



Social Sector Applications of Returnable Capital by Development Finance Institutions

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Overview of Returnable Capital in Development Finance

Non-grant instruments collectively referred to as “returnable capital” have assumed an increasingly prominent role in international development finance. Globally, the share of official development assistance (ODA) given as loans versus as grants has increased steadily since 2007 (Tew 2013), driven by an increase in loan activity among OECD countries, especially Japan (Japan 2014) and more recently Britain (DFID 2014). In 2010, aid donors reporting to the Organisation for Economic Co-operation and Development (OECD) provided more than \$28.5 billion in concessional loans and other non-grant-based aid - or roughly 20% of the \$154 billion in total ODA provided that year (Provost 2013). This shift from grant-based aid to returnable capital finance in ODA has occurred alongside a dramatic increase in development-related lending from non-ODA sources, particularly Chinese national development banks (NDBs) (Wolf et al. 2013). Multilateral development banks (MDBs) have also continued to rely on loans and related non-grant financial instruments such as equity and guarantees to both directly support development initiatives and to leverage expanded private sector investment in low-income countries (IBRD 2014).

Among the most rapidly growing sources of non-ODA development finance, new initiatives by development finance institutions (DFIs) have relied almost exclusively on returnable capital instruments (Kingombe et al. 2011). DFIs are government-supported institutions that invest in private firms in developing countries, usually with the twofold mandate of spurring development while themselves remaining financially viable (Dalberg 2010). DFIs first emerged in the late 1940s and 1950s in response to a perceived gap in international aid models which limited official bilateral and multilateral aid to sovereign state recipients (IFC 2014; CDC 2014). DFI finance, in contrast, targets the private sector, either via direct investments in private companies or through fund-of-fund models such as investment in private equity funds that themselves invest in private sector initiatives in developing countries. In part because DFI investments are

expected to generate financial returns, the vast majority of DFI finance does not count as ODA¹, but rather as Other Official Flows (OOF). However the sector represents an increasingly important source of development funding: by 2015 the level of international finance flowing to the private sector through multilateral, regional and bilateral DFIs is expected to exceed \$100 billion, which is equivalent to almost two thirds the amount of current ODA (Romero 2014).

This brief summarizes current trends in the application of DFI-based returnable capital finance in developing countries, with an emphasis on “pro-poor” development initiatives. We begin by reviewing the financial instruments used by DFIs. While early DFI finance relied largely upon loans (IFC 2014), there are now a number of returnable capital finance options applied by DFIs in a variety of contexts, including equity- and guarantee-based financing—long key components of developed country financial markets (CDC 2014, MIGA 2014). We then review the major DFI providers of returnable-capital based finance, drawing on past and present peer-reviewed articles and published reports exploring trends in the uses of different returnable capital instruments over time. Finally, we conclude by further examining recent efforts to use returnable capital to finance development initiatives explicitly targeting the poor. While not all DFI investments can be considered “pro-poor”, DFIs will often invest in activities with high positive externalities such as public infrastructure, health, education, and development of financial markets, as well as supporting broader social goals such as policy reforms supporting worker safety or environmental protection (Perry 2011). We highlight examples of such pro-poor finance, and review the limited evidence on country-level and sector-level factors that appear associated with successful application of DFI-based returnable capital finance to pro-poor development projects.

¹ Early government funding for the establishment of DFI portfolios was often counted as ODA, and even today state contributions to replenish DFI funds can be counted towards ODA targets. But overall DFI funding is a small share of official aid, as little as 0-3% in most OECD countries, with most DFI-related ODA replenishing the multilateral International Finance Corporation (IFC) (Dalberg 2010).

Table 1 - Major Development Finance Institutions (DFIs)

Multilateral	
IFC	International Finance Corporation (World Bank Group)
MIGA	Multilateral Investment Guarantee Agency
Regional	
ADB	Asian Development Bank
AfDB	African Development Bank
CAF	Development Bank of Latin America
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
IADB	Inter-American Development Bank
IIC	Inter-American Investment Corporation (under IDB)
Bilateral	
BNDES	Brazilian National Bank for Economic and Social Development
BIO*	Belgian Investment Company for Developing Countries
CDC*	Commonwealth Development Corporation (under Britain's DFID)
COFIDES*	Compañía Española de Financiación del Desarrollo
DEG*	German Investment Corporation
Finnfund*	Finnish Development Finance Company
FMO*	The Netherlands Development Finance Company
IFU/IO/IFV*	Danish International Investment Funds
OeEB*	Austrian Development Bank
OPIC	Overseas Private Investment Corporation (USA)
Proparco*	Investment and Promotion Company for Economic Cooperation (France)
Norfund*	Norwegian Investment Fund for Developing Countries
SBI*	Belgian Corporation for International Investment
SIFEM*	Swiss Investment Fund for Emerging Markets
SIMEST*	Italian Development Finance Institutions
SOFID*	Portuguese Development Finance Institutions
SwedFund*	Swedfund International

* Denotes the 15 European DFIs referenced frequently in the text.

As emphasized in recent DFI reviews by Horus Development Finance (2014), the Overseas Development Institute (2011), Dalberg Global Development Advisors (2010), and others, there are a number of challenges to measuring the impacts and effectiveness of DFI financing strategies. First and foremost are data limitations (House of Commons 2009; Spratt and Collins 2012; Romero and Van de Poel 2014; Romero 2014). Financial reporting procedures are rarely standardized across DFIs,² and some forms of DFI finance are difficult to classify: for example, while some DFIs report investments in microfinance institutions as financial sector investments, others classify such funding based on end-uses of the finance (e.g., agriculture, communications, etc.). In other instances, DFIs may actively withhold financial information due to confidentiality concerns surrounding investment amounts and terms (Spratt and Collins 2012).

Moreover, even with accurate data on program activities, it can be challenging to estimate the “added value” of a DFI investment (Kingombe et al. 2011). While published figures on DFI investment outcomes such as “jobs created” can give some sense of project impacts, for example, such figures do

²The OECD-DAC database will begin systematically tracking and publicizing some DFI financial flows in the near future (<http://www.oecd.org/dac/stats/development-finance-institutions.htm>)

not show how many *more* jobs were created than would have been created in the absence of DFI finance. This aspect of DFI finance, termed “additionality,” requires specific data (rarely available) on the counterfactual; i.e., what would have happened without the DFI’s participation (Uesugi et al. 2010, in Samujh et al. 2012). Many DFIs have developed simple ex-ante evaluation tools for determining whether or not a proposed investment is “additional,” usually focusing on the potential of a project to mobilize new finance and/or create new jobs (e.g., CDC 2014³). But some authors including Spratt and Collins have argued for a more comprehensive accounting of DFI additionality, including *financial additionality* (where DFIs provide or leverage additional private finance); *design additionality* (where DFIs influence project design to enhance growth or poverty impacts); *policy additionality* (where DFIs influence the policy environment in which a project occurs to enhance growth and poverty impacts); and *demonstration additionality* (where the success of a DFI project stimulates subsequent private sector projects that do not involve DFIs). Such broader additionality impacts, however, are rarely systematically reported by DFIs to date.

