What works:

How to measure and disclose private capital mobilisation to increase private investment and close the SDG financing gap

October 2024

Publish What You Fund

The Global Campaign for Aid and Development Transparency

WHO WE ARE

Publish What You Fund is the global campaign for aid and development transparency. We envisage a world where aid and development information is transparent, available, and used for effective and inclusive decision-making, public accountability, and lasting change for all citizens.

ABOUT OUR PROJECT

Publish What You Fund's 18-month programme on private capital mobilisation was initiated in April 2023. It aims to increase understanding around what works to mobilise private investment by creating an improved mobilisation reporting approach for leading MDBs and DFIs.

ABOUT THIS REPORT

This report is an update to our April consultation paper "*Crowding in: An advanced approach for measuring and disclosing private capital mobilisation*".

Consultation on the '*Crowding In*' report is now closed and the methodological annex in this report supersedes the prior version.

This report was written by Paul James and the executive summary was written by Sally Paxton.

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Please note that participation in our expert working group is for advisory purposes only and does not equate to endorsement of our findings or outputs.

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Acronyms

CAM	Climate Asset Management
CIV	Collective investment vehicles
CRS	Common Reporting Standard
DFC	US International Development Finance Corporation
DFI	Development finance institution
EMDEs	Emerging Markets and Developing Economies
ESG	Environmental, social and governance
G20 IEG	G20 Independent Expert Group
GEMS	Global Emerging Markets
IDA	International Development Association
IFC	International Finance Corporation
MDB	Multilateral development bank
ODA	Official Development Assistance
OECD DAC	Organisation for Economic Co-operation and Development's Development Assistance Committee
PCC	Private capital catalysation
PCM	Private capital mobilisation
PFD	Private Financing for Development
PIDG	Private Infrastructure Development Group
SDGs	Sustainable Development Goals
TOSSD	Total Official Support for Sustainable Development
UN	United Nations

Executive summary

Executive Summary

Today's global needs are unprecedented, fuelled by food insecurity, conflicts, poverty, and a worsening climate – all exacerbated by the COVID-19 pandemic and the struggle to recover. To address these crises, donors are being asked to significantly increase resources; multilateral development banks (MDBs) and development finance institutions (DFIs) are viewed as critical players to meeting the ever-growing financing gap.

There is a clear recognition that public money alone cannot address the scale of financing that is needed; the private sector must be an active partner. In addition to the reforms needed to free up more capital for investments, DFIs need to mobilise significantly more private capital for development investments. The track record of private capital mobilisation (PCM), however, is underwhelming. The G20 Independent Expert Group recommended that, by 2030, PCM should be increased to US$240 billion annually. A recent MDB joint report noted PCM reached US$71 billion in 2022, following a period of PCM stagnation at under US$64 billion.

DFIs agree that more must be done to improve and harmonise the measurement of PCM and to increase incentives for private sector mobilisation. However, there is an urgency to achieving the change if we have any chance of reaching the scale of mobilisation that is required to close the SDG financing gap. This opportunity cannot be lost.

Without an approach that both measures newer, more innovative instruments and provides granular data, DFIs – and other stakeholders – have no opportunity to know what is effective, let alone what is optimal, for increasing PCM. The learnings that could be shared are lost, leaving DFIs with insufficient information to ensure they are investing in a way that maximises the ability to scale. Information that enables the private sector to learn and engage in co-investment is likewise lost. Finally, without this robust data, shareholders cannot adequately perform their oversight function.

Publish What You Fund has been analysing, researching, and most importantly, consulting with a range of stakeholders to identify and agree a way forward. In April 2024, we published a draft proposal in the *'Crowding In'* report that addresses two needs: (1) better and more harmonised measurement of PCM and (2) disaggregated project level disclosure. At the April launch, the message was clear: business as usual will not work.

Following the launch, we undertook an extensive public comment period with DFIs, experts, and shareholders. Additionally, at the request of DFIs, we conducted more in-depth research into private sector information needs, with a specific focus on commercial confidentiality and our proposal that investors be identified by typology.

As a result of this work, we have made four modifications to the original proposal. The box below provides a summary of these changes, with further detail available in the full report.

Box 1: Summary of changes to final recommendations

Summary of changes from initial proposal:

- Removed 'balance sheet mobilisation' from PCM measurement; renamed as 'balance sheet operations';
- Changed treatment of collective investment vehicles; for consistency they will be measured like other indirect investments;
- Added 'identification of the type of mobilisation' to the disclosure fields; and
- Included a disclosure exception for certain commercially sensitive instruments.

MEASUREMENT

At the outset, our work has been guided by two principles: PCM measurement must be aligned with incentives to promote the investments most likely to maximise private capital, and similar instruments must be treated consistently.

In addressing both how PCM is currently measured (including the two main approaches by the MDB Task Force and the OECD DAC) and what improvements should be made, our research and multi-stakeholder engagements included discussions of new instruments and approaches. We also considered issues such as time of investment, attribution, risk, DFI efforts in mobilising investments, how private capital should be defined, and what and how PCM should be counted.

The final recommendation on measurement includes primary (both indirect and direct) investments as well as secondary investments. Balance sheet operations (formerly balance sheet mobilisation) are now treated akin to catalysation and this data should be reported but not counted as PCM. Importantly, data from all categories should be treated as discrete and not aggregated to avoid double counting. The new schema visualises this change in Figure 3.

DISCLOSURE

The changes we have proposed to the measurement of PCM are likely to boost overall mobilisation figures. The important flip side to this is that the new measurement approach must be accompanied by disaggregated and detailed disclosure. Without it, there can be no serious understanding or analysis of PCM, which is critical for smart and informed investing that increases mobilisation.

The current level of aggregated PCM data is a substantial barrier to scaling up private sector investments. There is little understanding of the efficacy of various instruments and approaches, outliers are masked and thus distort the data, and there can be little analysis of what works and what does not.

Our final recommendation calls for disaggregation by investment (value and total mobilised), geography, instrument, sector, disaggregated amounts mobilised, the typology of the mobilised party, and identification of the type of mobilisation. The new schema visualises this disclosure change in Table 1.

COMMERCIAL CONFIDENTIALITY CLAIMS

Disaggregated disclosure is critical to scaling PCM. Our research and consultations, especially those after the release of our '*Crowding In*' report, provide solid evidence that our proposal for disclosure is achievable, in line with market standards, and reflects the type of information readily available on third party sites. Claims of commercial confidentiality are not only overused but are also contradicted by many in the private sector who support our disclosure proposal, including the identification of the mobilised party by typology. Further, the lack of disaggregated data discourages private sector investment, as critical missing information increases market inefficiencies and the cost of doing business with DFIs.

ALIGNMENT OF APPROACHES

Finally, the current situation whereby there are two different approaches to measuring PCM is untenable. It creates differing and at times contradictory data on the same investments, adds unnecessary reporting burdens, and prevents the clear advantage of better, more granular, and useful data. There is a way to reach a compromise between the two and our final recommendation lays out that path. Ultimately, however, the power to align PCM approaches lies with shareholders, and they must direct it.

CONCLUSION

The goal is to scale PCM to close the SDG financing gap. Achieving this requires a combination of the right incentives to improve measurement and the disclosure of relevant data to create the environment that leads to significantly more investments by the private sector.

Global needs have grown and the global development architecture to meet those needs has likewise changed. The critical missing piece is changes at the DFI level so that institutions can meet the challenge. This needs to be done with a sense of urgency.

Introduction

1. Introduction

Today's development needs – and the resources required to respond to them – are unparalleled. To address this, multilateral development banks (MDBs) and bilateral development finance institutions (DFIs)[a] have been called upon to mobilise increasing amounts of private finance to achieve the sustainable development goals (SDGs), including combatting the climate crisis. Scaling private capital mobilisation (PCM) is essential as it is widely accepted that public capital alone is insufficient.

The G20 Independent Expert Group (IEG) has called for increased levels of PCM, arguing that:

> *MDBs should work systematically with the private sector to increase private financing by an additional $500 billion by 2030 including by increasing total private capital mobilization from $60 billion to $240 billion, and making concerted efforts to catalyze a significant volume of additional private finance.*[1]

DFIs have reacted positively to these calls. Institutions such as US International Development Finance Corporation (DFC) have prioritised instruments such as political risk insurance that have been shown to have particularly strong mobilisation potential.[2] Others have centralised PCM in their institutional strategy. In the case of IDB Invest, this strategic pivot was key to attaining a capital increase from shareholders.[3]

One fundamental question that DFI stakeholders are now faced with is, 'how will we know if these innovations and reforms are working?' Stakeholders need two things to answer this question: an appropriate means of measuring PCM and enhanced transparency of PCM data. To date, PCM has been measured and disclosed according to two prevailing methodologies; one from the OECD DAC (the "OECD DAC Approach")[4] and one developed by a group of leading MDBs and DFIs (the "MDB Joint Approach").[5] While both approaches have made valuable contributions to understanding PCM processes, they are insufficient to meet today's needs. Existing measurement does not capture innovative means of mobilising private capital and the disclosure of PCM data is too aggregated for stakeholders to know what is working, and in which contexts. This undermines shareholders' ability to effectively govern these institutions and hold them to account for the promises they are using to justify ever greater capital injections.

In April 2024, Publish What You Fund launched a proposal to improve the measurement and disclosure of PCM.[6] Since the launch, we have consulted extensively with DFIs, the private sector, and industry experts, seeking feedback on both elements of the proposal. Broadly, we have received significant support from a range of stakeholders for changes to how PCM is measured and how to improve the transparency of PCM data. Of particular significance, we have spoken to a broad range of private sector actors who not only view our disclosure recommendations as reasonable and achievable but also need this data to increase investment in Emerging Markets and Developing Economies (EMDEs). This report seeks to capture the feedback that we received and make appropriate changes.

This report is structured as follows: The next section briefly summarises the proposal that we launched in April in the '*Crowding In*' report. Section 3 details four amendments to our proposal in line with comments received during the consultation. Specifically, it changes the treatment of what we previously called "balance sheet mobilisation" to more clearly delineate it from primary and secondary mobilisation. We also make changes to the calculation of PCM through investments in collective investment vehicles (CIVs) such as private equity funds. The revised proposal also makes two changes on disclosure. First, we include an extra data field in our disaggregated disclosure recommendations to capture the type of mobilisation being disclosed. Second, we recognise the need for limited disclosure carve-outs for particular instruments that can legitimately be described as commercially confidential. Section 4 outlines our engagement with various private sector actors and organisations that have lent support to our proposal and highlights the case of Loan Connector and DealScan as examples of private sector transparency. These include limited partners in private equity funds, GSG Impact, and climate change investment and advisory firm Pollination. Section 5 of the report makes the case for improving disclosure of PCM data. Finally, section 6 highlights the continued calls for aligning the MDB Joint Approach and OECD DAC Approach to measuring PCM, and considers the steps that might be necessary to achieve this goal. The annex of this report includes our measurement and disclosure proposals in detail.

a Hereafter, we use the term "DFI" to signify MDBs and DFIs for the sake of brevity.

Recap of the *'Crowding In'* proposal

2. Recap of the '*Crowding In*' proposal

In April, Publish What You Fund launched a proposal to reform the measurement and disclosure of PCM. The proposal built on a year of multi-stakeholder and collaborative research including stakeholder roundtables, key-informant interviews, and expert working group sessions. This section briefly recaps the main features of our measurement and disclosure proposals from the '*Crowding In*' report.

