



## TOSSD-eligibility of specific financial instruments<sup>1</sup>

TOSSD Task Force Issues Paper

6 July 2017

### I. INTRODUCTION

1. A statistical framework capturing financial resources needs to clarify the nature and eligibility of instruments covered in order to ensure coherence, transparency and comparability for analytical purposes. This note invites a discussion on the TOSSD-eligibility of different types of financial instruments.

2. After setting out the potential scope of financial instruments in the TOSSD framework and how they could be categorised (section II), the note examines the need, challenges and possible methods for capturing in TOSSD the amounts that have been mobilised from the private sector through the official use of leveraging or risk-deferring instruments while avoiding double-counting (section III). Finally, the text looks at how TOSSD could shed light on the role played by official or officially guaranteed/insured export credits – in particular when they are provided in co-financing operations with other external financiers to help reach financial closure for projects in key segments of partner countries' economies such as transport infrastructure, energy supply and clean water (section IV.)

### II. ESTABLISHING A TYPOLOGY OF TOSSD-ELIGIBLE FINANCIAL INSTRUMENTS

#### Key relevant points from the TOSSD Compendium

3. The Compendium invited a reflection on the eligibility of financial instruments in the context of the TOSSD framework. It suggested that TOSSD could include – beyond grants and loans – all types of financial instruments, from conventional non-concessional finance (e.g. sovereign loans at market terms) to more sophisticated financial instruments used by development finance institutions (DFIs) and international financial institutions (IFIs) to mitigate risks related to public and private sector investment (e.g. mezzanine finance, Islamic “Sukuk” finance). The Compendium proposed that the TOSSD framework could use the OECD-DAC taxonomy of financial instruments, which had been recently reviewed and updated in collaboration with DFI experts (see Annex I). It also suggested that the framework could reflect instruments that do not necessarily generate a flow from the provider country or institution but that mobilise private finance for development projects. Guarantees, for example, are a growing and potentially very important financial tool for mobilising additional private finance, but they raise clear measurement issues in terms of valuation and timeframe. Additionally, guarantees may be extended to local financial institutions in developing countries – in which case the resources mobilised are domestic, and not cross-border, creating further measurement issues.

4. The TOSSD Compendium posed the following question to the international community:

*Would the taxonomy of financial instruments [developed by OECD-DAC] sufficiently cover all TOSSD-eligible interventions?*

#### Reactions and feedback from the international community

5. There were no comments from the international community on this issue.

<sup>1</sup> Jointly drafted by Julia Benn ([Julia.Benn@oecd.org](mailto:Julia.Benn@oecd.org)), Raundi Halvorson-Quevedo ([Raundi.Halvorson-Quevedo@oecd.org](mailto:Raundi.Halvorson-Quevedo@oecd.org)) and Cecile Sangare ([Cecile.Sangare@oecd.org](mailto:Cecile.Sangare@oecd.org)).

## Issues for discussion

TOSSD Task Force members are invited to express their views regarding the following questions:

*Would the OECD-DAC classification of financial instruments presented in Annex I be useful in the context of the TOSSD statistical framework?*

*How might guarantees be measured in the TOSSD framework e.g. the amount of the exposure? Timeframe e.g. when/if the guarantee is exercised?*

### III. CAPTURING IN TOSSD THE AMOUNTS MOBILISED FROM THE PRIVATE SECTOR BY OFFICIAL DEVELOPMENT FINANCE

#### **a) Why measure mobilisation?**

##### **Key relevant points from the TOSSD compendium**

6. The Compendium proposed that the TOSSD framework measure the amounts directly mobilised from the private sector through official use of different financial instruments in order to ensure that TOSSD data will capture the total amount of the cross-border flows generated. This would enhance transparency regarding the nature and magnitude of mobilised resources; provide helpful data for developing country planning processes, balance of payments tracking efforts and debt management systems; and enable the international community to understand whether, and the extent to which, the official use of different financial instruments are contributing to SDG financing needs. It would further enable TOSSD data to feed into the monitoring of SDG target 17.3 to "mobilise additional financial resources for developing countries from multiple sources."

7. Measuring mobilisation calls for counting resources from multiple sources that have been stimulated by official interventions for development purposes. Establishing a statistically sound methodology for measuring mobilisation creates incentives for providers to report these complex project financing arrangements. This is all the more important considering the steep challenges in securing data regarding the financial support provided by private entities e.g. banks, enterprises, investment funds, etc., where confidentiality considerations create considerable barriers to accessing information. TOSSD operations involving official finance could conceivably be a very pragmatic, functional and useful way of tracking private finance supporting the SDGs.