Acknowledging these data limitations, an array of detailed data and trends for a number of DFIs are summarized in this report. Wherever possible financial information included here has been drawn from annual reports and financial statements of the respective DFIs. Specifically we provide detailed information on major bilateral DFIs including Britain’s Commonwealth Development Corporation (CDC) (the world’s oldest DFI, established in 1948), as well as the 14 other major European bilateral DFIs (denoted in Table 1) that constitute the majority of bilateral DFI finance (€25 billion in 2012) (EDFI 2012). We also highlight two established multilateral regional DFIs (the Asian Development Bank (ADB) and the African Development Bank (AfDB)), and the largest global multilateral DFI with activities across the globe (the World Bank Group’s International Finance Corporation (IFC)). Finally, data on the Multilateral Investment Guarantee Agency (MIGA) provides insights into one of the few DFIs that specialize in guarantees (as most DFIs issue few guarantees). A data appendix further summarizes the most recent available data on returnable capital finance for 24 prominent bilateral, regional, and multilateral DFIs.

The structure of the brief is as follows. Section 1 summarizes the roles of DFIs in international development finance, highlighting the ways in which DFIs seek to provide additionality and targeted development benefits in low-income countries, including the major financial tools (loans, equity, guarantees, and grants) DFIs use to pursue their development mandates. Section 2 reviews recent trends in

³ Britain’s Commonwealth Development Corporation (CDC) for example evaluates proposed investments on two four-point scales: a 1-4 scale for “investment difficulty”, and a 1-4 scale for “job creation potential”. Projects scoring well in both categories are considered additional and prioritized for investment (http://www.cdcgroup.com/How-we-do-it/Investment_strategy/Investment-selection/).

DFI returnable capital finance, showing how the allocation of DFI resources among different financial tools and project types has changed over time. Section 3 reviews the limited empirical literature on country- and sector-level determinants of DFI returnable capital effectiveness, and Section 4 summarizes published best practices for pro-poor returnable capital finance (including DFI self-reports of how their activities might be pro-poor), highlighting selected case studies reported in the literature revealing when DFI investments have proven pro-poor and when they have not.

The concluding section highlights the remaining research gaps and areas of debate in this emerging field.

(i) DFIs and Returnable Capital: Background & Definitions

Development finance institutions (DFIs) are financial institutions with a general mandate to provide finance to the private sector for investments that promote development, while at the same time remaining financially viable. DFIs now include an array of bilateral, multilateral, national, and sub-national institutions dedicated to providing financial support and capital access for economic development activities.

Roles of Development Finance Institutions

In general terms, DFIs are intended to support economic development activities in “frontier markets” where private sector finance is not already available to all firms, but where the private sector could be “leveraged in” using appropriate instruments to assure investors that investments are secure (Kingombe et al. 2011, p. 19). As te Velde and Warner observe, “DFIs’ *raison d’être* is to engage where there are market failures, i.e., plugging the investment gaps that cannot or will not be filled by the private sector” (2007, p. 5). The mandates of DFIs typically include one or more of the following: to invest in economically viable projects; to maximize project impacts on development; to remain financially viable in the long term; and to mobilize private sector capital (te Velde 2011).

DFIs thus seek to add value in developing country financial markets in at least three main ways (DGAG 2009, p. 17):

1. *Investing in underserved project types and settings, including higher risk segments in developing countries.* DFIs engage in countries with few foreign capital flows, especially debt capital. DFIs thus can provide financing where commercial financial institutions cannot (or will not), often due to the higher risk profile of developing country markets (Musasike et al. 2004). Such investments range from small pilot or demonstration projects to very large commercial and infrastructure projects: for example, since 2008 Belgium’s BIO has issued two loans totaling €1.3 million to the Congolese firm Global Broadband Solutions to expand communications infrastructure in post-conflict Democratic Republic of Congo (BIO, 2014). Meanwhile, in 2013 alone, the

multilateral DFI MIGA (under the World Bank Group) provided guarantee-based coverage for seven projects in conflict-affected countries, with those guarantees totaling more than USD \$1 billion (MIGA Annual Report 2013).

2. *Mobilizing other investors to invest in developing countries.* In addition to their direct financial support of development activities, DFIs also seek to act as catalysts, helping companies implement investment plans and mitigating risk to enable investors to proceed with plans they might otherwise abandon (te Velde and Warner 2007). DFIs may also provide political risk mitigation, reducing perceived and actual risks for commercial finance investors concerned about governments’ potential adverse actions against a project, including nationalization or breach of contract (Arvanitis et al. 2013). In many cases financial institutions themselves, which often serve as intermediaries providing capital access to small- and medium-sized enterprises (SMEs), receive a large amount of DFI funding. Lending to the financial sector tops 60% of loans for both the Inter-American Investment Corporation (IIC) and the Development Bank of Latin America (CAF) (Perry 2011), while 36% of European Bank for Reconstruction and Development (EBRD) lending and 48% of International Finance Corporation (IFC) lending was to the financial sector in 2009 (Kingombe et al. 2011).

3. *Investing in under-capitalized sectors with high sustainable development potential and positive externalities, including public and commercial infrastructure.* DFIs often specialize in loans with longer maturities, which may be a better fit for long-term projects such as public infrastructure (te Velde and Warner 2007). Such projects may be otherwise unattractive to private sector investors given their perceptions of high risk in infrastructure projects with large sunk costs. For example, over the last five years, at least 40% of the World Bank Group’s IFC total investments in Sub-Saharan Africa, Latin America, and the Caribbean have been in infrastructure and natural resources (IFC 2014). These sectors offer significant short-term employment opportunities and high long-term economic development potential, but also require very high upfront costs and long payback periods that may discourage providers of private finance. DFIs also often emphasize investments with relatively large developmental impacts (large positive externalities). Private firms involved in health and education services, public infrastructure, and other public services thus may receive priority in DFI portfolios relative to private sector portfolios, along with firms rendering environmental services, reducing pollution levels, or introducing new technologies with development benefits (Perry 2011). That said, health and education investments remain small relative to other DFI sectors (e.g., finance, industry, agribusiness). In 2012 health investments made up approximately 3% of Britain’s CDC portfolio, primarily in the form of equity for construction of hospitals. Similarly, education made up about 2.6% of CDC’s portfolio in the same year, in part for the construction of new school buildings by private schools serving poor communities (CDC

2014). But in spite of their small size such social sector investments have demonstrated large development benefits: a 2010 portfolio review by the World Bank Group’s IFC found health and education investments returned the highest development impacts of any IFC department (IFC 2010).

Ultimately, however, the primary objective of most DFIs is to remain financially viable. As Massa (2011) observes:

“[DFIs] finance and promote private investment with the purpose of fostering economic growth and sustainable development *while at the same time remaining financially viable in the long term.*” (Massa 2011: 1; emphasis added)

This focus on financial viability—and the relative ease of measuring financial viability as opposed to development outcomes—has meant that many DFI reports emphasize financial impacts more heavily than development results.

Types of DFI Finance

The direct financial support provided by DFIs typically assumes one of four forms: loans, equity, guarantees, or grants. We focus here only on the basics of these four necessarily broad categories—although as noted below these categories are neither mutually exclusive nor exhaustive, with a number of financing options such as mezzanine financing and quasi-equity spanning categories (see Romero and Van de Poel 2014).

The key characteristics of the four main DFI returnable capital financial instruments are summarized in Table 2.