2.1 Measurement

Three principles guided the development of a new measurement approach:

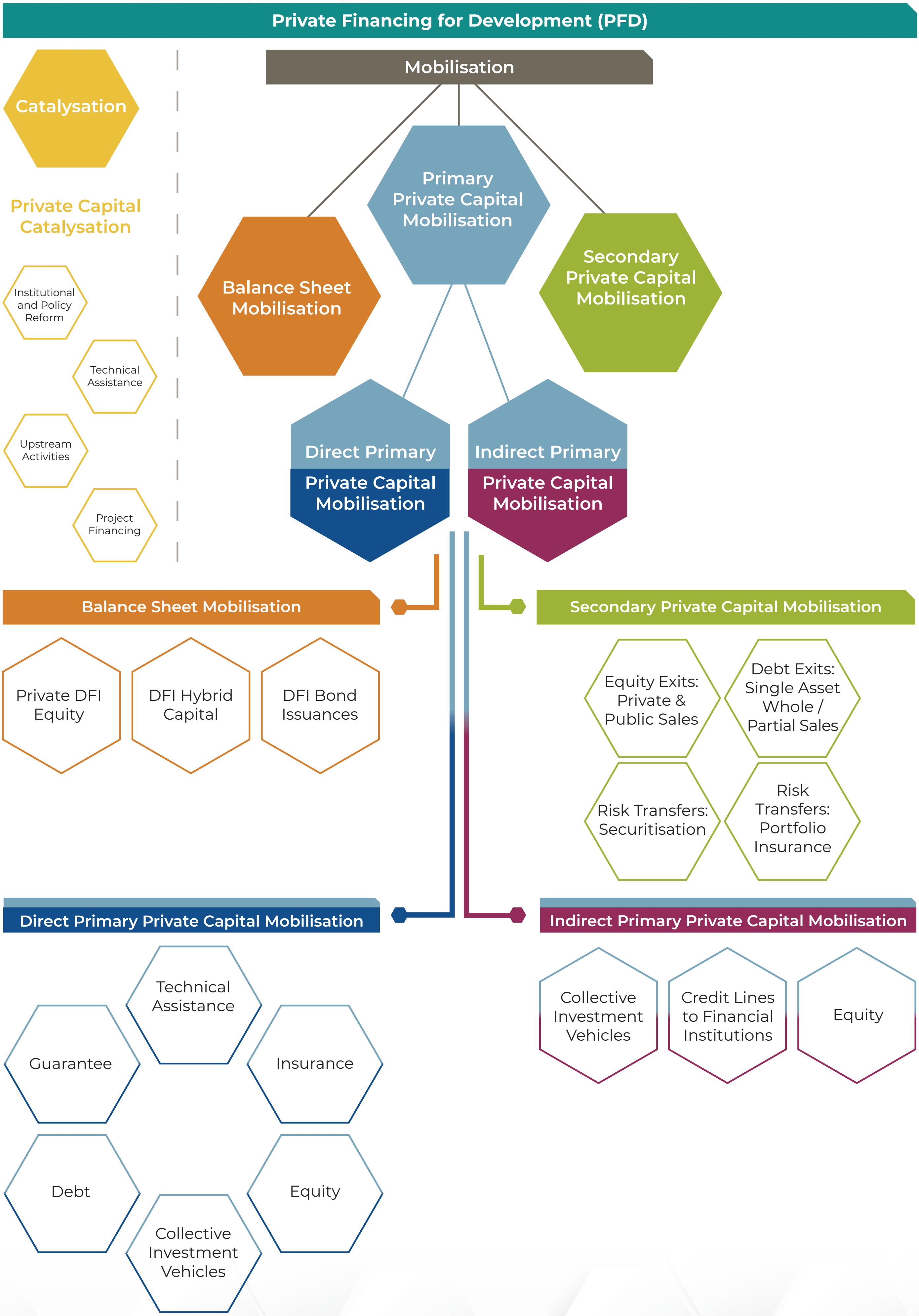
1. **Building on the existing OECD DAC Approach and MDB Joint Approach**. Both approaches have made valuable contributions to understanding PCM and formed the basis for our reform proposals.
2. **Aligning measurement with incentives.** As DFIs are called on to mobilise increasing volumes of private capital, it is important that any PCM measurement approach captures the instruments that most effectively mobilise capital so that incentives can be aligned to increase PCM volumes.
3. **Consistency across financial instruments.** As DFIs continue to innovate to mobilise private capital, we have sought to remain consistent in our treatment and classification of mobilising activities across similar instruments. We utilise an approach of 'baskets' of mobilisation to achieve consistency.

The '*Crowding In*' report contains detailed discussion of our measurement approach, which we will not replicate here. In the proposal, we defined what should be included in PCM and how the various investments should be counted and when. In summary, the proposal set out three main baskets for measuring PCM:

- Balance sheet mobilisation (including private DFI equity, hybrid capital, and bonds)
- Primary private capital mobilisation (including direct and indirect mobilisation through co-investment)
- Secondary private capital mobilisation (including secondary transactions distributing risk to the private sector)

Our proposal represented a broadened conceptualisation of the ways that DFIs mobilise private finance. As mobilisation is captured across a range of timelines – through treasury activity, at the point of transactions, and in secondary transactions – the baskets should always be treated as discrete forms of mobilisation and not aggregated (to avoid double counting). The proposal is likely to increase mobilisation figures, a fact that reinforces the need for disaggregated and detailed disclosure of PCM. A visual representation of the proposed approach to measuring private capital mobilisation can be seen in Figure 1, below.

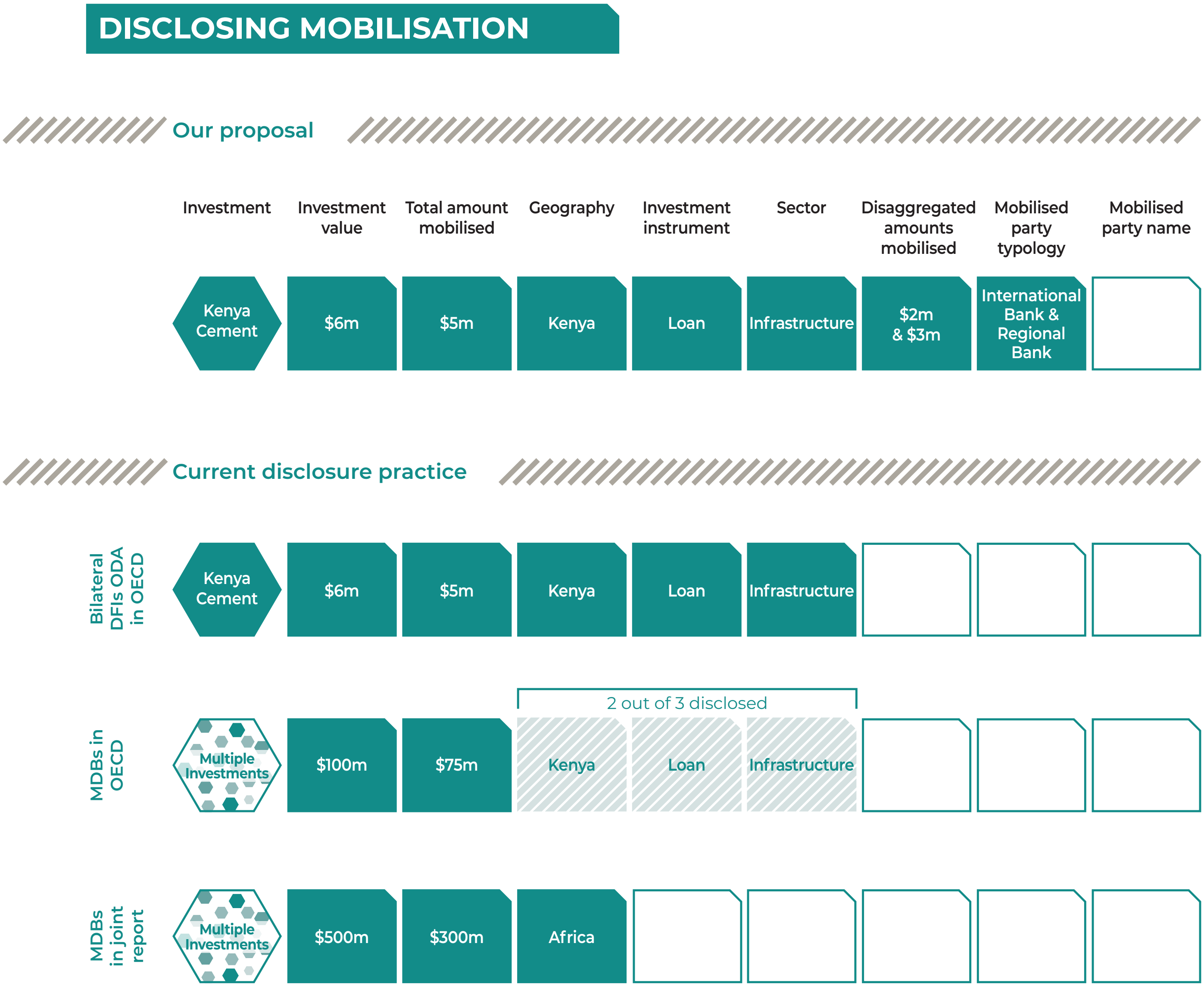
Figure 1: Private Financing for Development Schema from the '*Crowding In*' report



2.2 Disclosure

Our proposal from the '*Crowding In*' report in April called for levels of disaggregation that would allow stakeholders to understand the ways in which DFIs successfully mobilise private capital. We proposed disclosure by investment, instrument, country, sector, amounts mobilised, and the typology of the mobilised party (e.g., whether the mobilised party is a domestic bank or a regional private equity fund). In developing this proposal, we considered the concerns raised by DFIs about commercially sensitive information and potential breaches of client agreements. To address these concerns, the proposal included project-level disclosure by typology, rather than client name. This provided the needed balance between sufficient disclosure and protection of commercially sensitive information. A simplified version of our disclosure outline is shown in Figure 2 below.

Figure 2: Disclosure Proposal from the '*Crowding In*' report



Changes to our proposal

3. Changes to our proposal

This section highlights four changes that we are making to our April proposals for the measurement and disclosure of PCM. Two of the changes relate to measurement (reconfiguring 'balance sheet mobilisation' as 'balance sheet operations' and changing our treatment of indirect PCM through CIVs). The other two changes relate to disclosure (adding a 'mobilisation type' data field to our disclosure recommendations and creating a limited 'carve out' for products such as insurance and silent sales that would not require disaggregated disclosure).

3.1 Balance sheet mobilisation to balance sheet operations

In our original proposal we developed a schema for all the ways in which private capital can be integrated into development finance. Within the schema, we identified three main forms of PCM – balance sheet mobilisation, primary PCM, and secondary PCM – alongside private capital catalysation that we considered to be important but separate from PCM. To recognise this separation between PCM and catalysation we utilised a perforated line within our schema.

We included three types of treasury activity in balance sheet mobilisation – issuance of bonds, hybrid capital, and private purchases of DFI equity. Each of these activities involves private investment in DFIs that ultimately improves the balance sheet of the DFI and allows greater investment. As such, we viewed them as channels through which private capital may be directed to development activities, and areas that could be utilised more to increase overall capital adequacy.

During our consultation, however, many stakeholders raised concerns regarding our treatment of activities that we included in balance sheet mobilisation as a form of PCM. These concerns largely related to two issues. First, the scale of the activities in question are such that they threaten to dwarf the PCM caused through primary and secondary PCM. On the one hand, this is to be expected, as these activities – in particular the issuance of bonds by DFIs – are much more successful at attracting private capital than other forms of mobilisation. On the other hand, there remain concerns about the inflationary effects of these activities related to mobilisation occurring at the level of transactions. While there are limits to the extent that balance sheet mobilisation could be increased, principally linked to volumes of shareholder capital available, there exists a broad perception that the scale of mobilisation through balance sheet operations could dwarf mobilisation through individual investments.

While our approach directed those different baskets of PCM should be reported separately to avoid double counting, stakeholders nonetheless felt that the inclusion of these activities as PCM could lead to a situation where DFIs seek to increase balance sheet mobilisation to boost overall PCM figures, while neglecting new and innovative products that could boost primary and secondary PCM. Second, numerous stakeholders felt that the activities included in balance sheet mobilisation lacked some of the key features seen in both primary and secondary PCM. Namely, the activities in balance sheet mobilisation incorporate private capital at a greater distance from assets in EMDEs, have markedly lower risk than most instruments in primary and secondary PCM, and are not directly tied to the performance of assets in EMDEs. We unpack these issues below.

Unlike in primary and secondary PCM, when private investors purchase DFI bonds or invest in DFI hybrid capital, they are not directly investing in development activities or assets in EMDEs, but rather indirectly through the DFIs themselves. In most cases, the private investor has no specific knowledge of what the capital invested will be used for, although this may vary to some extent in the case of use-of-proceeds bonds such as sustainable, green or blue bonds. Does this matter when considering whether these activities should be counted as PCM? On the one hand, if private capital is flowing to development activities, one could argue that it does not. However, if PCM is intended to familiarise private investors with EMDE investments and encourage future investment, then the distance between the activities outlined above and the ultimate use of the capital is problematic.