8. The TOSSD Compendium posed the following question to the international community:

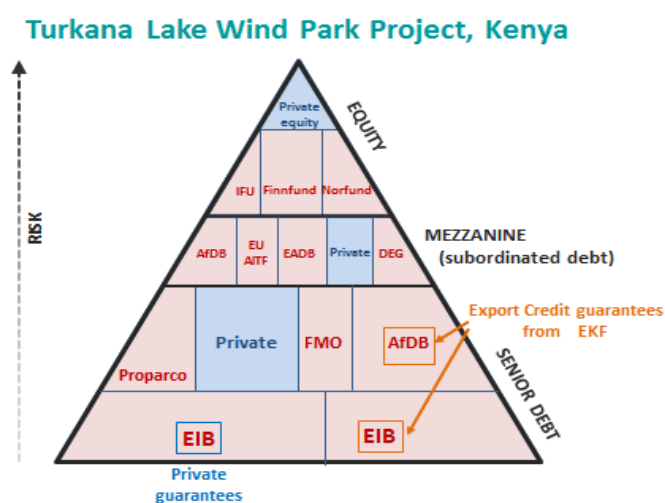
*When measuring mobilisation in TOSSD ..., should the resources mobilised be included in the measure or presented separately? What would be needed to ensure availability of detailed project information so that TOSSD could capture the totality of cross-border flows, including complex project schemes, at country level?*

##### **Reactions and feedback from the international community**

9. Responses from the international community to the questions in the Compendium suggested broad support for reflecting in the cross-border flow pillar of TOSSD the amounts mobilised from the private sector by official development finance interventions. Nevertheless, views

diverged as to whether this information should be subsumed in TOSSD figures or presented separately<sup>2</sup>:

- Some argued that mixing official and private finance undermined the conceptual basis of TOSSD as a measure of “official” or “officially supported” finance (with a knock-on effect on the TOSSD acronym).
- Others considered that, from a cross-border flow perspective, it would be relevant and useful for developing countries and their local authorities to track this information using TOSSD data since the amounts mobilised from the private sector constitute an integral part of financing packages (as illustrated by the case of the Lake Turkana Wind Park Project illustrated below).



TOSSD Task Force members are invited to express their views regarding the following question:

***Should the amount of resources mobilised from the private sector by official development finance interventions be included in the TOSSD framework? Or should these resources be presented separately?***

### **b) What and how to measure?**

#### **Key relevant points from the TOSSD Compendium**

10. Resources mobilised from the private sector through instruments that lever additional finance are essential components of the TOSSD framework. Sound methodologies to measure the amounts mobilised are critical to avoid double-counting among those institutions that will provide TOSSD data. However, as described in the Compendium, measuring the amounts mobilised by

<sup>2</sup> At the time of the Compendium the TOSSD framework was composed of two pillars: a “provider” measure and a “recipient” measure. Many reactions to the Compendium called for mobilised resources to be presented separately in the TOSSD framework, reflecting concerns that mobilised resources would inflate the “provider” measure figures. As a consequence of the Compendium consultation and other international discussions, the “provider” measure was abandoned due to strong concerns about the potential confusion and dilution it could create regarding the ODA measure and associated international commitments. The “recipient” measure was retained and renamed the cross-border flow pillar.

official interventions presents a number of challenges, in particular where multiple actors are involved in different financial components and implementation phases of an activity or project. Key elements to be clarified include i) how the term “mobilised” will be defined (including vis-à-vis other terms such as “catalysed”, “leveraged” and “co-financed”) and ii) the scope and timeframe of the investment (including the boundaries of eligible investment activities and the start- and end-point of the project).

11. The Compendium noted that the OECD has recently expanded the framework of the DAC statistical system to include reporting on the amounts mobilised from the private sector by official development finance interventions. The approach builds on methodologies that are based on a number of principles underpinning an international statistical system: in order to be realistic, feasible and to avoid double-counting, the approach strives to be conservative in terms of causality (i.e. only include amounts mobilised where a “direct” causal link is demonstrated between the private finance and the official intervention), fair in terms of which actors are taken into account (all public institutions involved in a transaction are acknowledged and taken into consideration, including local actors) and pragmatic in terms of data availability and reporting feasibility. Each leveraging instrument has its own specific methodology for measuring mobilisation<sup>3</sup>.