Debt/Loans

Debt instruments comprise all forms of finance requiring repayment. The original loan amount (the principal) must

always be repaid, and usually with interest. These instruments can be both tradable (bond securities) and non-tradable (loans and debentures) (Romero and Van de Poel 2014). Owing to their large scale and relative credit-worthiness, DFIs are often able to extend these loans on beneficial terms to developing country firms and projects (Musasike et al. 2004)⁴, and indeed loans remain the most common financial instrument among development finance institutions (te Velde 2011). Among the 15 major bilateral European DFIs, loans constituted 46% of the €26 billion total portfolio in 2012 (EDFI 2012). In terms of regional and multilateral DFI portfolios, loans make up 95% of total private sector EIB investments, approximately 81% for AfDB, 67% for ADB, and 46% for IFC (Romero and Van de Poel 2014).

In theory, DFIs provide loans to firms that are financially sound but cannot obtain loans from commercial banks (te Velde and Warner 2011; Romero and Van de Poel 2014). For example, a private firm in a developing country, while profitable, may not be able to satisfy a commercial bank’s requirement that the firm provide collateral worth 150% of the loan amount (Freedman 2004). DFIs have access to high levels of liquidity, including large stocks of callable capital provided by donor countries (and often counted as ODA) (te Velde and Warner 2007; te Velde 2011; Kingombe et al. 2011). The resulting level of liquidity is often higher than for comparable funding sources (Spratt and Collins 2012). In addition to liquidity, DFIs are often exempt from dividends and corporate taxes (te Velde and Warner 2007, in Romero and Van de Poel 2014). Backed by an implicit government guarantee, DFIs can borrow at very low interest rates (te Velde and Warner 2007, in Romero and Van de Poel 2014).

Due to these advantageous attributes of DFIs within financial markets, DFIs are also able to take on more risk than private financial institutions. For example, DFIs can offer longer maturing loans—Romero and Van de Poel (2014) estimate that

Table 2 - DFI Finance Instrument Definitions

Term	Definition ¹
Debt/Loans	Debt requires a regular payment to the creditor (the DFI) by the debtor (the firm or government). This repayment includes the principal and often interest. The two major forms of debt are loans and bonds, with the latter often being tradable. Senior loans are paid back before junior loans and subordinated debt.
Equity	A DFI is considered to own “equity” in a company if the institution owns a residual claim to the assets or profits of the company. Residual value is calculated as the value remaining after paying out claims to all creditors. Examples of equity include shares, stocks, and participations.
Guarantees	A guarantee is a contract in which the guarantor (the DFI) agrees to pay part or the entire amount due on a loan or equity if the borrower defaults. No funds are transferred unless the borrower defaults. DFIs provide guarantees to improve the interest rate a borrower receives by lessening the risk of a default.
Grants	Grants, unlike loans or equity, require no repayment and no residual claim to assets by the grantor. While grants are sometimes given in the form of cash, they can also come in the form of technical assistance. DFIs provide advisory services to companies and governments “on very diverse issues such as corporate governance, environmental and social issues, and tax” (Romero and Van de Poel 2014: 23).

¹Definitions adapted from Romero and Van de Poel (2014)

⁴ Though typically not at rates as low as below-market concessional loans offered by states to sovereign governments via UUA channels.

DFIs can viably offer loans of up to 15 years in many low-income countries, as compared to commercial loans which may only be three to five years. DFIs can also offer loans with favorable interest rates that can be much lower than those available from private financial institutions (te Velde and Warner 2007). Finally, DFI loans may also provide a signal to private investors that a firm is credit-worthy, mobilizing otherwise unavailable finance. The end result is that firms are able to obtain longer-term, more secure, and relatively affordable financing, often key for both small and large projects (Spratt 2008; Spratt and Collins 2012).

However, some authors have cautioned DFI loans can only provide additionality under certain circumstances. In order to create development additionality, loans must be offered to firms that could not receive similar loans in the private market, either due to thin markets or insufficient firm credit or collateral, otherwise a DFI loan risks displacing available domestic finance (te Velde 2011). Loans may also increase the debt load on a firm (or country), which can impair firms' ability to obtain further finance in later years from private sources (Inoue et al. 2013). In such instances alternative sources of finance may be more desirable.

Equity

Equity-based finance is when a DFI provides financial or physical capital to a private or state recipient, but retains some ownership over that capital. Ownership of equity in a company entitles a DFI to "a residual claim on the assets and earnings of that company or the companies the fund subsequently invests in," with the residual value being defined as the value remaining after creditors receive their claims (Romero and Van de Poel, 2014: 20). Equity can take the form of shares or stocks and, unlike loans, does not require the repayment of a principal and/or interest (but, of course, does grant the investor rights to part of the profits).

While many DFIs employ several different financial instruments, some specialize in equity, including CDC, COFIDES, Norfund, SIMEST, and SIFEM (Massa 2011; Kingombe et al. 2011). Among the major European DFIs, equity and quasi-equity constituted 51% of total investments in 2012 (EDFI 2012). Among regional and global DFIs, the percentage of investments in equity varies both across organizations and over time. The figure for Asia's ADB was only 2.6% in 2010 and even less, 1.3%, in 2013 (ADB 2014), while it was just about 2% for Africa's AfDB in 2013 (AfDB 2014). For the World Bank Group's IFC, total equity investments stood at approximately 21% of the total IFC portfolio in 2010 but increased to more than 27% in 2013.

Equity may offer a number of advantages, both for the investor and the firm. First, a DFI owning equity in a company may increase that company's access to loans that it would not have been able to obtain otherwise (Kingombe et al. 2011), as the equity stock can decrease the risk of offering

the company a loan, i.e., the firm's creditworthiness may increase immediately following the infusion of equity (Romero and Van de Poel 2014).

Second, equity is a relatively long-term commitment compared to the majority of loans (long-term loans notwithstanding). Long-term access to capital allows firms to make more long-term investments, which may lead to higher economic growth (Spratt 2011). This may also allow firms to invest more in specific capital—i.e. capital that cannot easily be repurposed for a new task—as equity is more flexible, or 'patient', than loans (Williamson 1988; Inoue et al. 2013). Moreover, the long-term commitment represented by an equity investment may increase a firm's legitimacy and reputation, further increasing the firm's ability to attract new loans and investments (Wu 2011; Inoue et al. 2013).

A third set of advantages of equity accrues to the investor. Equity often provides the investor—in this case the DFI—a place on the investee board, which can increase the DFI's leverage in firm-level decisions (Inoue et al. 2013). Indeed, technical assistance and business planning have become a substantial part of DFI services (Musasike et al. 2004; Gantsho and Karani 2007; te Velde and Warner 2007), in part owing to the active role of DFI representatives in firms where they have substantial equity investments.

Equity is also generally associated with higher returns than are loans or bonds, however, as is often the case, higher returns also entail more risk (Romero and Van de Poel 2014). Owing to such risks Romero and Van de Poel (2014) observe that it can be more difficult to use equity-based financial tools to make "pro-poor" investments in key sectors of developing economies, including small- and medium-sized enterprises (SMEs) as well as many agricultural and small commercial firms in the informal sector. They point out that many DFIs concentrate equity investments on "more mature" private actors (p. 29; see also Bracking 2009), leaving less financing available for smaller companies.