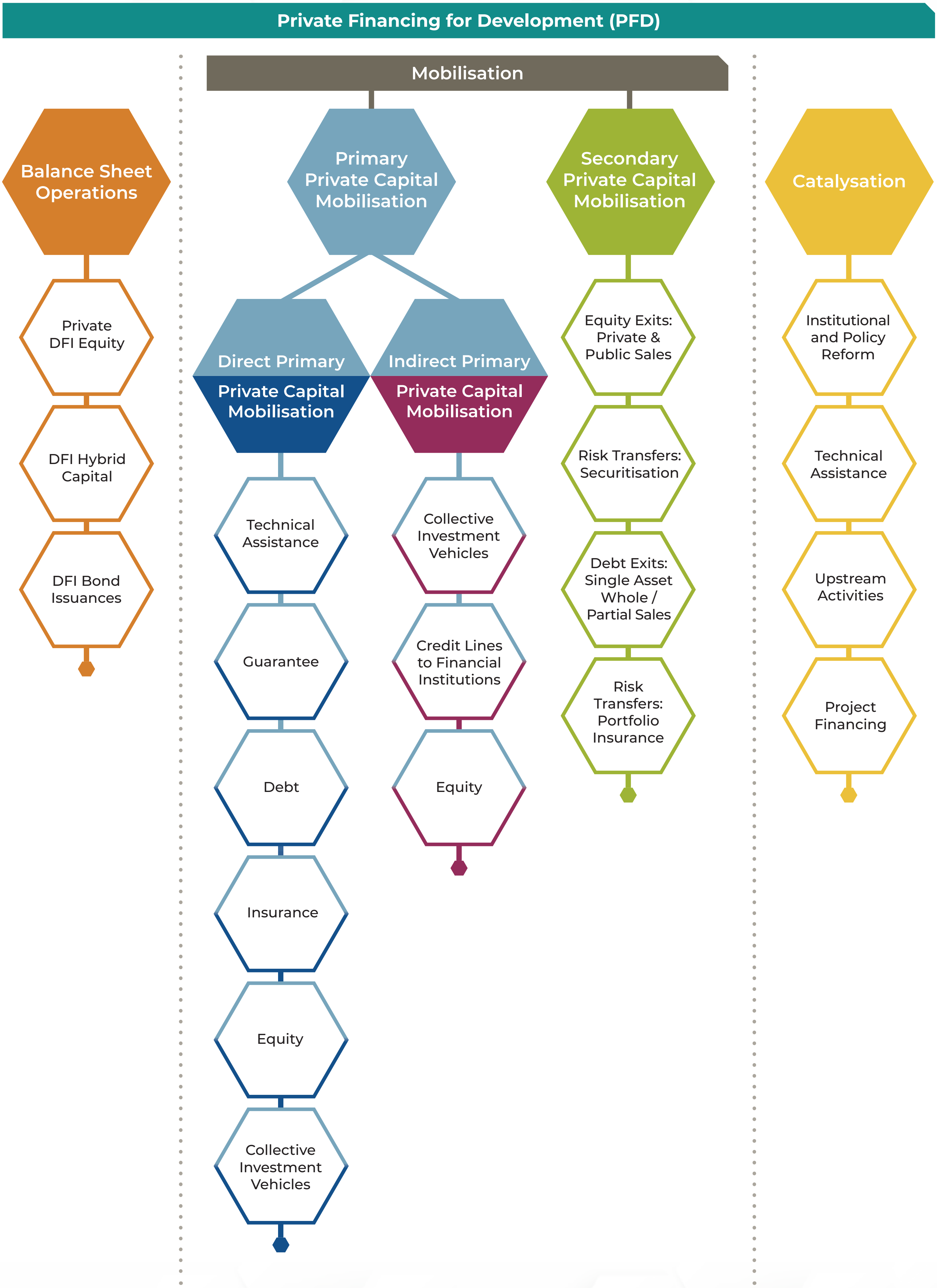
Similarly, the credit risk profile that private investors accept through balance sheet mobilisation activities are generally markedly different to those that are accepted through directly investing in EMDE assets. DFI bond issuances are commonly rated as triple or double A, reflecting the high credit ratings of DFIs themselves. Consequently, investing in these types of assets does little to familiarise private investors with the risks of investing in EMDEs. Moreover, this form of private investment requires less 'effort', in terms of the adoption of credit risk, from private investors compared to other forms of PCM, and therefore should not be given this kind of credit. As we addressed in our '*Crowding In*' report, it may be more accurate to 'weight' mobilisation according to the risk that is taken on by the private sector. However, this would introduce significant complexity to reporting. As such, we argue that such analysis could be applied after the fact if PCM was disclosed in a disaggregated manner.

In both primary and secondary PCM, private investor returns are governed by the performance of the assets in which they have invested. In contrast, with balance sheet mobilisation, when, for example, private investors purchase bonds from DFIs, the private investment has a higher degree of protection due to the significant buffer provided by shareholder equity and callable capital. The failure of specific assets in a DFI portfolio is less likely to materially affect whether the private investor in balance sheet activities can recoup its investment. As with the issues outlined above, this difference is important if we want to incentivise private investors to invest in EMDEs. Investing in extremely low risk assets, with no direct connection to EMDE assets, is unlikely to do this.

The above issues must be balanced with the broader perspective that the activities that we included in balance sheet mobilisation do indeed incorporate private capital into the development finance sector. These activities undeniably play a central role in allowing DFIs to carry out their functions and represent powerful tools in expanding investment. Furthermore, we maintain that transparency around these activities is critical to understanding the role that private versus public capital is playing in financing development activities. Currently, only bond issuance represents a common and recurring example of what we classify as balance sheet operations. Both private investment in DFI equity and the issuance of hybrid capital are infrequent events. As such, on the balance of arguments, it makes sense to classify balance sheet operations as *similar but distinct* to transactional (primary and secondary) PCM.

We propose that the activities should remain a part of the broader PFD schema (and be reported) but should be more clearly delineated from primary and secondary PCM. We therefore propose renaming balance sheet mobilisation as ‘balance sheet operations’ and restructuring the schema to recognise these changes. We treat balance sheet operations similarly to our treatment of private capital catalysation – recognising its role in PFD, while noting its differences to PCM. We have positioned balance sheet operations to the left of PCM and private capital catalysation to the right of PCM purposefully. This is to recognise that balance sheet operations incorporate private capital into development before DFI activities or investments, while private capital catalysation involves incorporating private investment after DFI activities or investments. Our revised PFD schema can be seen in Figure 3, below.

Figure 3: New Private Financing for Development Schema



3.3 Collective investment vehicles

The other issue stakeholders raised concerns about was our approach to counting PCM when DFIs invest in CIVs such as private equity and debt funds. In our original proposal we argued that, given the lack of evidence of causality or attribution, leverage ratios for indirect primary PCM through DFI investments in CIVs should be limited to 1:1. In other words, DFIs can only claim as much indirect primary PCM in a given CIV as the value of their investment. However, a number of stakeholders made the argument that indirect PCM is, by its definition, less attributable and it is inconsistent to treat CIVs differently to other forms of indirect PCM.

Our original proposal was founded on concerns that numerous CIVs, such as private equity funds, have multiple DFI co-investors and, in these cases, it is hard to determine the additionality of later DFI investors. Moreover, there are also questions about the additionality of DFIs investing in second and third round funds managed by fund managers with established track records. These larger funds should be able to effectively attract commercial capital without the need for DFI co-investment. We explore these issues in more detail in Section 4 of the report.

However, despite our reservations about the additionality of some CIV investments, a number of stakeholders argued that the approach of classifying some PCM as indirect, rather than direct, was intended to make clear that attribution was weaker. Largely, indirect PCM is analogous to co-investment and does not make the same claims to causality that we see in the active and direct role of DFIs in direct PCM.

In light of this feedback, we have reverted to counting indirect PCM in CIVs in the way used by the MDB Joint Approach. In the absence of a DFI playing an active or direct role in CIV formation, all private investment in a CIV would be attributable to DFIs on a pro rata basis. We feel that this approach maintains consistency of indirect PCM across products.

As noted above, we retain concerns regarding the additionality and mobilising effect of some DFI investments in CIVs. Improved transparency is absolutely critical with respect to these instruments; without it, it is not possible to accurately understand the role of CIV investments in PCM data owing to insufficient levels of disaggregation. Disaggregated and detailed disclosure of PCM data, in line with our disclosure recommendations, would allow stakeholders to interpret data and draw conclusions around the role of CIV investments far more accurately than is currently possible.

3.3 Additional disclosure data field

Our report called for detailed and disaggregated disclosure of private capital mobilisation data including investment name, investment value, instrument, geography, sector, amounts mobilised, and a typology of mobilised parties. We propose adding another data field that discloses which basket of mobilisation is involved. For example, the disclosure should state whether mobilisation is direct or indirect mobilisation, or secondary mobilisation. This disclosure is important to be able to verify aggregate figures provided in other sources such as joint reports. The levels of disaggregated disclosure for private capital mobilisation are shown using a hypothetical example of an investment in Kenya Cement in Table 1 below.

3.4 Private Capital Catalysation

Our original proposal called for the detailed and disaggregated disclosure of PCM data across all instruments. However, during the consultation period, several stakeholders indicated that certain instruments, including insurance and silent sales of assets, were fundamentally precluded from disclosure. Recognising this, we propose creating limited carve-outs for these products that allow DFIs to disclose their mobilising effects at 'optimal' levels of disaggregation. DFIs should seek to disaggregate such data as far as is reasonably possible while protecting commercial confidentiality requirements. We recognise that, in some instances, particularly amongst smaller DFIs and DFIs that operate in limited geographies, this may require aggregations at portfolio level.

As discussed in the sections below, we have compiled evidence showing that for most mainstream instruments, including debt and equity products, our disclosure recommendations are not only achievable but are in line with market standards. Furthermore, they reflect the kind of data that is readily available either on third-party sites or in datasets that are frequently shared by the private actors which DFIs are hoping to mobilise. As such, any instruments that necessitate aggregate disclosure should be disclosed alongside detailed disaggregated disclosure for other instruments. In essence, DFIs should always seek to maximise the level of disaggregation of PCM data.

Table 1: Levels of disaggregated disclosure for private capital mobilisation.

HIGHEST

LEVEL OF DISAGGREGATION

LOWEST

Disaggregated or aggregated	Investment	Investment value	Total mobilised amount	Mobilisation type	Geography	Investment instrument	Sector	Disaggregated mobilised amounts	Mobilised party typology	Mobilised party name	Notes
Disaggregated	Single investment: Kenya Cement	$6m	$5m	Direct mobilisation	Kenya	Loan	Infrastructure	$2m & $3m	International Bank and Regional Bank	Standard Chartered Kenya & ABSA Bank	
Disaggregated	Single investment: Kenya Cement	$6m	$5m	Direct mobilisation	Kenya	Loan	Infrastructure	$2m & $3m	International Bank and Regional Bank		This is the level of disaggregation recommended in our report for both MDBs and bilateral DFIs.
Disaggregated	Single investment: Kenya Cement	$6m	$5m		Kenya	Loan	Infrastructure		International Bank and Regional Bank		
Disaggregated	Single investment: Kenya Cement	$6m	$5m		Kenya	Loan	Infrastructure				This is the level of disaggregation currently provided by bilateral DFIs for their ODA-qualifying investments
Aggregated	Multiple investments	$100m	$75m		Kenya	Loan	Infrastructure		International Bank and Regional Bank		
Aggregated	Multiple investments	$100m	$75m		Kenya	Loan	Infrastructure				
Aggregated	Multiple investments	$100m	$75m		Kenya	Loan					
Aggregated	Multiple investments	$100m	$75m		Kenya		Infrastructure				This is the level of disaggregation currently provided by MDBs through the OECD
Aggregated	Multiple investments	$100m	$75m			Loan	Infrastructure				
Aggregated	Multiple investments	$100m	$75m			Loan					
Aggregated	Multiple investments	$100m	$75m		Kenya						
Aggregated	Multiple investments	$100m	$75m				Infrastructure				
Aggregated	Multiple investments	$500m	$300m		Africa						This is the level of disaggregation currently provided by MDBs through the MDB joint report

Views from the private sector

4. Views from the private sector

PCM is the process through which public institutions attract private money to provide a net increase in the resources available to take on developmental challenges. As such, it is important that any reforms to measuring and disclosing PCM do not harm these efforts by discouraging investment. Over the course of this project, some DFIs have raised concerns that our proposal to improve the transparency of PCM data could negatively affect the ability of DFIs to mobilise private capital. These concerns have been twofold. First, some DFIs have argued that much of the data we recommend disclosing is commercially confidential. Second, a number of DFIs have voiced concerns that private investors would object to their participation being disclosed and therefore be less likely to invest.

