investment in companies methodology* (see section 4 of this note).	• Private B-loan (Private 1) is attributed to official actors involved in the loan syndication (official 1 and official 2) according to *the syndicated loan methodology* (see section 2 of this note). • Private equities (private 2) is attributed to all official actors in the SPV (officials 1, 2, 3 and 4) according to the *direct investment in companies methodology* (see section 4 of this note).	• Private equities (private 2) is attributed to all official actors in the SPV (officials 1, 2, 3 and 4) according to the *direct investment in companies methodology* (see section 4 of this note). • Private B-loan (private 1) is attributed by sharing equally[9]. ○ 50% to the official participants in the syndicated loan (officials 1 and 2) according to the *syndicated loans methodology* (see section 2 of this note). ○ 50% to the official guarantor(s) according to the *guarantee methodology* (see section 1 of this note).

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[9] Please note that the attribution method for this specific case (B-loan in a syndication also benefiting from an official guarantee) is still under discussion. The alternative option would be to attribute 100% of the private investment in the syndication to the guarantor.

POINT OF MEASUREMENT

The amounts mobilised from the private sector are measured at the financial closure stage, i.e. the point in time where all agreements related to the project finance SPV have been signed and all required conditions (including financial commitments) have been concluded. If the project is divided in several phases with subsequent financial closure(s), the amounts mobilised are measured at the financial closure for each phase.

EXAMPLES AND REPORTING INSTRUCTIONS

An SPV was set up for a large-scale infrastructure project, amounting to USD 0.9 billion. An MDB1 arranged a syndicated loan with the following structure:

- MDB1 arranger (A-loan):   USD 150 million;
- MDB2 (parallel loan):   USD 350 million;
- Private banks (B-loans):   USD 200 million.

The private banks in the syndication also benefitted from a guarantee extended by an aid agency (i.e. potential overlap of methodologies). Local private project developers invested USD 110 million in the equity, alongside a DFI which sponsored the project with an equity investment of USD 50 million.

Reporting of the amounts mobilised through the syndication

Private B-loans in the syndication, which also benefited from a guarantee, are attributed equally (50/50) to both the official actors in the syndication and the official guarantor, using the existing methodologies for syndicated loans and guarantees.

Table 13. Reporting instructions

Reporting institution CRS/TOSSD FIELD	MDB1	MDB2	Aid agency
Field 11 – Type of finance	421=standard loan	421=standard loan	1100=guarantee/insurance
Field 33 – Commitment	150000	350000	0
Field 43a – Leveraging mechanism	1=syndicated loan, arranger	2=syndicated loan, participant	6=guarantee/insurance
Field 43b – Amounts mobilised	65000	35000	100000
Field 43c – Origin of funds mobilised	5=Other/multiple origins	5=Other/multiple origins	5=Other/multiple origins
Field X – Type of arranger	1=Official	1=Official	n/a
Field X – Amount invested by your institution	150000	350000	n/a
Field X – Total official investment	500000	500000	n/a
Field X – Private funding before attribution	100000	100000	n/a
Field X - Project finance flag	1	1	1

Reporting of the non-guaranteed and not syndicated private investment (private equity sponsors)

The non-guaranteed and not syndicated private investment is attributed to all official actors in the SPV using the methodology for *direct investment in companies* (reported as a separate record in the template, possibly using the same ID number).

Table 14. Reporting instructions

Reporting institution / CRS/TOSSD FIELD	MDB1	MDB2	DFI
Field 11 – Type of finance	421=standard loan	421=standard loan	510=common equity
Field 33 – Commitment	0 (already reported)	0 (already reported)	50000
Field 43a – Leveraging mechanism	8=direct investment in companies and project finance SPVs, debt	8=direct investment in companies and project finance SPVs, debt	7=direct investment in companies and project finance SPVs, equity
Field 43b – Amounts mobilised	15000	35000	60000
Field 43c – Origin of funds mobilised	2=Recipient country	2=Recipient country	2=Recipient country
Field X – Total amount invested by your institution	150000	350000	50000
Field X – Number of official investors in the riskiest tranche	1 (DFI)	1 (DFI)	1 (DFI)
Field X – Number of official investors in mezzanine/senior debt tranche	2 (MDB1 & MDB2)	2 (MDB1 & MDB2)	2 (MDB1 & MDB2)
Field X – Total official investment	550000	550000	550000
Field X – Private investment before attribution (non-guaranteed and outside syndicated loan)	250000	250000	250000
Field X – Project finance flag	1	1	1