Meanwhile, the question of additionality for equity is similar to that of loans: DFIs can create financial additionality by providing equity to firms that would not be able to access equity in private markets (te Velde 2011). Similarly, if equity is to have development impacts, it must not crowd out private investment (Abalkina et al 2013). The additionality of DFI equity holdings has been called into question in recent years - for example, in 2010 Britain's CDC faced heavy criticism for its heavy and profitable equity investments in financial firms alleged to have little if any tangible development impacts. Resulting public outcry prompted substantial reforms in the organization's financing practices - including a renewed focus of CDC investments in Least Developed Countries (LDCs) (Ford 2011). Nevertheless equity investments in financial sectors continue to grow among many DFIs: from 2010 to 2013 IFC equity investments in financial markets increased by more than 75% throughout the

world and by almost 80% in Sub-Saharan Africa, Latin America, and the Caribbean (IFC 2014).

Hybrid Instruments: Mezzanine Loans and Quasi Equity

Some DFI financial instruments take the form of “mezzanine finance,” a set of financial instruments that combine debt and equity features. Mezzanine loans are generally structured as long term subordinated loans with equity participation or other profit participating features (IADB 1998). Quasi-equity is typically issued as convertible loans or bonds, or profit-sharing loans.⁵ Convertible loans allow the investor the option to “convert” the debt into equity or to keep the debt as-is.

Like the instruments themselves, the returns and risk on these instruments are situated somewhere between debt and equity and often come in the form of subordinated debt. Subordinated debt ranks below senior debt (meaning investors are only paid following payment of these higher ranking debts) but, as compensation, also carries a higher interest rate (Romero and Van de Poel 2014). Convertible debt and quasi-equity meanwhile offer lower returns than equity, but at lower risk.

For DFI reporting, most mezzanine finance is not reported separately, but rather is included in either loan or equity figures (Romero and Van de Poel 2014).

Guarantees

A guarantee is the agreement of a guarantor to assume the responsibility for the performance of an action or obligation of another person or entity. Defined simply, “[a] guarantee is a financial instrument for the transfer of risks. The guarantor agrees to compensate the beneficiary in the event of nonperformance” (World Bank 2009, p. 4). Guarantees, broadly, also include collateral, insurance, and derivatives (World Bank 2009). Among DFIs guarantees primarily take the form of loan guarantees (with the DFI assuming responsibility for paying all or part of a loan in the event of non-payment by the loan recipient) and political risk guarantees (in which the DFI assumes responsibility for a loan in the event of war or government nationalization of a firm). Among the 15 major European DFIs, guarantees constituted less than 3% of investments in 2012 (EDFI 2012). But growth is rapid in some DFIs: Romero and Van de Poel (2014) note that IFC guarantees increased from USD \$500 million in 2005 to \$2.5 billion in 2009, a five-fold increase in just four years.

Whereas equity investments involve partial ownership of an enterprise by a DFI, DFI guarantees are mainly used to decrease the risk of an investment and thereby attract capital and investment from other sources (World Bank 2009; Romero and Van de Poel 2014). Unlike most other financial instruments, guarantees do not necessarily involve a transfer

of resources between the DFI and the firm receiving financing (Romero and Van de Poel 2014). Although fees are often collected on guarantees - and can be up to 4.5 percent of the guaranteed amount per year (Flaming 2007)⁶ - in many cases a successful guarantee will never involve a transfer of funds from the guarantor.

Like insurance, guarantees can be used to cover a broad range of risk. For example, the World Bank’s Multilateral Investment Guarantee Agency (MIGA) specializes in guarantees, with a primary focus on political risk. Its Political Risk Insurance (PRI) can be used to cover “transfer restriction, expropriation, war and civil disturbance, and breach of contract” (World Bank 2009, p. 10). This serves to decrease risks and may make a loan more attractive to a commercial bank, allowing a business to access funding to which it would not otherwise have had access. Similarly, a DFI-issued guarantee on a project may decrease risk enough for a firm to make an investment in a developing country, for example by signing on to an agreement to build a power plant and guaranteeing against the risk of violent conflict or government expropriation (World Bank 2009).

More often, however, guarantees back loans, equity, bonds, and other financial instruments in order to increase private financial flows to a number of key sectors linked to broader economic development goals. Indeed some guarantees have the specific (arguably pro-poor) objective of increasing the attractiveness of investments in small and medium enterprises (SMEs). In this case, three parties are involved: “a borrower who lacks collateral, a lender providing the loan or overdraft facility, and a guaranteeing agency” (Samujh et al. 2012, p. 22). Winpenny (2005) explains the different ways in which guarantees can accomplish the goals of supporting increased capital flows and targeting SME growth:

- Lengthening the terms of credit;
- Widening the selection of instruments available to borrowers and sub-sovereign financial institutions;
- Creating safer local outlets for savings;
- Encouraging private sector participation by insuring against failures of governance;
- Providing a collective guarantee to a number of separate entities in order to pool their risk.

Like equity, the major effect of guarantees is to help firms focus more on long-term growth (D’Ignazio and Menon 2013). Ideally, guarantees are used to facilitate lending to creditworthy borrowers that would not otherwise be able to obtain financing, whether due to macroeconomic risk or lack of collateral (Freedman 2004; Mirabile et al. 2013).

The extent to which guarantees provide additionality and development benefits can be particularly difficult to measure. First, in terms of additionality, it may be difficult

⁵ For additional details see: www.brettonwoodsproject.org

⁶ This fee is in addition to the bank interest rate.

to determine which firms would not otherwise be able to obtain financing, and hence difficult to evaluate the degree to which a given guarantee is increasing financial flows relative to the status quo (Romero and Van de Poel 2014). Some critics have noted that lenders may have a financial incentive to use guarantees to back low-risk investments (Flaming 2007). For example, a lender that would make a loan to a firm even without a guarantee can use the guarantee to “subsidize” the loan, increasing profit while not creating any additionality (Freedman 2004; Romero and Van de Poel 2014).⁷ This implies monitoring may be needed to prevent abuse of guarantees by already-profitable enterprises (Samujh et al. 2012).⁸

In terms of development impacts, with the noteworthy exception of the World Bank’s MIGA which specializes in guarantees in post-conflict areas, owing to their complexity and reliance upon robust sources of existing finance (to guarantee), to date guarantees have been more common in relatively more developed financial markets. But although guarantees are not as common as loans or equity, their use is growing (Karani and Gantsho 2007; Kingombe et al. 2011; Massa 2011). In 2013, the OECD-DAC conducted a survey which identified over 1,000 long-term guarantees which they classified as “guarantees for development,” issued by 14 countries and organizations (including some DFIs) for the purposes of mobilizing private capital and fostering development in low-income countries.⁹ The study concluded such “guarantees for development” mobilized USD \$15.3 billion from the private sector from 2009 to 2011 (Mirabile et al. 2013), and that Africa was the most targeted region for development-related guarantees (although most of these guarantees targeted upper middle-income African countries).

Grants and Technical Assistance

Grants are rarely listed as one of the core instruments of DFIs, including in recent global reviews of DFI finance (for example, te Velde and Warner 2007; Kingombe et al. 2011; te Velde 2011; Spratt and Collins 2012).¹⁰ But although grant-based aid is rarely a central focus of DFIs (in part due to the

core mandate of DFIs which demands long-term financial viability of investments), in practice grants can and do play a role in DFI activities. Kingombe et al. (2011) note some DFIs will make small grants for feasibility studies before deciding to proceed with a larger debt, equity, or guarantee-based financing arrangement. Other DFI support has grant-like characteristics such as free technical assistance in support of managing DFI investments (Romero and Van de Poel 2014).