During the project we have made considerable effort to speak to as many private sector actors as possible. We have sought to understand their perspectives on the role of DFIs in mobilising private investment, the types of data that they would need when considering EMDE investments, and their views on our transparency recommendations. Broadly, we have found that while private investors see DFIs as important counterparts in many emerging markets, their involvement sometimes comes at a cost, particularly in terms of expected returns on investment. Investors were clear that more transparency from DFIs would support private investment, and that our transparency proposals are both needed, feasible, and would make investing more efficient.

This chapter also draws attention to the case of LSEG Loan Connector, a private sector subscription service that contains a significant amount of data from the private sector, much of which is more detailed and granular than our proposal.

While this section presents the views of a range of the private sector actors to whom we have spoken, some of the private investors we spoke to voiced strong support for our proposals but were unwilling to speak publicly due to concerns about the impact it would have on their future relations with DFIs.

4.1 Private Sector Consultations

An area of focus in our PCM work has centred on both the data needs of the private sector and the use, particularly by DFIs, of commercial confidentiality claims as reasons for limited disclosure of PCM data. When we launched our proposal in April, DFIs specifically asked us to increase our engagement with private sector DFI clients to understand the extent of their concerns around commercial confidentiality. In response, we expanded our research in two ways. First, in order to calibrate our methodology as it relates to measuring PCM through CIVs, we wanted to hear from the private sector regarding the function of DFIs in CIVs. In particular, we explored the perceived additionality of DFIs and the role they play in mobilising private investment in CIVs. This was principally done as a means of gauging a reasonable PCM measurement approach commensurate with DFI effort. Second, we spoke to the investors about increasing the transparency of PCM data from DFIs and how they viewed enhanced disclosure regarding their own presence as mobilised parties.

We consulted with a wide range of investors including a fund-of-funds, a global investment management firm, a family office, a university endowment management firm, a fund management company, a foundation, and an asset manager owned by a global institutional investor. Taken as a group, the interviewees represent a broad range of the type of investors co-investing in CIVs alongside DFIs. Some of the investors also co-invest with DFIs in a range of other instruments and, in some cases, actively bring DFIs into their own investments. While research of this nature is not exhaustive, we are confident that it provides valuable insight into the perceptions of the types of private investors who make up a significant proportion of DFI co-investors.

The rest of this section summarises the research findings with a particular focus on the contributions that DFIs make, drawbacks of DFI co-investment including questions concerning additionality, and their views on increasing disclosure of PCM deal data.

4.1.1 Positive effects of DFIs

All of the private investors we spoke to saw some value in the presence of DFIs in CIVs. The most commonly cited benefit was the ability of DFIs to contribute to a CIV's ability to reach a critical mass of capital, particularly in first time funds and in underdeveloped private equity markets. A number of interviewees cited the crucial role that DFIs play in Sub-Saharan African private equity markets and similarly in smaller Asian markets. Broadly, the role DFIs play in early market creation through the provision of capital to first round funds and inexperienced fund managers was cited as their key means of additionality.

Secondary to this was the valuable role that DFIs play in providing legal due diligence and enhancing the environmental, social and governance (ESG) components of CIV investments. One investor noted that the presence of DFIs provides private investors with a degree of 'political cover' when co-investing. Similarly, a number of private investors noted that the extensive due diligence performed by DFIs allows private co-investors to 'piggyback' on this, reducing duplication. One investor also noted that the implementation of impact frameworks by DFIs helped to shape the impact thesis of CIVs in a way that was attractive to some private co-investors.

"At the Investor Leadership Network, our members are precisely the kinds of organizations the MDBs and DFIs refer to when talking about mobilizing private capital. Greater data transparency and understanding of risk would go a long way toward helping our members understand what's working, the role we can play, and how we might be able to bring our capital to bear in new ways to address some of our planet's greatest challenges, while continuing to deliver superior returns for our members' beneficiaries."

Amy Hepburn – Investor Leadership Network

Chief Executive Officer

4.1.2 Adverse effects of DFIs

On the flip side, almost all private investors that we spoke to also had some concerns about DFIs' CIV investments. The principal concern cited was the tendency of DFIs to invest in later stage funds which often acted in a manner that was detrimental to mobilising private capital. According to some respondents, DFI investment in later stage funds (such as third or fourth round funds) discouraged some fund managers from 'graduating' towards more commercial models that could more effectively attract private capital. In short, the continued support of DFIs can, in some cases, lead to a form of dependency on DFI capital. Over-investment was also cited in other forms; namely a tendency of some DFIs to invest in all fund managers in a particular region or sector. It was felt that this obscures quality, making better-performing fund managers hard to identify. There are also instances where the volume of DFI investment in CIVs has 'overheated' a market, making investments too expensive and reducing returns. It was noted that this is particularly problematic in smaller markets.

The other issue that was cited by a number of interviewees relates to the expectations DFIs attach to their investment. Investors noted that DFIs can be demanding in terms of developing long side-letters and conducting lengthy negotiations. Moreover, DFIs were viewed as having a lack of profit motive that was seen by some investors as a signal that the CIV would prioritise development impact over profit. Some investors noted that weak profit motives caused by DFI investment discouraged them from co-investing in funds that have significant DFI investment.

4.1.3 Improving the transparency of PCM data

The third issue we raised with private investors concerned commercial confidentiality of PCM data. In doing this, we explained our proposed approach of disclosing detailed disaggregated PCM data in which mobilised parties are identified by a typology but not directly named. We wanted to understand whether the interviewees would view this as a breach of confidentiality and whether or not the interviewees would be comfortable having their participation disclosed in this manner.

Some of the private investors that we spoke to noted that they would prefer not to be named in any disclosures. In some cases, investors conceded that the information was probably already available if people knew where to look but they were uncomfortable with the idea of easily accessible lists of all of their investments. One investor noted that this was not necessarily for the sake of confidentiality, but rather a perception that such disclosure could lead to 'lazy' journalism about their activity. The interviewee noted that in cases where people are willing to find data as currently available, the effort involved generally ensures that the data is used in a responsible manner. Broadly, the interviews revealed that concerns around disclosure related largely to reputational risks rather than commercial confidentiality. However, these views were not universally held. Some interviewees noted that they almost always announce investments via press releases, even if not in a systematic manner.

In contrast to the concerns laid out above, the interviewees that we spoke to were unanimous that our proposed disclosure approach in which mobilised parties are identified through a typology would not pose a problem for them. Many of the interviewees felt that this information was less detailed than information already available, although not currently disclosed in a systematic manner. The fact that fragmented information already exists was dealt with directly with interviewees. During consultations, some DFIs raised concerns about the possibility of identities being 'reverse engineered' as a result of our disclosure recommendations. When interviewees were asked about this, the general feeling was that such reverse engineering was already possible in many cases given the scale of publicly and privately available information, and this did not pose a major concern to them.

Generally, investors were supportive of improving transparency in the sector. Where concerns did exist, they were largely focussed on the misuse or misattribution of investor information. There was a broad consensus that the use of a dedicated and curated data portal would largely allay these concerns.

"Investing in Emerging Markets alongside Development Finance Institutions requires building trust. Trust is based on transparency. Publish What You Fund's proposal strikes for transparency and consistency – fundamental for the growth of private capital mobilisation in emerging and developing economies."

Nadia Nikolova – Allianz GI

Managing Director, Lead Portfolio Manager
Development Finance and Impact Credit

4.1.4 Significance of research

Our research indicates that DFIs are undoubtedly additional when investing in CIVs in certain contexts. In small and poorly developed equity markets, DFIs often represent a critical source of capital, without which many funds would simply fail to close. However, the research also reflected significant concerns around whether or not DFIs are additional and mobilising in other contexts. In some cases, DFIs may even dissuade private investment. This raises serious questions about DFI claims of mobilisation in CIVs. As we note in a previous section, we have changed our proposal for counting indirect mobilisation in CIVs so that it is aligned with other forms of indirect mobilisation. Having done that, transparency around levels of mobilisation in CIVs is more important than ever as stakeholders need to be able to accurately account for mobilisation in instances where claims of additionality are perhaps tenuous.

Perhaps the more significant finding is that the investors we spoke with were overwhelmingly comfortable with our proposed disclosure approach. This is significant as it strongly suggests that DFIs are overstating the level of concern around commercial confidentiality and other disclosure constraints. That we have these findings from investors involved in the private equity sector is important. Private equity is often viewed as one of the more secretive types of private investment. That there is such a difference between the perspectives of private equity investors and DFIs is indicative of the need for serious re-examination of the assumption of blanket commercial confidentiality.

In the course of our research, we spoke to a number of actors, including global organisations and investors, about our disclosure proposal. What follows are some of these assessments as well as an example of the kind of detailed financial information that is available if parties are willing to pay for it.

4.2 LSEG Loan Connector and DealScan: A Model of Private Sector Financial Transparency

DFIs have consistently cited commercial confidentiality concerns when asked to improve the transparency of PCM data. In some circumstances, such as PCM through insurance or silent sales, there is legitimacy to these claims. However, in other circumstances, evidence exists that commercial confidentiality concerns are unfounded and overused.

LSEG Loan Connector is a leading web-based loan information platform. The platform includes DealScan which describes itself as "the world's number one source for comprehensive, reliable historical deal information on the global loan markets".[7] The platform contains detailed and disaggregated data on over 450,000 loans globally. LSEG Loan Connector is a subscription-based service meaning that all data is behind a paywall. Data is collected and verified by LSEG Loan Connector staff, while lenders are incentivised to allow disclosure through inclusion in the platform's league tables.

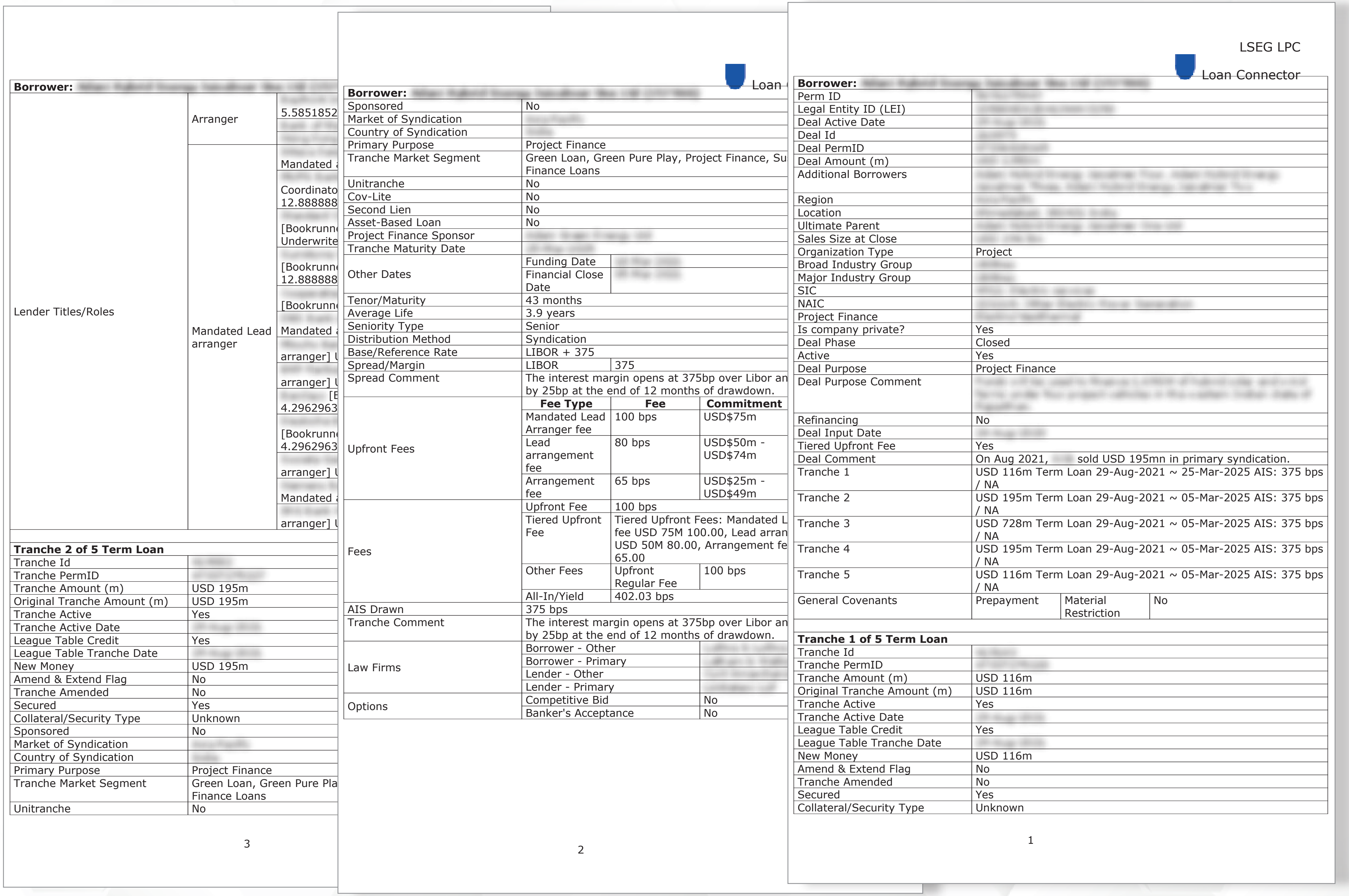
As part of this research, we have been provided with limited access to LSEG Loan Connector, including to the 'dictionary' of data fields for loans and an example loan report. Both of these aspects of the platform demonstrate the extensive nature of the disclosures contained within the platform and raise serious questions around why similar disclosures cannot be made about MDB and DFI investments.