12. It will be important to develop a harmonised methodology for calculating amounts mobilised by official interventions for the TOSSD statistical framework.

13. The TOSSD Compendium posed the following questions to the international community:

*What would be needed to ensure availability of detailed project information so that TOSSD could capture the totality of cross-border flows, including complex project schemes, at country level?*

*Could the OECD methodology serve as an international standard for measuring mobilisation in TOSSD?*

#### Reactions and feedback from the international community

14. There were no comments from the international community on these issues.

#### Issues for discussion

TOSSD Task Force members are invited to express their views regarding the following questions:

*Should measuring mobilisation be limited to cases where a causal link between private finance made available for a specific project and the official flows that were used to incentivise them can be demonstrated (e.g. an agreement to provide a guarantee)?*

*Might the OECD methodology for measuring amounts mobilised be a useful tool for the TOSSD statistical framework?*

*What could be done to “connect up” reporting across different development finance providers and actors in the case of complex financing arrangements? Should the TOSSD statistical system establish “project identifiers” in order to reduce the scope for double-counting?*

<sup>3</sup> For additional information on the methodology for measuring mobilisation please see <https://www.oecd.org/dac/stats/principles-for-mobilisation.pdf>.

*In some cases the amounts that are mobilised for an SDG investment may merit inclusion in TOSSD – but they may not constitute a cross border flow e.g. when resources from domestic sources are mobilised by an official external guarantee. At the same time, these operations provide developmental benefits since mobilised domestic resources contribute to financial sector deepening and do not incur any foreign exchange risk. How might these operations be captured in the TOSSD framework?*

#### **IV. SHOULD EXPORT CREDITS BE INCLUDED IN THE TOSSD FRAMEWORK?**

##### **Key relevant points from the TOSSD Compendium**

15. In the Compendium the question was raised as to whether TOSSD could include export credit operations which, from a cross-border perspective and despite their commercial nature, could be considered as contributing to economic development. Official export credit operations comprise government financial support, direct financing, guarantees, insurance or interest rate support provided to foreign buyers to assist in the financing of the purchase of goods from national exporters<sup>4</sup>.

16. The TOSSD Compendium posed the following question to the international community:

*How, and to what extent, could trade finance be covered in TOSSD? What parameters could be used to determine the boundaries for TOSSD-eligible trade finance, where the motivations are both promoting domestic interests and developmental impact abroad?*

##### **Reactions and feedback from the international community**

17. There were few comments on the export credit issue as briefly set out in the Compendium. One respondent noted that trade finance from official sources can have a positive development impact and should be included in TOSSD (within parameters yet to be negotiated). Another noted that, while export credit support is commercially-motivated and has no explicit objective of promoting economic development and welfare in host economies, it does mitigate risks for investors and thus plays an important role in facilitating access to capital in developing countries. For this reason, officially-supported export credits also receive particular attention in broader analyses of developing countries' external finance. As such, it seemed reasonable that they should be reportable as part of the cross-border flow measure. This commentator suggested that export credits should simply be reported according to the rules in force for the instruments used (non-concessional loans or guarantees).

##### **Other considerations**

18. Over the course of numerous TOSSD outreach events over the past two years, many development policymakers and actors have expressed the view that TOSSD should not only cover activities with a primary developmental purpose but also those that are of mutual benefit, i.e. serve the interests (development, commercial, cultural and/or political) of both the recipient and the provider country. An acknowledgement within the TOSSD framework of the relevance and legitimacy of the mutual benefit principle would strengthen its appeal to South-South providers. In this context, some export credits could also be considered TOSSD-eligible.

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<sup>4</sup> Source: OECD Glossary of statistical terms.

19. This issue needs to be explored further by the Task Force. On the one hand, it could be argued that most export credits have a purely commercial motive and do not consider their development impact (which may be sustainable or not) – and that therefore they should not be included in TOSSD. On the other hand, some export credits may play a role in facilitating development investments that contribute to achieving SDG targets and goals. In this regard, it would be important to establish eligibility criteria/methodologies and relevant boundaries for determining which export credits could be counted in TOSSD.

20. At a minimum, TOSSD could help shed light on export credits in co-financing arrangements involving official development finance, either in the form of:

- Associated financing packages<sup>5</sup>, where export credits are combined with development finance, and where export credit agencies and aid agencies work together to facilitate financing for projects for which development outcomes are expected and are part of the government’s strategy/priority action plan.
- Project finance structures where multiple actors – including development finance actors – and instruments interact to reach financial closure for large projects such as in the infrastructure sector. Such specific financing packages involving aid agencies and/or other development finance actors (development banks, DFIs) could be considered for inclusion in TOSSD, counted at face value and reported according to the rules in force for the instruments used (non-concessional loans or guarantees).