Indeed, while financial services can be considered the primary tool of DFIs, technical assistance is widely used and seen as highly complementary (Musasike et al. 2004; IEG 2009; Kingombe et al. 2011; te Velde 2011; Romero and Van de Poel 2014). Technical assistance can be very general—“shap[ing] the conditions for sustainable private sector development... through promoting more effective regulation” (IEG 2009: xxi)—or more project-specific, tying financing for a specific investment with technical assistance for the project or firm (Musasike et al. 2004; Bah et al. 2011). There is an increasingly large number of such assistance agreements reported; the EBRD, for example, had 184 total agreements totaling more than USD \$1 billion in 2007 (te Velde 2011).

In addition to financial services and technical assistance, DFIs may also use their funding in a grant-like manner to promote standards in the funds or companies in which they invest. Such standard-setting services provided by DFIs may be particularly important in comparatively vulnerable developing economies that often need support the most, but are least able to attract private sector resources on fair and accountable terms (te Velde and Warner 2007; Kingombe et al. 2011; Romero and Van de Poel 2014). For example, DFIs can use their influence “to increase corporate and environmental social and governance (ESG) standards, risk management capabilities, proper regulation, supervision and management of national development banks in order for them to support private sector actors at the national level” (Romero and Van de Poel 2014, p. 36). The World Bank Group’s MIGA regularly reports on efforts to improve standards in environmental and social safeguard policies (World Bank 2009). Similarly the IFC issues an annual summary as part of its Annual Report (IFC 2014) documenting efforts to mitigate environmental and social risks associated with its investments (Kingombe et al. 2011).

Overall grant volumes are typically very small relative to overall DFI portfolios, with most grants concerning payments for feasibility studies or otherwise forming part of a larger involvement of DFI funds through loan, equity, or guarantee instruments. In some cases, grant funds may even transform into returnable capital funds as a project progresses: for example, in the LDC Infrastructure Fund managed by the Netherlands Development Finance Company (FMO), certain grants used for feasibility studies will be converted into FMO-owned equity in cases of project success.

⁷ Uesugi et al. (2010, in Samujh et al. 2012) found Japanese banks regularly used public credit guarantees to substitute non-guaranteed loans with guaranteed loans.

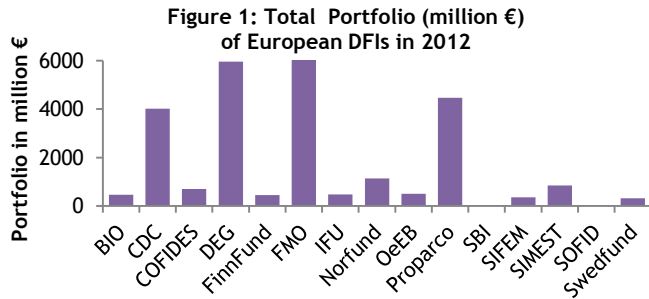
⁸ Most impact evaluations of guarantees to date measure just two figures—default rates and job creation rates (Samujh et al. 2012)—with little clarity on other potential development impacts. Given that guarantees should stimulate *new* investments rather than subsidize *existing* investments (Freedman 2004), new evaluation methods may be required to truly assess the development impacts of guarantees.

⁹ Detailed results of the survey can be accessed via <http://www.oecd.org/dac/stats/guaranteesfordevelopment.htm>

¹⁰ Many financial tools available to DFIs include some grant financing, since these tools are almost always subsidized in some form. These subsidies can be aimed at private sector beneficiaries directly (e.g. through interest rate subsidies) or indirectly through its effects on the conditions under which DFIs are allowed to operate (e.g. lower costs of capital for a DFI receiving triple A status on the basis of a state guarantee) (te Velde and Warner 2007: v).

(ii) Trends in DFI Returnable Capital Finance

This section discusses the basic trends in returnable capital-based funding, by instrument, sector, and region, and for a number of different DFIs. Additional detailed financial data are included in Appendix A.



At the European level, from 2003 to 2012, the consolidated portfolio of the 15 European Development Financial Institutions (EDFI) increased from €10 billion to €26 billion, a 160% increase. Much of this growth has been concentrated in four DFIs: Britain’s CDC, Germany’s DEG, the Dutch FMO and France’s Proparco (Figure 1). Indeed, the scale varies

dramatically across EDFIs: in 2012 total portfolios ranged from under €10 million in Portugal’s SOFID to €6.3 billion in the largest European DFI, the Dutch FMO (EDFI 2012).

Regional and multilateral DFI portfolios are even larger; private commitments (not including loans to sovereign states) by the Asian Development Bank (ADB) exceeded €7.25 billion in 2013, and Europe’s multilateral EBRD held roughly €20 billion in 2012 and 2013. Finally, the world’s largest DFI - the World Bank Group’s IFC - has increased its commitments by a factor of six since 2002, with an average annual growth rate of 15%. In 2013, with roughly USD \$18 billion in new commitments, IFC became the largest arm of the World Bank Group with a portfolio of nearly \$50 billion. It is widely considered a standard-setter for other DFIs (IFC 2014).

DFI Allocations by Financial Instrument

Figures 2 and 3 show the distribution of returnable capital instruments for the 15 European bilateral DFIs and two large multilaterals EBRD and IFC in 2009 (from Kingombe et al. 2011) and in 2012 (from EDFI 2012 and DFI annual reports).

Figure 2: Distribution of DFI Portfolios in 2009 by Instrument (from Kingombe et al. 2011)

