TIER 2 INDICATOR TECHNICAL NOTE

ADDITIONAL PRIVATE FUNDS LEVERAGED TO SUPPORT SUSTAINABLE DEVELOPMENT.

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DEFINITIONS

Private funds means any non-government source of finance. This includes investment or grants from corporations, asset managers, institutional investors (investment banks, pension funds, insurance companies) and philanthropic investors (foundations and family offices). This does not include development finance institutions, state owned enterprises, international finance institutions (IFC, ADB, GFC) or sovereign wealth funds.

Private finance leveraged refers to the ways in which specific development programs stimulate the allocation of additional private financial resources to development objectives. This is calculated based on the below methodology.

Sustainable development refers to activities which seek to support one or more of the sustainable development goals.

Guarantees refer to legally binding agreements under which the guarantor agrees to pay part or the entire amount dure on a loan, equity or other instrument in the event of non-payment by the obligor or loss of value in case of investment.

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.

Shares in collective investment vehicles (CIVs) are those invested in entities that allow investors to pool their money and jointly invest in a portfolio companies. Investment typically consists of or can combine the following instruments: equity, mezzanine finance or senior loans.

Direct investment in companies refers to on-balance sheet investments in corporate entities (including Special Purpose Vehicles) which are conducted without any intermediary (e.g. collective investment vehicle) an which typically consist of or can combine the following instruments: equity, mezzanine finance or senior loans.

Credit lines refers to a standing credit amount which can be drawn upon at any time, up to a specific amount and within a given period. In the context of development finance, the main objective of credit lines is to support the private sector through the intermediation of a local financial institution (LFI).

Simple co-financing arrangements refer to various development program partnerships with a private company to co-finance a project or activity.

SCOPE

INCLUDES:

- Private finance which Australian development programs have mobilised as per the OECD methodology.

- Projects and programs that can demonstrate a direct causal link between private finance made available for a specific project or fund and the leveraging instrument used by the program (grant or non-grant ODA).
- Both ODA grant financing and ODA non-grant financing applied to the following mobilisation instruments: guarantees, syndicated loans, shares in collective investment vehicles, direct investment in companies, credit lines and simple co-financing arrangements.

EXCLUDES:

- Does not include private finance mobilised through the deployment of general technical assistance, design support or core funding to organisations or Governments.

REPORTING

Results under this indicator may be reported by bilateral, regional, global or multilateral programs. For either grant or non-grant financed ODA programs.

CALCULATIONS

For detailed explanation and examples on how to calculate private finance mobilisation for each instrument, see OECD methodology here.

Guarantees – 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.

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. 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.

In the case of a private arranger, 100% of the amount mobilised is attributed to the official participants on a pro rata basis.

Shares in collective investment vehicles (CIVs) –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. 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.

Direct investment in companies - 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. Building on the above general assumption, it is further assumed that:

- 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.
- 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.

Mobilisation is counted for the fundraising event in which the Australian development program is participating and the subsequent fundraising event. Private finance mobilisation is not reportable beyond this. For example, if a development program participates in a seed funding stage for a company, then private finance mobilised can be reported for the seed fundraising and subsequent series A round. And not for any further fundraising events (for example series B or C).

Credit lines - It is assumed that the private sector (i.e. top-up financing by private LFIs (Local Finance Institution), whether originating as well as private end-borrowers' equity) would not be invested without the credit line provided by the official sector. The total private finance mobilised is composed of the addition 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.

The private finance mobilised for each official creditor is attributed pro-rata to the financial share of all official credit.

Simple co-financing arrangements - 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 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 must exceed the amount provided by the official agency.

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

DAC CODES

DAC codes will vary based on their relevant sectors. For instance, investment in energy generation should be coded: 23210. Investments related to general financial inclusion should be coded: 24030