The 'dictionary' of data fields that are contained within LSEG Loan Connector includes approximately 240 fields that can be completed for investments. These fields include detailed data regarding the borrower, the lender(s), the deal, and the tranche. There are also data fields covering ratings, fees, spreads, and financial covenants. The sample loan report that we were given access to contains details of five tranches of a loan. The report includes data from each of the categories identified above including the identity of lenders, the size of each lender's participation, and the interest rates and associated fees of the tranches. In sum, the disclosed data is far more detailed than what we have proposed for DFIs. We have included a redacted excerpt of a Loan Connector report in Figure 4 below.

The detail contained in these disclosures is significant as it creates serious questions about DFI claims that such information is commercially confidential. While this information is only accessible to paid subscribers, it is reasonable to assert that anyone who wished to access it for commercial gain, would be willing to pay to do so. It is possible that some investors would not want information disclosed for reasons that are not related to commercial confidentiality – reputational risks for example – but the scale and depth of information within the DealScan database indicates that many investors and investees are disclosing private investments.

DealScan contains data only relating to loans. DFIs use a wide, and growing, set of products to make investments, not all of which would necessarily be disclosable in the same manner as loans. Yet, there is currently almost no disaggregated PCM data disclosed under the MDB Joint Approach, while disaggregated disclosure under the OECD DAC Approach remains limited, primarily due to limitations applied by MDBs. The disclosures contained within DealScan strongly suggest that blanket claims of commercial confidentiality are simply inaccurate. DFIs should be seeking to maximise transparency and the DealScan model indicates that this is possible.

Figure 4: Redacted excerpt of a Loan Connector deal report (image includes three pages out of eleven)



LSEG LPC

Loan Connector

Borrower: [redacted]			
Perm ID	[redacted]		
Legal Entity ID (LEI)	[redacted]		
Deal Active Date	[redacted]		
Deal Id	[redacted]		
Deal PermID	[redacted]		
Deal Amount (m)	[redacted]		
Additional Borrowers	[redacted]		
Region	[redacted]		
Location	[redacted]		
Ultimate Parent	[redacted]		
Sales Size at Close	[redacted]		
Organization Type	Project		
Broad Industry Group	[redacted]		
Major Industry Group	[redacted]		
SIC	[redacted]		
NAIC	[redacted]		
Project Finance	[redacted]		
Is company private?	Yes		
Deal Phase	Closed		
Active	Yes		
Deal Purpose	Project Finance		
Deal Purpose Comment	[redacted]		
Refinancing	No		
Deal Input Date	[redacted]		
Tiered Upfront Fee	Yes		
Deal Comment	On Aug 2021, [redacted] sold USD 195mn in primary syndication.		
Tranche 1	USD 116m Term Loan 29-Aug-2021 ~ 25-Mar-2025 AIS: 375 bps / NA		
Tranche 2	USD 195m Term Loan 29-Aug-2021 ~ 05-Mar-2025 AIS: 375 bps / NA		
Tranche 3	USD 728m Term Loan 29-Aug-2021 ~ 05-Mar-2025 AIS: 375 bps / NA		
Tranche 4	USD 195m Term Loan 29-Aug-2021 ~ 05-Mar-2025 AIS: 375 bps / NA		
Tranche 5	USD 116m Term Loan 29-Aug-2021 ~ 05-Mar-2025 AIS: 375 bps / NA		
General Covenants	Prepayment	Material Restriction	No
Tranche 1 of 5 Term Loan			
Tranche Id	[redacted]		
Tranche PermID	[redacted]		
Tranche Amount (m)	USD 116m		
Original Tranche Amount (m)	USD 116m		
Tranche Active	Yes		
Tranche Active Date	[redacted]		
League Table Credit	Yes		
League Table Tranche Date	[redacted]		
New Money	USD 116m		
Amend & Extend Flag	No		
Tranche Amended	No		
Secured	Yes		
Collateral/Security Type	Unknown		

1

Loan

Borrower: [redacted]			
Sponsored	No		
Market of Syndication	[redacted]		
Country of Syndication	[redacted]		
Primary Purpose	Project Finance		
Tranche Market Segment	Green Loan, Green Pure Play, Project Finance, Su Finance Loans		
Unitranche	No		
Cov-Lite	No		
Second Lien	No		
Asset-Based Loan	No		
Project Finance Sponsor	[redacted]		
Tranche Maturity Date	[redacted]		
Other Dates	Funding Date	[redacted]	
	Financial Close Date	[redacted]	
Tenor/Maturity	43 months		
Average Life	3.9 years		
Seniority Type	Senior		
Distribution Method	Syndication		
Base/Reference Rate	LIBOR + 375		
Spread/Margin	LIBOR	375	
Spread Comment	The interest margin opens at 375bp over Libor an by 25bp at the end of 12 months of drawdown.		
Upfront Fees	**Fee Type**	**Fee**	**Commitment**
	Mandated Lead Arranger fee	100 bps	USD$75m
	Lead arrangement fee	80 bps	USD$50m - USD$74m
	Arrangement fee	65 bps	USD$25m - USD$49m
Fees	Upfront Fee	100 bps	
	Tiered Upfront Fee	Tiered Upfront Fees: Mandated L fee USD 75M 100.00, Lead arran USD 50M 80.00, Arrangement fe 65.00	
	Other Fees	Upfront Regular Fee	100 bps
	All-In/Yield	402.03 bps	
AIS Drawn	375 bps		
Tranche Comment	The interest margin opens at 375bp over Libor an by 25bp at the end of 12 months of drawdown.		
Law Firms	Borrower - Other	[redacted]	
	Borrower - Primary	[redacted]	
	Lender - Other	[redacted]	
	Lender - Primary	[redacted]	
Options	Competitive Bid	No	
	Banker's Acceptance	No	

2

Borrower: [redacted]		
Lender Titles/Roles	Arranger	[redacted] 5.5851852
		[redacted]
		[redacted]
	Mandated Lead arranger	[redacted] Mandated
		[redacted] Coordinato 12.888888
		[redacted] [Bookrunn Underwrite
		[redacted] [Bookrunn 12.888888
		[redacted] [Bookrunn
		[redacted] Mandated
		[redacted] arranger]
		[redacted] arranger]
		[redacted] [E 4.2962963
		[redacted] [Bookrunn 4.2962963
		[redacted] arranger]
		[redacted] Mandated
		[redacted] arranger]
Tranche 2 of 5 Term Loan		
Tranche Id	[redacted]	
Tranche PermID	[redacted]	
Tranche Amount (m)	USD 195m	
Original Tranche Amount (m)	USD 195m	
Tranche Active	Yes	
Tranche Active Date	[redacted]	
League Table Credit	Yes	
League Table Tranche Date	[redacted]	
New Money	USD 195m	
Amend & Extend Flag	No	
Tranche Amended	No	
Secured	Yes	
Collateral/Security Type	Unknown	
Sponsored	No	
Market of Syndication	[redacted]	
Country of Syndication	[redacted]	
Primary Purpose	Project Finance	
Tranche Market Segment	Green Loan, Green Pure Pla Finance Loans	
Unitranche	No	

3

4.3 GSG Impact

GSG Impact is a global organisation whose mission is to accelerate progress for meaningful impact transparency and a transformative shift of resources delivering a positive impact on the SDGs and climate goals. Active in over 50 countries, GSG Impact seeks to transform the global financial systems, so that every investment, business and government spending decision takes into account impact, as well as risk and return. The GSG Impact Partnership consists of a growing community of 38 national and regional partners. These partners apply the latest impact developments within their local contexts, acting as the key drivers in their countries. GSG Impact harnesses their collective expertise in its global advocacy work.

One core focus of GSG Impact's work is private capital mobilisation. They note that "government spending and philanthropy alone are not enough to drive positive societal and environmental outcomes at scale. However, there is enough capital managed in the private sector that can and must be mobilised for public good if we are to deliver on the SDGs and the global climate agreements".[8] In a recent report, GSG outlined the key role that DFIs play in mobilising private capital alongside the need for reforms to break the "originate to hold" model that is prevalent amongst DFIs.[9]

MDBs and DFIs are vital for mobilising private investment flows to EMDEs, where financial markets are still developing. However, current mobilisation rates are too low, reflecting a need to both set targets and incentivise greater private capital mobilisation. Improving the measurement and transparency of private capital mobilisation is an important facet of improving mobilisation levels. GSG Impact supports Publish What You Fund's proposals to reform the measurement and disclosure of mobilisation data. Alongside other important transparency requirements such as increasing access to GEMS data, the proposal marks a step-change in improving transparency, incentivising mobilisation, and driving increased mobilisation.

4.4 Dr Hubert Danso

Dr Hubert Danso, Chairman and CEO of Africa Investor (Ai) Group, Chair of the CFA Asset Owners Council and Co-Chair of SMI Africa Council, recently wrote an article in support of our proposal to improve the transparency of PCM.[10] The article highlights the need from the private sector for more data from DFIs, and the 'sub-optimal' current efforts to mobilise capital. Concluding, Dr Danso noted:

Let's not forget that PCM is about us. We're the ones being counted as mobilised. So we need to be clear. We need this data. We believe that Publish What You Fund's proposed approach to disclosing PCM data meets our needs and is wholly reasonable within existing business practices and confidentiality agreements. And we are willing for all of the investments where our resources are being counted as "mobilised" to be subject to this level of disclosure. We'll play our part, but we need DFIs and Heads of State, as sovereign shareholders of MDBs to ensure MDBs play theirs.

4.5 Pollination

Pollination is a net zero, nature positive investment and advisory firm at the forefront of innovative climate finance. The group provides advice to firms on unlocking capital for climate and nature solutions, including the design, access, and implementation of grants and government incentives, corporate venture capital, blended finance, advanced market commitments, structured finance, and other catalytic capital solutions. Much of the firm's work focuses on frontier themes like regenerative agriculture, adaptation and resilience, nature positive development, and the just energy transition in emerging markets.

In 2020, Pollination formed Climate Asset Management (CAM) as a joint venture with HSBC to grow a world leading asset management company dedicated to natural capital. CAM now has ~US$1 billion funds under management across Natural Capital and Nature-Based Carbon Strategies. Pollination is also a partner on the GAIA Climate Loan Fund, a blended finance collaboration with Climate Asset Management, FinDev Canada, and Mitsubishi UFJ Financial Group to finance adaptation and resilience projects in emerging markets.

Across its work, Pollination plays an important role in bridging knowledge and capability gaps between catalytic capital providers and private lenders and investors. Pollination views ongoing and enhanced DFI transparency as an important step in improving the efficiency and scale of these private capital mobilisation efforts.

The firm has seen rapidly growing appetite among its clients to put in the difficult but rewarding work to pull together multi-sector, catalytic capital solutions to drive capital for regen, resilience, and energy transition in emerging markets, both as a means of diversifying investments and decarbonising financial flows and supply chains. For organisations new at the table, it is critical that they have access to clear information on where and how DFIs are mobilising capital to efficiently plan for and access capital partnerships. For the DFIs acting as key intermediaries of catalytic solutions, disclosing information that helps to frame for investors their 'buy box' in turn reduces the number of off-strategy solicitations and investment requests that slow down their own ability to mobilise new capital sources for climate. Both sides gain from these efficiencies.

Pollination therefore welcomes Publish What You Fund's proposal to improve the measurement and transparency of private capital mobilisation. The disclosure recommendations that Publish What You Fund have made are in-line with private market practices and should enhance investor understanding of the capital solutions available to drive action in hard-to-reach markets and sectors. Improving transparency in line with these recommendations would mark a significant step forward both in terms of incentivising DFI activities that effectively mobilise the private sector, and in improving the efficiency of private investors seeking to make climate investments.