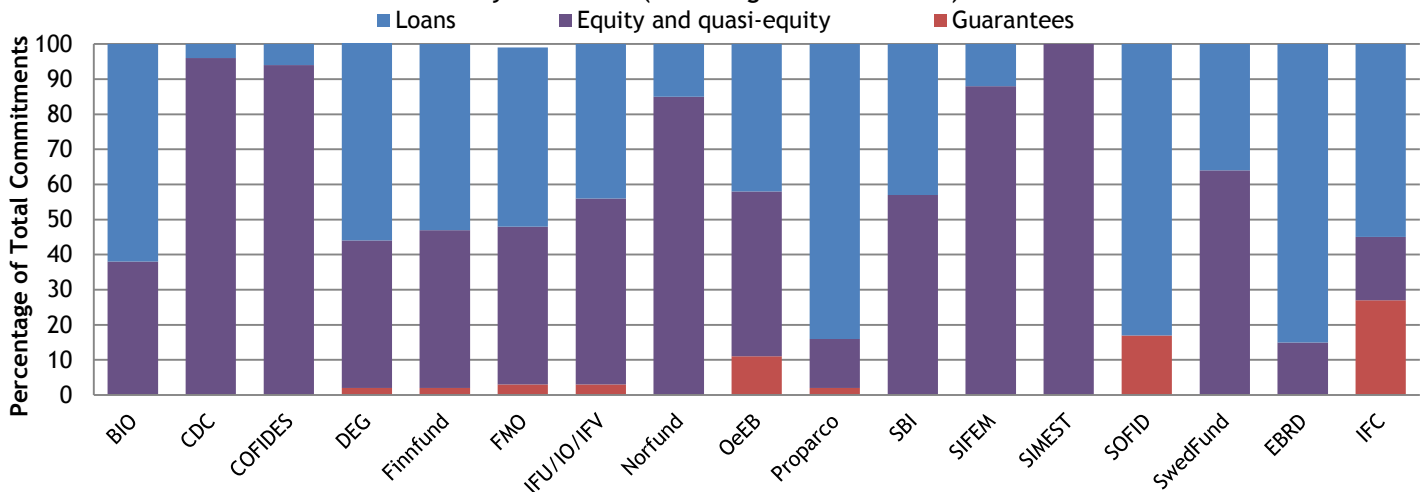
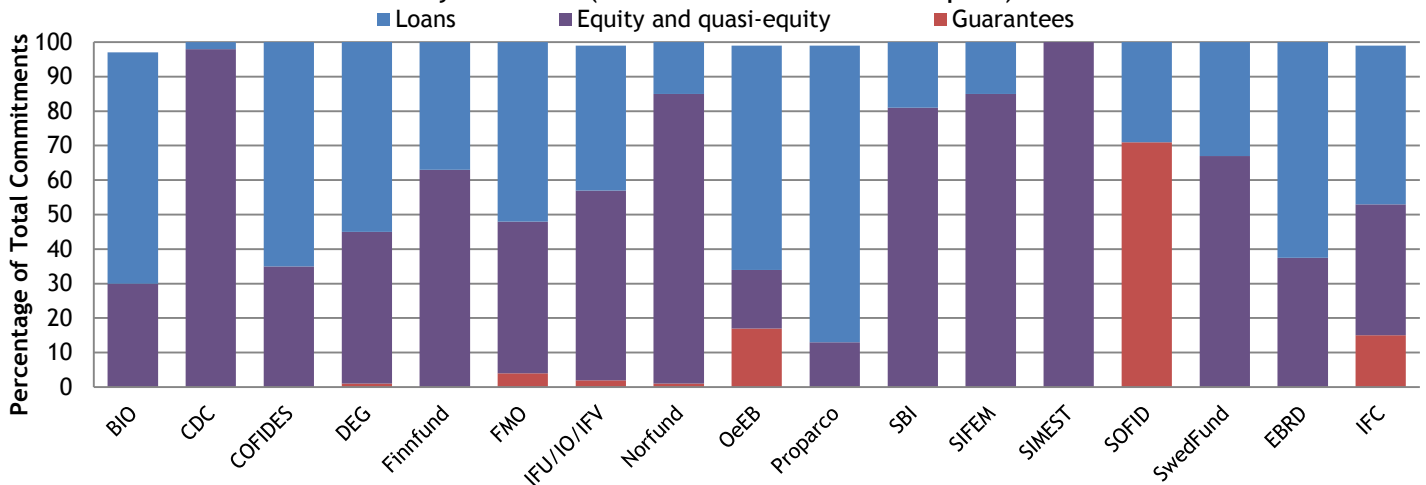


Figure 3: Distribution of DFI Portfolios in 2012 by Instrument (from EDFI 2012 and Annual Reports)



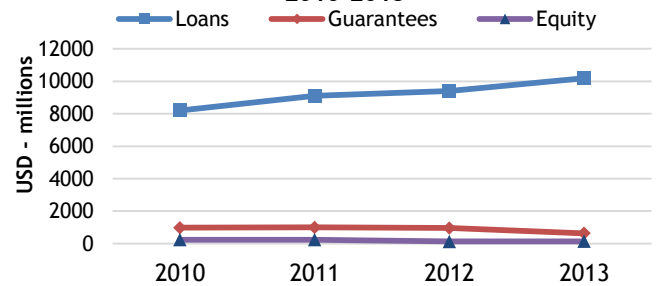
Some DFIs, including the multilateral EBRD, and the bilateral DFIs Proparco and SOFID, had more than 80% of their respective investments concentrated in loans in 2009. The share of loans for almost every other DFI shown in 2009 was between 40 and 60 percent. Several other DFIs were specialized in equity and quasi-equity in 2009, specifically CDC, COFIDES, Norfund, SIFEM, and SIMEST. Equity constituted more than 50% of the overall portfolios in 9 of the 17 DFIs shown in 2009, although several of these also issued a non-trivial number of loans. Finally, while SOFID and OeEB both used some guarantees, most bilateral DFIs seemed to do very little in the way of guarantees in 2009, with only the multilateral IFC's portfolio containing more than 20 percent guarantees in 2009. As other authors have noted, most DFIs either specialize in one instrument (Like CDC and equity or EBRD and loans) or split their portfolios almost equally between loans and equity (Kingombe et al. 2011). Indeed, for all but two of the DFIs in Figure 2 (OeEB and the large multilateral IFC), each DFI's most used financial instrument represented more than half of that DFI's investments in 2009.

Moreover, as emphasized in Figure 3, there is evidence that over time DFIs are either retaining their distribution of loans, equity, and guarantees, or becoming even more specialized in use of a single instrument. As seen in comparing Figures 2 and 3, from 2009 to 2012 the lending-focused DFIs BIO and OeEB have further expanded their shares of lending relative to equity, while the equity-focused CDC, Finnfund and SBI have reduced loan activity and further expanded equity. Only COFIDES and SOFID have portfolios that are notably more diverse in 2012 than in 2009: COFIDES has shifted from an equity-dominated portfolio in 2009 to a mixed loan/equity portfolio in 2013. SOFID, meanwhile, has shifted from an emphasis on loans to specialize in guarantees - the only bilateral European DFI to do so (albeit with a small portfolio at less than €10 million in 2012).

Such trends towards specialization in bilateral DFIs have also taken place in multilateral DFIs. EBRD has increasingly focused on loans over equity, and reports little use of guarantees. IFC has diversified its portfolio towards a balance of equity and loans, while reducing guarantees (nevertheless owing to its size IFC's total signed guarantees amounted to almost USD \$5 billion in 2013 (IFC 2014)). Similarly, MIGA, not shown in Figures 2-3, has continued to specialize entirely in guarantees (and the totals here are also significant: in 2013, MIGA's total net exposure—gross exposure less reinsurance)—was over USD \$6 billion (MIGA 2014)).

Finally, specialization also appears to be the norm among regional DFIs outside of Europe. For example, as seen in Figure 4, while overall ADB financing has increased since 2010, this entire increase was in loans, while total investment in equity and guarantees was actually lower in 2013 than in 2010 (ADB 2013).