21. The inclusion in TOSSD of broader officially supported export credits – i.e. those extended on a purely commercial basis – is questionable and may be unfeasible at the project level (because of confidentiality constraints). One option could be to have these operations captured as a separate but complementary flow indicator (together with potentially other flow indicators such as remittances and FDI) in the TOSSD measurement framework.

### Issues for discussion

TOSSD Task Force members are invited to express their views regarding the following questions:

*Would it be appropriate for export credits extended in co-financing with official development finance interventions (e.g. associated financing packages, project finance) to be included in TOSSD?*

*Should the inclusion of broader export credits – not linked to any official development finance intervention – also be examined?*

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<sup>5</sup> According to the DAC, associated financing associates in law or in fact two or more of the following, at least one of which is in effect tied or partially untied: i) official development assistance flows; ii) other concessional or non-concessional official flows; iii) officially supported export credits.

**ANNEX I**

**EXTRACT OF THE OECD-DAC REPORTING DIRECTIVES [DCD/DAC(2016)3/ADD1/FINAL]**  
 “Annex 10b. List of financial instruments”

Broad category	Sub-category code	Sub-category label	Definition
<b>100 - GRANTS</b>	110	Standard grant	Grants are transfers in cash or in kind for which no legal debt is incurred by the recipient.
	210	Interest subsidy	A payment to soften the terms of private export credits, or loans or credits by the banking sector.
	310	Capital subscription on deposit basis	Payments to multilateral agencies in the form of notes and similar instruments, unconditionally encashable at sight by the recipient institutions.
	311	Capital subscription on encashment basis	
<b>420 - DEBT INSTRUMENTS</b>	421	Standard loan	Transfers in cash or in kind for which the recipient incurs legal debt (and the resulting claim is not intended to be traded). Since payment obligations on standard loan are senior obligations, i.e. creditors are entitled to receive payments against their claims before anyone else, they are also referred to as senior loans.
	422	Reimbursable grant	A contribution provided to a recipient institution for investment purposes, with the expectation of long-term reflows at conditions specified in the financing agreement. The provider assumes the risk of total or partial failure of the investment; it can also decide if and when to reclaim its investment.
	423	Bonds	Fixed-interest debt instruments, issued by governments, public utilities, banks or companies, tradable in financial markets.
	424	Asset-backed securities	Securities whose value and income payments are derived from and backed by a specific pool of underlying assets.
	425	Other debt securities	
<b>430 – MEZZANINE FINANCE INSTRUMENTS</b>	431	Subordinated loan	A loan that, in the event of default, will only be repaid after all senior obligations have been satisfied. In compensation for the increased risk, mezzanine debt holders require a higher return for their investment than secured or more senior lenders.
	432	Preferred equity	Equity that, in the event of default, will be repaid after all senior obligations and subordinated loans have been satisfied; and will be paid before common equity holders. It is a more expensive source of finance than senior debt, a less expensive source than equity.
	433	Other hybrid instruments	Including convertible debt or equity.

<b>500 – EQUITY AND SHARES IN COLLECTIVE INVESTMENT VEHICLES</b>	510	Common equity	A share in the ownership of a corporation that gives the owner claims on the residual value of the corporation after creditors' claims have been met.
	520	Shares in collective investment vehicles	Collective undertakings through which investors pool funds for investment in financial or nonfinancial assets or both. These vehicles issue shares (if a corporate structure is used) or units (if a trust structure is used).
	530	Reinvested earnings	This item is only applicable to Foreign Direct Investment (FDI). Reinvested earnings on FDI consist of the retained earnings of a direct foreign investment enterprise which are treated as if they were distributed and remitted to foreign direct investors in proportion to their ownership of the equity of the enterprise and then reinvested by them in the enterprise.
<b>GUARANTEES AND OTHER UNFUNDED CONTINGENT</b>	1100	Guarantees/insurance	A guarantee refers to a risk-sharing agreement under which the guarantor agrees to pay part or the entire amount due on a loan, equity or other instrument to the lender/investor in the event of non-payment by the borrower or loss of value in case of investment. Other unfunded contingent liabilities refer to other instruments that do not constitute a flow as such but may be also collected in future.