Improving disclosure of PCM data

5. Improving disclosure of PCM data

Our '*Crowding In*' report proposal outlined our recommendation for detailed, disaggregated disclosure of PCM data. While this approach has received considerable support from the private sector and others, numerous stakeholders – particularly DFIs – have requested more details on how such disclosure could work. This section of the report addresses this question, highlighting a range of options for disclosing PCM data.

5.1 Options for improving disclosure

There are at least three options for improving the disclosure of PCM data, explored in more detail below. The current MDB Joint Approach relies on annual publication of a joint report that discloses PCM data for participating institutions. The report mostly consists of aggregate data for each institution, with some limited disaggregation. However, the use of a report is unsuited to systematic, detailed, disaggregated disclosure due to the sheer number of investments that need to be published. The current OECD DAC Approach provides more regular and granular PCM data but there are questions regarding the willingness of MDBs to fully cooperate with disclosure requirements. Neither of the current approaches are thus well suited to providing the level of disaggregated PCM data needed.

5.1.1 Self-publication

Self-publication of data involves individual institutions publishing detailed, disaggregated data on PCM on their own websites. In the short to medium term, this likely represents the most feasible option for improving the transparency of PCM data as it does not require a collective DFI effort. Individual institutions that are willing to improve the transparency of this data may publish according to an established methodology. However, such an approach has a number of drawbacks. First, publication of PCM data by individual institutions increases the risk of double counting and other inaccuracies. The absence of an organisation responsible for auditing and verifying data could result in multiple DFIs claiming mobilisation for the same investments. Second, self-publication will not provide a global dataset of PCM data, thus limiting the accessibility and usability of the data. A larger dataset would arguably provide more insight, particularly in the case of smaller institutions.

There are currently very few examples of self-publication of PCM data, none of which involve systematic disclosure of mobilisation data according to either of the two prevailing PCM methodologies. The Private Infrastructure Development Group (PIDG) discloses total mobilisation for most of its investments, although they do not disclose the source of private finance.[11] However, PIDG disclosures are based on its internal PCM measurement methodology that counts all private investment following PIDG investment as PCM. Similarly, the International Finance Corporation (IFC) has begun to disclose very limited mobilisation data for projects financed with the International Development Association (IDA) Private Sector Window.[12] Again, IFC is using an internal measure of PCM, in this case called 'core mobilization' that is broadly analogous with direct mobilisation under the existing MDB Joint Approach. While existing practices of self-publication demonstrate that it is possible, it is not being done in a standardised way, which lowers the overall value of disclosure.

5.1.2 DFI-managed PCM Portal

Another option that takes into account the above concerns is to have a single DFI take responsibility for publishing PCM data for all DFIs who utilise a methodology. At an aggregate level, this already happens with the MDB Joint Report compiled annually by IFC. Some stakeholders suggested that an MDB could host a PCM-specific data portal to which all DFIs contribute data. This approach would help to create a global PCM dataset and, if the MDB were to take responsibility for verifying the data, it could also address data accuracy issues. Alternatively, assurance or audit of PCM data by each institution could help to improve trust in the data and could be conducted as part of existing audit structures. IFC already audit internal PCM data in this manner. This is arguably more likely to be agreed to than external audit or validation of data. Individual responsibility to publish data to the portal in a standardised format would allow the creation of a centralised dataset that would make missing data more apparent than in the case of self-publication on DFIs' own websites. This could help create pressure to ensure timely and comprehensive publication.

However, this approach would place some burden on the institution responsible for publication and maintenance of the data portal. We understand that publication of the MDB Joint Report requires significant resources and a data portal would arguably require even more. While this could be partially mitigated through contributions from other institutions, there have been instances when the joint report has been published late, suggesting coordination may prove problematic.

An example of a DFI-maintained database exists in the form of the Global Emerging Markets (GEMS) risk database. GEMS is a large database containing risk data (default and recovery data) from member MDBs and DFIs. The database contains information from 26 institutions, covering 20,000 contracts over 35 years.[13] Member institutions supply data in anonymised form and, in return, can access aggregate data from the database. Recent efforts to improve the transparency of the GEMS database have resulted in the publication of two reports on default statistics and a report on recovery rates.[14] While the GEMS database does not provide a model of transparency that would satisfy our recommendations, it does suggest that DFI management of a communal database is a realistic proposition.

5.1.3 Third party management of a PCM Portal

The third option for improving transparency is through the appointment of an independent third party to host, manage, and verify PCM data. This approach would involve identifying an organisation willing to take on this role either as a public good or in a paid function. The benefit of such an approach would be to incorporate the benefits of the data portal as outlined above – namely centralisation and verification of data – with the added benefit of independent third-party verification of data. If resourced properly and fairly amongst DFIs, it would also negate the individual burden implied in the data portal approach described above.

The closest current approximation of this approach is in the publication of PCM data by the OECD DAC. Using the OECD DAC Approach, data is submitted by DFIs and published by the OECD according to established disclosure rules. To date, this has resulted in a range of transparency levels depending on the types of interventions being made and by the type of institution submitting data. Broadly, bilateral DFI activities that have been classified as Official Development Assistance (ODA) are available in disaggregated form. However, non-ODA PCM from bilateral DFIs and all PCM from MDBs has, to date, been disclosed at higher levels of aggregation. Disclosures are delayed in a similar manner to other CRS (Common Reporting Standard)/TOSSD (Total Official Support for Sustainable Development) publication. MDBs have, in the past, objected to the OECD's recalculation of MDB/DFI data.

There exist questions as to whether the OECD would be the most appropriate institution to take on third party management of PCM data. First, there remains significant difference between the measurement approaches of the MDB Joint Approach and the OECD DAC Approach. Our own PCM proposal is more closely aligned with the MDB Joint Approach and therefore, it would require significant change for the OECD to fulfil the role of sole publisher of PCM data that is aligned with our measurement approach. Second, there are legitimate questions whether the OECD represents a genuinely independent institution that is well suited to the described function. Fundamentally a member organisation of countries from the global north, it could be argued that there are inherent biases that will inevitably encourage a measurement and disclosure system that is in the interests of donor countries. It may therefore be preferable to utilise an organisation or company with a clearer separation from the institutions submitting data. Given the existing objections from MDBs about data interpretation by a third party, it would be necessary for the organisation to solely be responsible for implementing an established methodology, rather than re-interpreting data.

Improving alignment between the OECD DAC Approach and the MDB Joint Approach

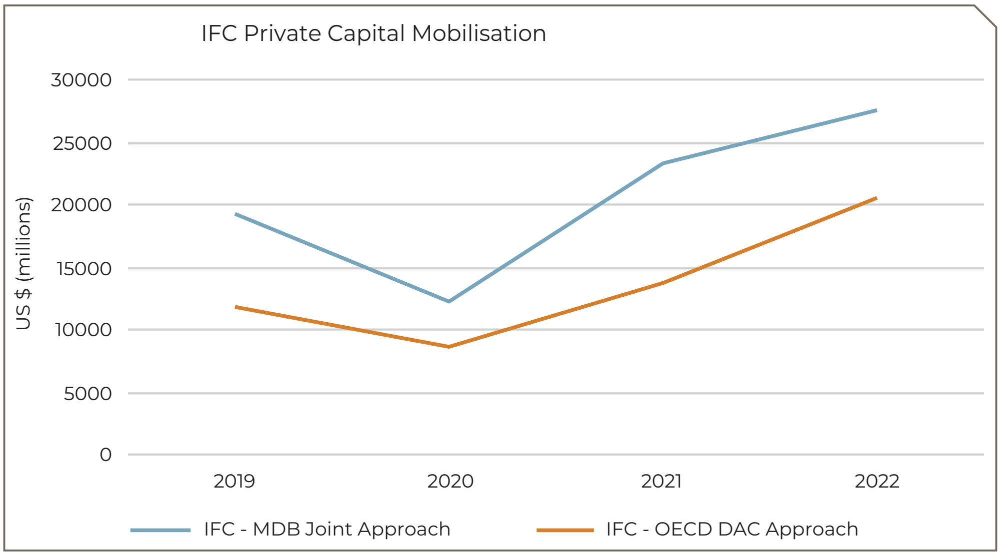
6. Improving alignment between the OECD DAC Approach and the MDB Joint Approach

Throughout this project, stakeholders have repeatedly called for alignment of the existing OECD DAC Approach and MDB Joint Approach to measuring PCM. The motivation behind aligning the approaches is twofold. First, reporting according to two different measurement approaches places a significant burden on the DFIs involved. Our discussions have indicated that small DFIs are especially reticent to continue doing so. Second, the existence of two competing measures of the same data inevitably creates confusion surrounding conflicting figures. A universally agreed measurement approach would help to address both issues. This section of the report discusses the barriers to alignment and what compromises may be necessary to achieve this.

6.1 Barriers to alignment

On the surface, the OECD DAC Approach and the MDB Joint Approach both measure the same thing; private investment that has been caused by public or non-commercial capital. Indeed, during our expert working group meetings, representatives of both approaches agreed that there was a high degree of similarity in the totality of PCM that was counted under each approach. However, there are also very real differences in the approaches, as evidenced by varying PCM levels reported by institutions for each approach. The scale of difference between approaches can be seen in Figure 5 below. The differences relate to fundamentally different interpretations of what causes mobilisation. At the same time, the resulting differences in PCM reported under each approach create incentives that act as a barrier to alignment.

Figure 5: IFC's private capital mobilisation according to the two methodologies, demonstrating the scale of the difference between the two approaches



The differences in the way the two approaches conceive PCM are reflected in their different measurement approaches. Some of these distinctions are discussed at length in our previous paper. The difference that is the key barrier in aligning the approaches is almost philosophical in its nature – how much does a DFI have to do to be considered mobilising? The MDB Joint Approach – particularly in direct mobilisation – places emphasis on mobilisers taking an active and direct role in investments. DFIs have to be involved in an action beyond simply investing to be considered to be directly mobilising. This role is evidenced through contracts, payment of fees, or mandated organiser roles in investments. This approach does not give credit to other public investors, such as other DFIs, who are not playing an active role. Contrastingly, the OECD DAC Approach sees PCM in all cases where public investors co-invest with private investors, regardless of effort. The approach makes a direct link between DFI additionality and PCM. Under this model, credit for PCM is shared between the party playing an active and direct role (if public) and all other public investors in the investment. The reliance on additionality is problematic for stakeholders who query the additionality of some DFI investments as it arguably includes activities that are not mobilising.

Box 2: Summary of changes to final recommendations

During our consultations some DFIs emphasised that they felt PCM measurement should rely on 'instrumentality' in investments from DFIs. This represents a third potential way of determining who is attributed PCM. Instrumentality may be understood as playing a role that is essential to an investment happening. Examples could include taking a riskier segment of an investment organised by another party, or simply providing capital that is not available elsewhere. As such, it could include taking an 'active and direct' role, but not necessarily. One consultation respondent argued that there are instances where it is more efficient for the active and direct role to be played by the private sector, while DFIs contribute to the capital stack in a manner where their presence is 'instrumental' in the deal moving forward. In doing so, the DFI would be considered to have played an 'instrumental' role in the overall investment happening, despite a lack of active or direct role. While we have some sympathy with this argument, we feel that it poses real challenges for measurement. An instrumental role is significantly more difficult to evidence and makes consistent reporting challenging. Much like additionality, the existence of instrumentality is hard to prove and would likely rely on support from private co-investors. As well as being time consuming, there is a risk that private investors would be incentivised to support such statements regardless of their rigour.

The difference described above has direct implications for the types of institutions that get more credit for PCM depending on which measurement method they use. MDBs and larger bilateral DFIs are likely to take an active and direct role in investments more regularly than smaller bilateral DFIs that often co-invest rather than lead on deals. As such, MDBs benefit from the MDB Joint Approach and smaller DFIs benefit from the OECD DAC Approach. Indeed, several smaller DFIs were frank in their assessment that under the MDB Joint Approach they are, or would be, credited with 'almost zero' PCM. These differences create incentives for the maintenance of both approaches in their current form. While MDBs are rewarded for their leadership role in the MDB Joint Approach, smaller DFIs are able to claim more credit for their passive role in the OECD DAC Approach. Our discussions with stakeholders confirmed that these incentives constitute a significant barrier in aligning the approaches. Fundamentally, there are parties who benefit from the maintenance of both approaches; these incentives are meaningful and, in an era when achieving high rates of PCM are incorporated into the strategies and performance metrics of many institutions, there are reputational implications at stake. These legitimate concerns are not insurmountable – good quality data could help stakeholders identify appropriate targets for individual institutions – but they do cause resistance to change.