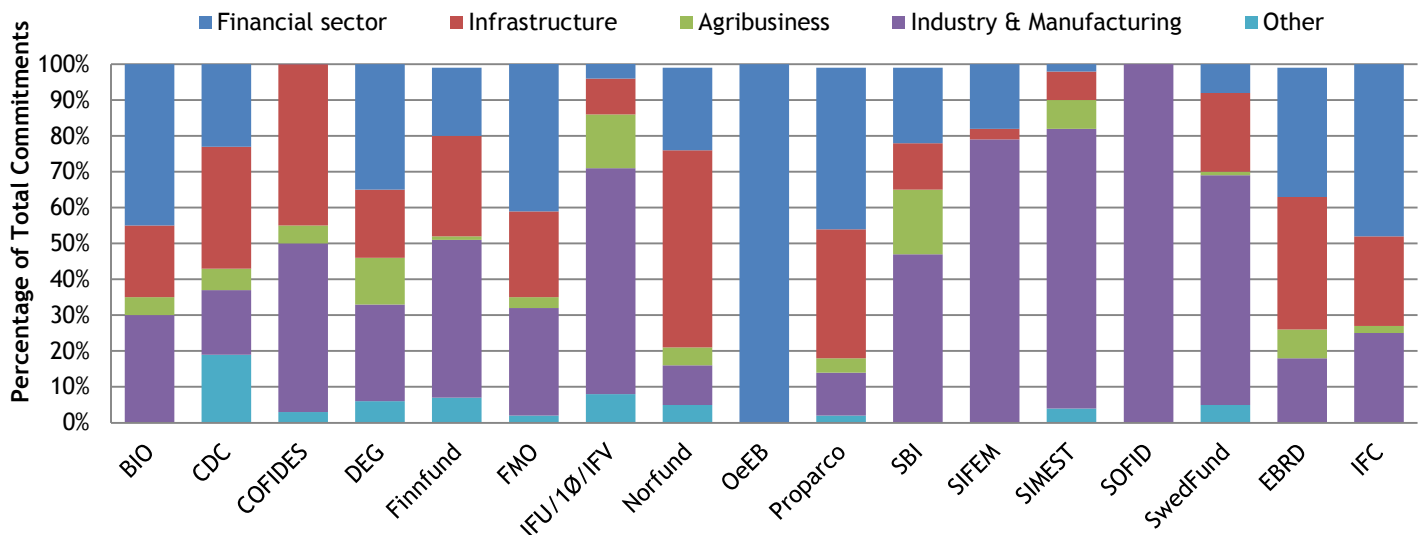
Figure 4: ADB Commitments by Instrument 2010-2013



DFI Allocations by Sector

Figures 5 through 7 show the breakdown of DFI financing by sector. Figure 5 represents a detailed snapshot of overall DFI funding by sector among the major European DFIs in 2009. Like the breakdown of DFI financing by instruments, Figure 5

Figure 5: Distribution of DFI Portfolios in 2009 by Investment (from Kingombe et al. 2011)



indicates that some DFIs specialize primarily in a single sector. SOFID, for example, invests entirely in industry and manufacturing, while OeEB invests almost entirely in the financial sector (although it has since changed its reporting structure to focus on end-uses of finance; see Appendix A).

Nonetheless, there is more diversity among DFIs in funding by sector than in funding by instrument. Namely, while 15 of the 17 DFIs in Figure 2 have more than half of their funds concentrated in a single instrument, only 7 have more than half of their investments concentrated in a single sector.

Further comparing DFI instruments (from Figures 2-3) and DFI sectors (in Figure 5) reveals great diversity in instrument-sector combinations. For example, CDC and COFIDES have overwhelmingly used equity, but for projects across a variety of sectors. Norfund and Proparco both split their portfolios between finance and infrastructure, though Norfund uses equity while Proparco uses loans. Meanwhile SIFEM, SIMEST and SOFID all overwhelmingly support industry, but while SIFEM and SIMEST use equity, SOFID uses loans and guarantees. Such patterns support contentions made by other authors that DFIs are coming to specialize in instruments, while sector-level evidence of the advantages of different instruments is less apparent (Romero 2014).

Figure 6: CDC Portfolio by Sector 2010-2013

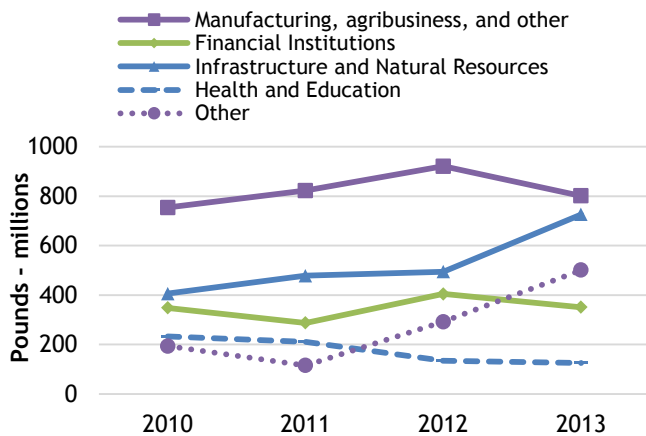
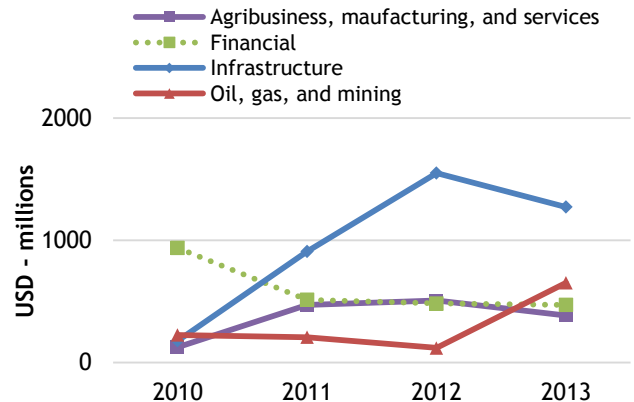


Figure 6 shows the trend in finance allocation over time for one large bilateral DFI, Britain’s CDC, from 2010 to 2013. The changes from one year to the next are relatively incremental (the single largest change was an increase of 200 million pounds directed to infrastructure—which represents a change of less than 10% of total funding—from 2012 to 2013). However such trends can lead to dynamic shifts in funding allocations over time (including a recent increase in “Other” driven largely by the expansion of business services). In terms of social sector investments (arguably among the more pro-poor investments) CDC’s allocations to health and education have remained relatively small, peaking at just over 200 million pounds in 2010 (12% of CDC’s total portfolio in that year) and decreasing to roughly 5% since that time.

Figure 7 similarly shows the change in coverage by sector for MIGA, one of the few DFIs to specialize in guarantees. Coverage of infrastructure projects represents a plurality of MIGA guarantees starting in 2011, and a majority in 2012 (although it was no longer a majority in 2013). This jump was largely the result of an increase in the number of projects in support of MIGA’s infrastructure-related mandate, as opposed to a single large project (MIGA Annual Report 2012). Like most DFIs, MIGA does not separately report on the level of its health, education and other social sector investments.