6.2 Compromise is key

During our expert working groups there was strong support for the retention of the distinction between direct PCM and indirect PCM and therefore the use of active and direct roles to identify mobilisation. As such, our proposed measurement approach more closely aligns to the MDB Joint Approach. Our research suggests that this is legitimate; most stakeholders that we spoke to felt that there was value in encouraging DFIs to be active in EMDEs and that this was best done through identifying, developing, and leading investments. In the absence of a DFI playing such a role, indirect mobilisation may occur.

While we believe our proposed measurement approach is legitimate and that there is significant support for unification, we recognise that these issues are contentious. Yet, given the incentives described above, this may be difficult to achieve without some compromise from both approaches. What would be the basis for a compromise? First, the OECD DAC Approach would need to recognise the difference between direct and indirect mobilisation. This would allow space for rewarding institutions that develop investment pipelines and are actively involved in deal creation. Second, the MDB Joint Approach would need to give some credit to DFIs that co-invest in deals but do not play an active or direct role. This would recognise that there is potential additionality that smaller DFIs play, by awarding some indirect mobilisation to the deal participants.

How would this affect PCM results? In most cases, MDBs and larger bilateral DFIs would have lower PCM figures than under the MDB Joint Approach but would be given more credit for their 'leading' role than under the OECD DAC Approach. Smaller bilateral DFIs would be given significantly more credit than under the MDB Joint Approach and would be acknowledged for their role in providing scarce capital in priority areas but would get less credit than under the OECD DAC Approach.

6.3 A future path forward?

Differences tied to incentives are hard to change. In the case of PCM measurement, different institutions have incentives to maintain each of the prevailing approaches. Yet, there have long been calls to align the approaches so that reporting burdens are reduced and there is a single source of reliable and comparable data. To date, however, little meaningful progress has been made in achieving full alignment.

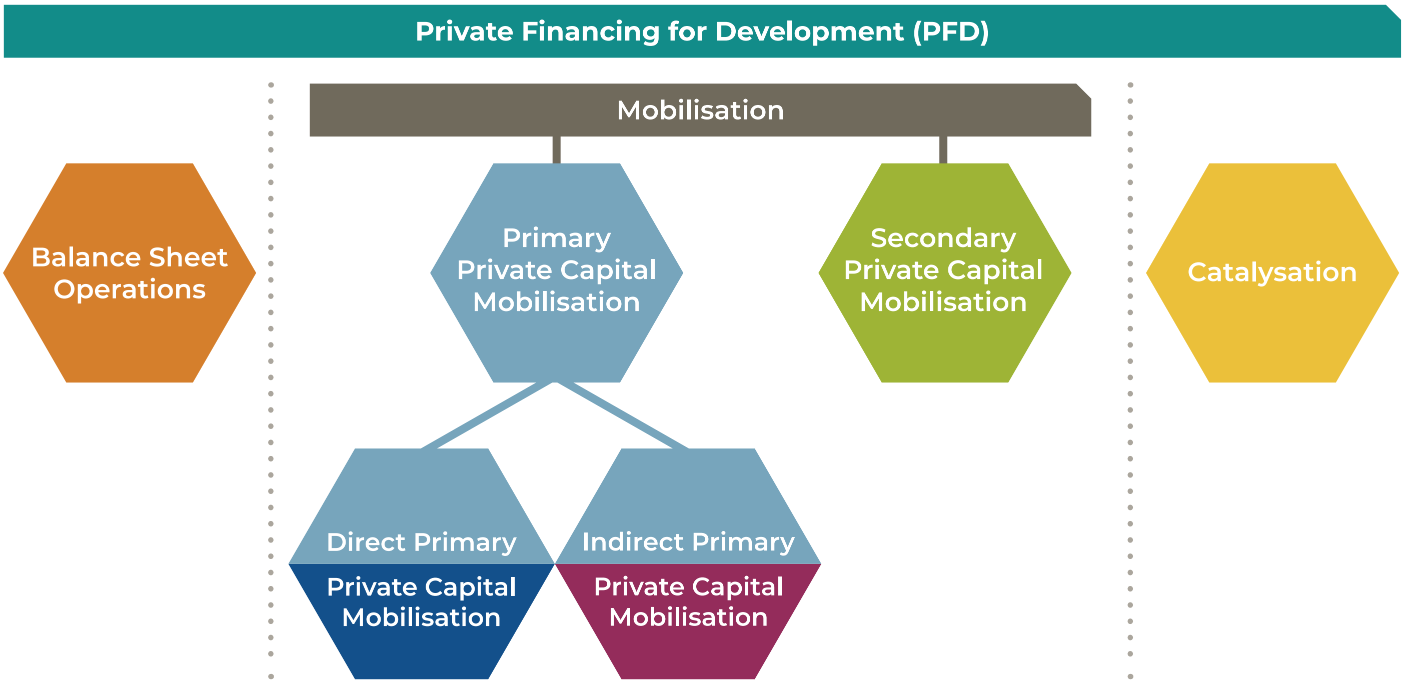
There is one other fundamental consideration that would incentivise alignment. The question of aligning PCM measurement approaches is made significantly more complicated by the lack of detailed disaggregated investment data. While aligned methodologies for certain instruments – such as insurance and silent sales of debt – may be necessary, fully disaggregated data for other instruments would allow data users to adapt data to a methodology that they deem appropriate. The types of disclosures that we have seen in LSEG Loan Connector contain a level of investment information that would allow for this to happen. As stated previously in this report, DFIs should disclose data in this manner, at the very least to the extent that the private sector is, to support data use and meaningful assessment of PCM efforts.

The decision to not fully align the approaches is ultimately a political one. Different institutions have different priorities and these are reflected in the measurement approaches. Yet, many of those who have called for alignment – including government shareholders – are the ones with the power to achieve it. This impasse is not impossible to break. The OECD DAC Approach is effectively owned or endorsed by the governments that are the largest shareholders of most of the leading MDBs. Power ultimately lies in the hands of the shareholders and owners of these institutions. If they want alignment to happen, they need to direct it. While there are incentives that prevent alignment, the reduction in effort and workload of reporting to two approaches, coupled with the clear advantage of better, more granular and useful data, should override the disincentives.

Annex

Annex – Publish What You Fund's Private Capital Mobilisation Methodology

This annex details Publish What You Fund's approach to conceptualising and measuring private capital mobilisation (PCM). The methodology presents a series of schemas with definitions and detail regarding application for individual instruments and mobilisation mechanisms.



Private Financing for Development (PFD) Definition:

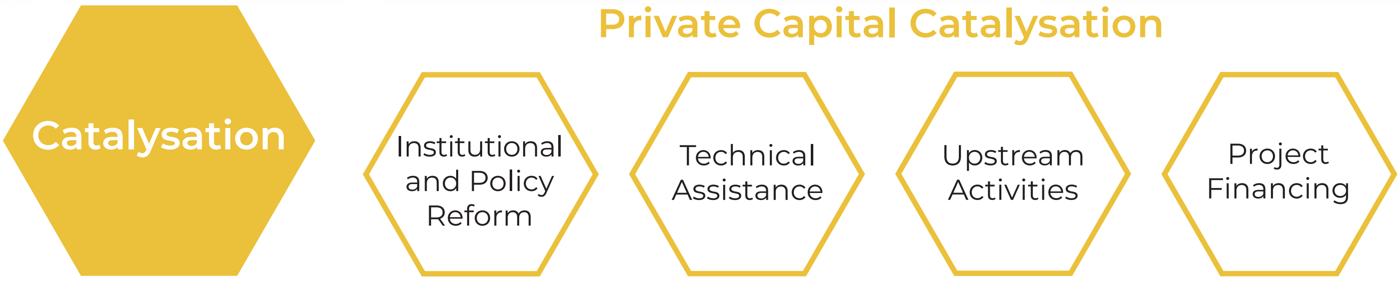
PFD incorporates the ways in which DFIs bring private capital into development activities. The constituent elements of PFD are separate and cannot be aggregated.

Private Financing for Development: General Guidance

Private financing for development (PFD) is a term that encapsulates the multiple ways in which private finance is mobilised, catalysed, and deployed for development outcomes. The above diagram captures the main baskets in which PFD occurs.

The diagram captures the integration of private finance into development finance across different timeframes, and at different scales. As such, the constituent parts cannot and should not be aggregated to produce a single metric.

The methodology presents a clear demarcation between private capital catalysed and private capital mobilised. This reflects the fact that many institutions do not embed catalysation into their business models and the causality between DFI activity and specified outcomes is weaker. As such, the methodology does not present instrument specific guidance on the prediction and measurement of private capital catalysation.



Private Capital Catalysation Definition:

Downstream private investment in emerging and developing economies caused by DFI activities that are separate from the DFI's own activity. These private investments are either a) immediately downstream from a DFI activity, or b) follow-on investments after an initial DFI investment.

Private Capital Catalysation: General Guidance

Private capital catalysation (PCC) encompasses downstream private investment in emerging and developing economies caused by DFI activities that are separate from the DFI's own activity. These private investments are either (a) immediately downstream from a DFI activity, or (b) follow-on investments after an initial DFI investment.

PCC is differentiated from mobilisation by the separation of activities. For example, if a DFI supports a company to issue a bond, private capital raised through the issuance may be considered mobilisation as the DFI activity and the private investment are linked in the same activity (the bond issuance). However, private investment in future bond issuances by the company, which are based on expertise and experience gained during the first issuance, may be considered catalysation as the DFI activity (first bond issuance) is not the same activity as the private investment (second bond issuance).

There may be many types of DFI activity that lead to private capital catalysation including, but not limited to, institutional and policy reform, technical assistance, upstream activities, and project financing.

DFIs should predict the amount of PCC for an activity ex-ante. This prediction should be made for a specified timeframe and identify the types and scale of private investment that are expected. Ex-post evaluation of PCC at the end of the specified period should be conducted.

PCC should not be aggregated with measurements of mobilisation. In some instances, PCC may occur at an early stage in an activity, that then leads to claims of mobilisation. It is arguably too complex to accurately attribute PCC and mobilisation simultaneously and as such, they should be treated as discreet mechanisms under the PFD umbrella.

Balance Sheet Operations

Private DFI Equity

DFI Hybrid Capital

DFI Bond Issuances

Balance Sheet Operations Definition:

Activities that incorporate private finance in to the balance sheets of DFIs, including private purchase of equity, private participation in hybrid capital transactions, and DFI bond issuance.

Balance Sheet Operations: General Guidance

Balance sheet operations describes the ways in which DFIs bring private capital into their operations. This includes private capital brought into the equity structure of the institution (private equity in DFIs), private investment in hybrid capital issuances, and private investment in bond issuances.

DFIs may use balance sheet operations to leverage further capital for investment. As such, while the mechanisms within balance sheet operations may be aggregated, the private capital raised within this component should not be aggregated with other components of PFD.

Balance Sheet Operations: Instrument Specific Guidance

Private Equity in DFIs

Definition: the capital that private investors have invested in return for an equity stake in a DFI. Examples of private equity in DFIs include private shareholdings in FMO and Proparco.

Private equity investment in a DFI is counted as balance sheet operations, reported at the time of investment. Public equity holdings are not counted. Further private capital raised through leveraging equity with bond issuances should be counted as mobilisation in bond issuances. Otherwise it would result in the double counting of PFD.

Hybrid Capital

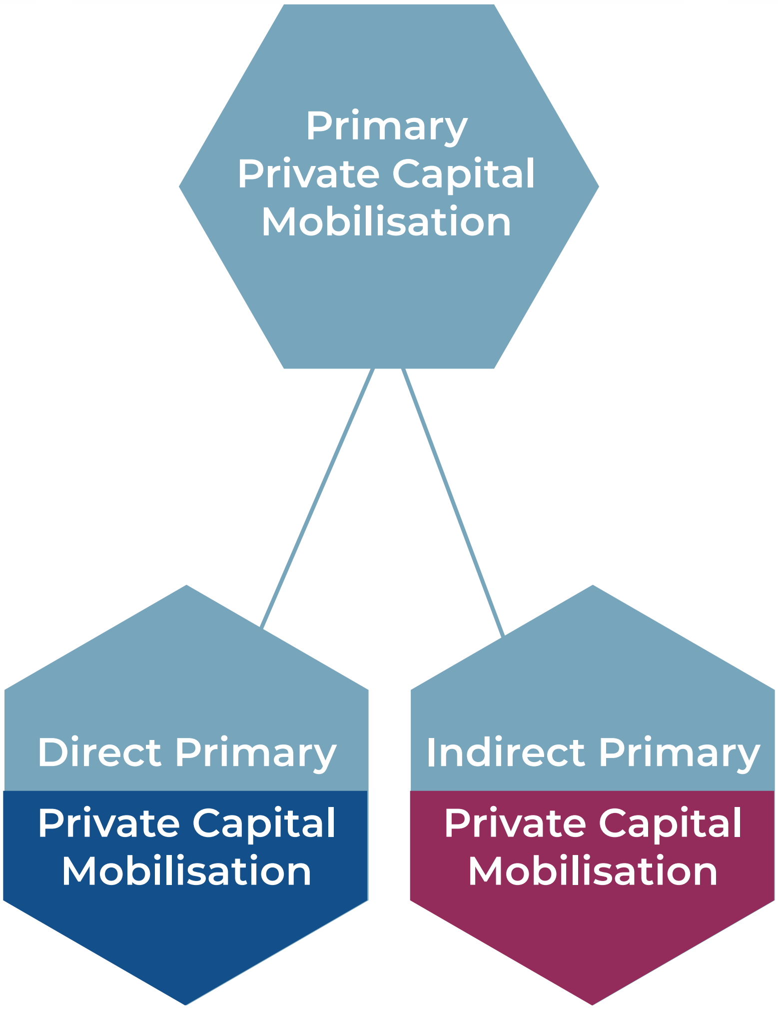
Definition: hybrid capital is a fixed-income financial instrument with both equity and debt properties. It is sold to investors as a fixed-income instrument, and it does not dilute the capital of the MDB.[15]

Private finance investment in hybrid capital is counted as balance sheet operations, reported at the time of investment. Public participation in hybrid capital investments is not counted. Further private capital raised through leveraging hybrid capital with bond issuances should be counted as mobilisation in bond issuances.

DFI Bond Issuances

Definition: Bond issuances include all types of bonds issued by DFIs, including general bonds, green and sustainable bonds, and local currency bonds.

Private investment in DFI bond issuances is counted as balance sheet operations, reported at the time of allocation. Public investment is not counted.



Primary Private Capital Mobilisation Definition:

Downstream private investment in emerging and developing economies caused by, and that occurs at the same time as, DFI investment or activity. Primary private capital mobilisation is the sum of direct and indirect private capital mobilisation.

Primary Private Capital Mobilisation: General Guidance

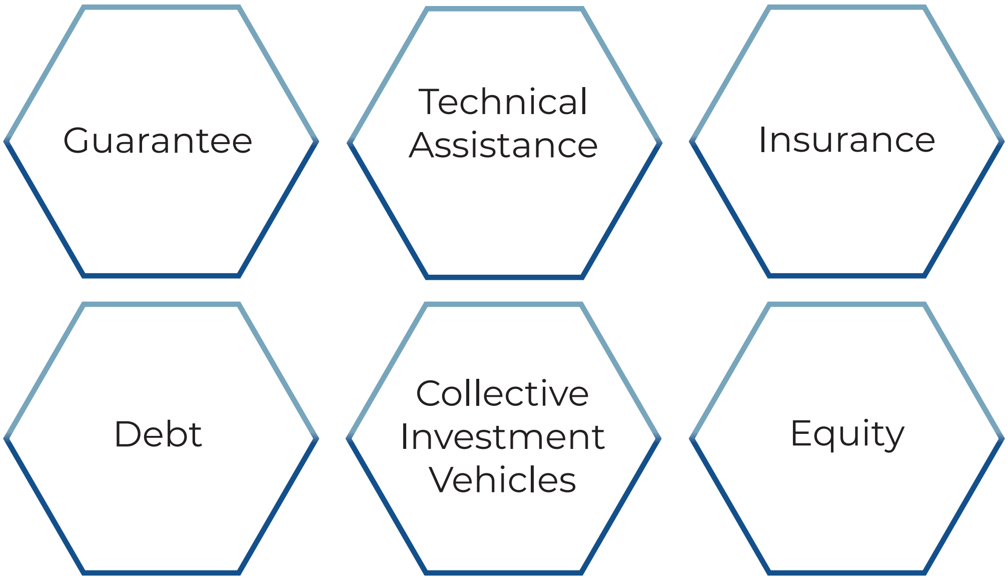
Primary PCM is downstream private investment in emerging and developing economies caused by, and that occurs within the same timeframe as, DFI investment or activity. Primary PCM is the sum of direct primary PCM and indirect primary PCM.

The methodology recognises that some mobilisation may occur after the point of DFI investment, but having been specifically planned as part of a financing package at the time. It is therefore necessary to apply a timeframe in which mobilisation is considered to be part of the original transaction as opposed to a secondary transaction. We suggest a 12-month from investment timeframe, in keeping with the MDB joint methodology.[b]

Primary PCM is broadly analogous with PCM as defined and measured by the current MDB methodology. However, there are some changes applied within this methodology, particularly with respect to the treatment of investment in collective investment vehicles (CIVs) such as private equity funds.

b We use the term from investment generally. For most instruments, this means the point of DFI commitment. For collective investment vehicles, this means the point of financial close.

Direct Primary Private Capital Mobilisation



Direct Private Capital Mobilisation Definition:

Private capital mobilisation where a DFI has an active and direct role in attracting co-financers in a specific investment. This may take the form of contracts or fees paid for the investment arrangement.

Direct Primary Private Capital Mobilisation: General Guidance

Direct Primary PCM occurs where a DFI has an active and direct role in attracting co-financers in a specific investment. This may take the form of contracts or fees paid for investment arrangement. As laid out with Primary PCM more generally, Direct Primary PCM must occur within 12 months of the DFI investment.

This methodology provides guidance for instruments that DFIs commonly deploy, although Direct Primary PCM can be generated through any instrument as long as it satisfies all three criteria:

1. The DFI plays an ***active and direct role*** that is evidenced through contracts or fees paid for investment arrangement.
2. The private investor ***assumes credit risk*** for their investment (wholly guaranteed participation is not included).
3. The private investment ***occurs within a 12-month timeframe*** from the point of DFI investment.

Direct Primary Private Capital Mobilisation: Instrument-Specific Guidance

Direct Equity

Definition: investments where DFIs take a shareholding in investee companies.

For direct equity investments, a verifiable role that demonstrates a DFI playing an active and direct role must occur for private co-financing to be classified as Direct Primary PCM. Being an anchor investor is not sufficient justification and is classified as Indirect Primary PCM.

Debt

Definition: investments including loans and syndicated loans to investees.

Private co-financing is classified as Direct Primary PCM when there is a verifiable active and direct role played by a DFI in mobilising a private financier.

In the case of loans and Islamic finance, examples of Direct Primary PCM could include syndicated loans or any other case where a DFI plays a role similar to a mandated lead arranger. Collection of fees or memorandum of understandings are examples of auditable evidence.

Guarantees

Definition: a range of products that protect investors from the risks of non-payment. This includes, amongst others, political risk insurance.

In instances of political risk insurance 100% of the insured party's investment is classed as Direct Primary PCM as the investor retains 100% of the credit risk.

Where a DFI guarantees third party investment, the portion of investment guaranteed by the DFI is counted as Direct Primary PCM.

Insurance/Unfunded Risk Transfer

Definition: DFI credit risk that is protected by a third party, typically an insurance company, who does not invest to assume the risk. Typically, the DFI pays a fee/premium for unfunded risk transfers (URTs).

Where a DFI insures part or all of its exposure to a particular investment, the amount of credit risk insured is counted as Direct Primary PCM. The DFI's net commitment is reduced by the corresponding amount.

Collective Investment Vehicles

Definition: CIVs are pooled assets including private equity funds, venture capital funds, and debt funds.

Private investment in CIVs is counted as either direct primary mobilisation or indirect primary mobilisation depending on the nature of the DFI's investment and involvement in the fund.

If the DFI is a General Partner (GP), designs or structures a fund, or, as a Limited Partner (LP) has an active and direct role in bringing in other LPs, other private investments in the fund committed at the same financial close are considered Direct Primary PCM.

If the DFI is an LP, other private investments in the fund committed at the same financial close are considered Indirect Primary PCM (see more in guidance below).

Each funding round in a CIV is treated as a discreet investment event and no Direct Primary PCM is claimed for private investment in future rounds, unless the DFI also makes a new investment.

Technical Assistance

Definition: advisory services that support an investment. These can occur at a range of timeframes including pre-project support and project/investment creation.

Where a DFI provides technical assistance to a project, and no other DFI plays a direct mobilising role in the project, any private investment occurring within a 12-month timeframe is counted as Direct Primary PCM. Technical assistance is subsumed to other forms of Direct Primary PCM.

Indirect Primary Private Capital Mobilisation

Indirect Private Capital Mobilisation Definition:

Private capital mobilisation where a DFI does not have a direct relationship with co-financers in a specific investment but where the DFI investment is a contributing factor to the private investment occurring.

Indirect Primary Private Capital Mobilisation: General Guidance

Indirect Primary PCM occurs when a DFI's investment is likely to have caused private co-investment but there is a lack of direct causality.

As with Primary PCM generally, Indirect Primary PCM includes co-investment within a 12-month timeframe from the point of DFI investment.

Indirect Primary PCM can occur alongside Direct Primary PCM in certain circumstances, including in investment in CIVs.

Indirect Primary Private Capital Mobilisation: Instrument-Specific Guidance

Collective Investment Vehicles

Definition: CIVs are pooled assets including private equity funds, venture capital funds, and debt funds.

Private investment in CIVs is counted as either Direct Primary PCM or Indirect Primary PCM depending on the nature of the DFI's investment and involvement in the fund.

Where DFIs are LPs or invested in CIVs pari passu with private investors, private investment that is not accounted for by another DFI's Direct Primary PCM can be counted as Indirect Primary PCM. Indirect Primary PCM is calculated proportionally to the size of DFI investments in the CIV. Where another DFI claims all private investment as Direct Primary PCM, no Indirect Primary PCM can be claimed. Where a DFI claims a portion of total private investment, the remainder is claimed as Indirect Primary PCM split proportionally between all DFIs in the fund, including the DFI claiming Direct Primary PCM.

Illustrative examples:

1. If DFI1 invests $20 million as an LP, DFI2 invests $10 million as an LP, and private investors invest $15 million, DFI1 would claim $10 million Indirect Primary PCM and DFI2 would claim $5 million Indirect Primary PCM.
2. If DFI1 invests $20 million as a GP, DFI2 invests $10 million as an LP and private investors invest $15 million, DFI1 would claim $15 million as Direct Primary PCM and neither DFI would claim Indirect Primary PCM.
3. IF DFI1 invests $20 million as an LP, DFI2 invests $10 million as an LP and private investors invest $30 million, of which $15 million was arranged by DFI2, DFI2 would claim $15 million as Direct Primary PCM and $5 million as Indirect Primary PCM, while DFI1 would claim $10 million as Indirect Primary PCM.

As with Direct Primary PCM, each funding round in a CIV is treated as a discrete investment event and no Indirect Primary PCM is claimed for private investment in future rounds, unless the DFI also makes a new investment.

Credit Lines to Financial Institutions

Definition: lines of credit are loans from a DFI 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 DFI, is classified as Indirect Primary PCM. Any private sponsors' own funds at beneficiary project level would be reported as Indirect Primary PCM.

Direct Equity

Definition: investments where DFIs take a shareholding in investee companies.

DFIs can claim Indirect Primary PCM where they make an equity investment but do not play an active and direct role in attracting private investment.

Secondary Private Capital Mobilisation

- Equity Exits: Private & Public Sales
- Debt Exits: Single Asset Whole / Partial Sales
- Risk Transfers: Securitisation
- Risk Transfers: Portfolio Insurance

Secondary Private Capital Mobilisation: General Guidance

Secondary PCM occurs when a DFI transfers credit risk from assets that it holds to the private sector. These transfers can take place under a range of instruments including, but not limited to, sales (public and private) of equity holdings, partial or whole sales of single debt assets, securitisation of pooled assets, and insurance of pooled assets or portfolio segments.

Secondary PCM should not include private investment that has been mobilised within 12 months of a DFI investment as part of an investment package. This should be reported as Direct Primary PCM.

For all secondary transaction risk transfer activities, Secondary PCM should be reported as the value of credit risk transferred to the private sector. Reporting should occur at the time of transfer.

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The Global Campaign for Aid and Development Transparency