Figure 7: MIGA Guarantees by Sector 2010-2013



DFI Allocations by Region

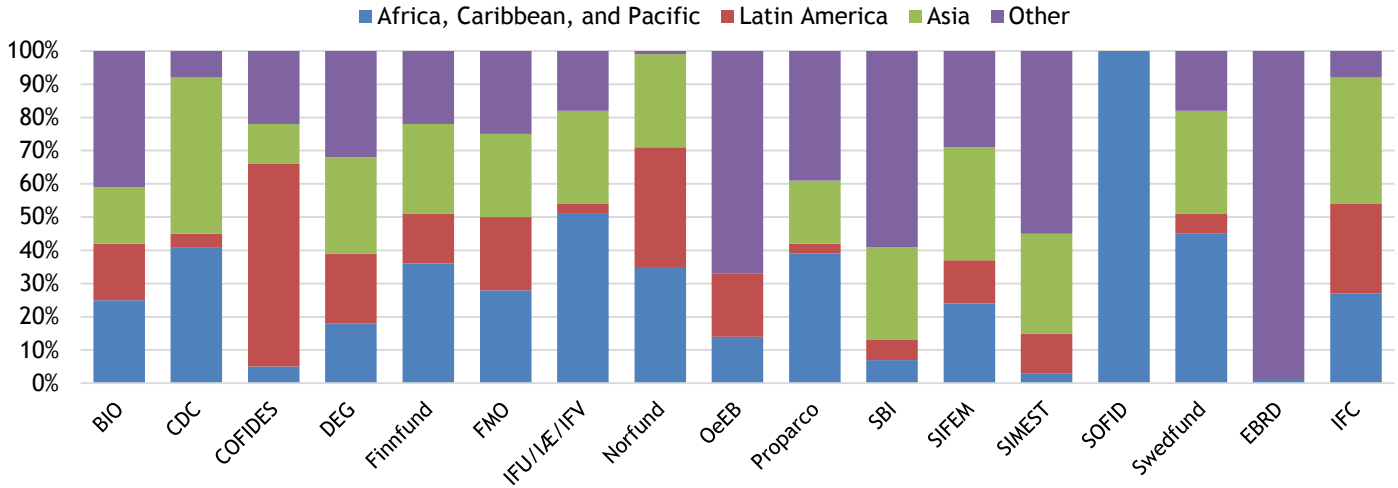
Figures 8-10 show the allocation of DFI funding by region. Several patterns are again worth noting. Only one of the major 15 European DFIs, SOFID, invests in only one region; regional diversity seems to be the rule, rather than the exception. Only four of the fifteen DFIs shown in Figure 8 devote more than half of their investments to one region, and even this is quite misleading as that “region” for three of the four is “Other,” which includes Europe and the Middle East.

Perhaps unsurprisingly, some European DFIs specialize in regions with which they have a colonial history: the Spanish DFI, COFIDES, invests overwhelmingly in Latin America, for example. while the Portuguese SOFID invests overwhelmingly in Portuguese-speaking African countries. But the majority of DFIs appear to spread out their investments: in 2009 Germany’s DEG had 18% of its portfolio in ACP (Africa, Caribbean, and Pacific),¹¹ 21% in Latin America, and 29% in Asia. The Dutch FMO has approximately one quarter in each region; and Finland’s Finnfund has 35% in ACP, 15% in Latin America, and 27% in Asia.

Among the multilateral DFIs in Europe, EBRD invests almost exclusively in European countries (“other” in Figure 8) while IFC has a relatively even distribution of its portfolio across the major regions.

¹¹ Kingombe et al. (2011) point out that the resource they used to aggregate the DFI figures would not allow them to separate Africa, the Caribbean, and the Pacific.

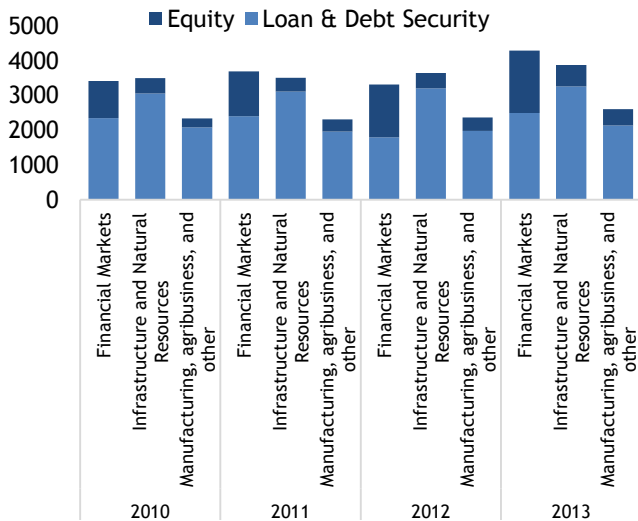
Figure 8: Distribution of DFI Portfolios in 2009 by Region (from Kingombe et al. 2011)



Like DFI investments by type and by sector, the allocation of DFI resources to different regions - and the types of sectors and financial tools engaged in those regions, has varied in recent years. Figures 9a and 9b show the trends from 2010 to 2013 for IFC investments in Sub-Saharan Africa, Latin America, and the Caribbean (Figure 9a) and in Asia (Figure 9b). (Note: IFC does not report guarantee volumes separately, but rather aggregates guarantees with loans, equity, or other financial instruments).

In SSA and LAC, while total IFC investments across sectors have remained steady, there has been a steady increase in the use of equity relative to loans and loan debt securities (in all sectors, but especially in financial sectors) as well as an increase over time in overall funding.

Figure 9a: IFC Instrument by Sector, SSA and LAC 2010-2013



In Asia, meanwhile, the IFC's increasing focus on financial markets is perhaps the most noteworthy trend; support to financial institutions increased from under USD \$1.9 billion in 2010 to more than \$3.3 billion in 2013, driven by large increases in both equity and loan-based finance. Investments in manufacturing and infrastructure have also shown some variation, but the overall change is not very large.

Figure 9b: IFC Instrument by Sector, Asia 2010-2013

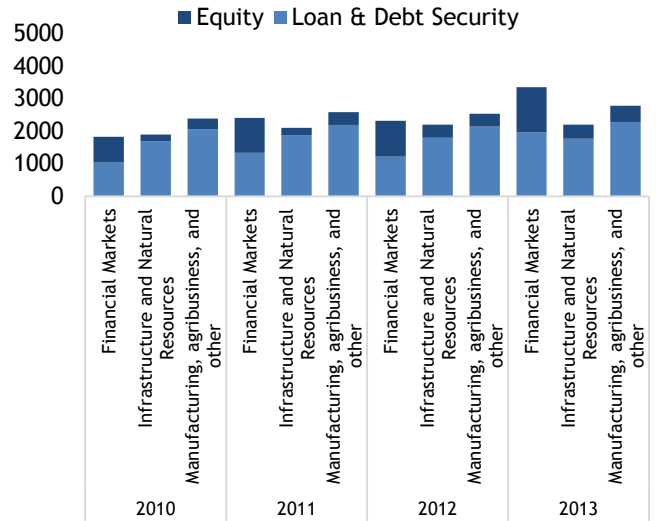
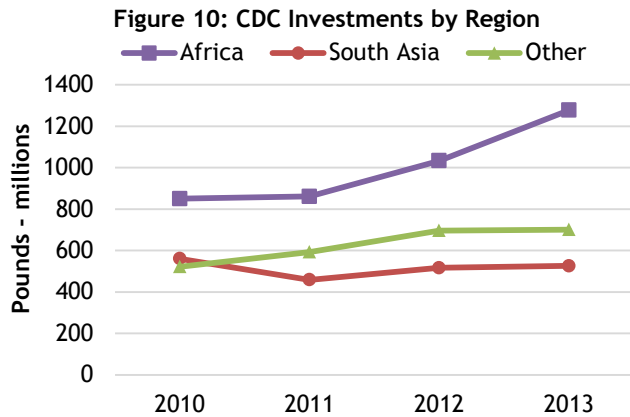


Figure 10 shows the comparable trend from 2010 to 2013 for regional investments by a bilateral DFI, Britain's CDC. While CDC's overall investments in the rest of the world have remained relatively flat in recent years, CDC's investments in Africa rose from just over 850 million pounds in 2010 to almost 1,300 million pounds in 2013. In relative terms, CDC's investment in Africa rose from just over 40% of its total investments to more than half. This shift was largely driven

by CDC's mandate to concentrate its investments in Least Developed Countries (LDCs) (CDC 2014).



(iii) Country- and Sector-Level Determinants of Returnable Capital Effectiveness

In spite of the extraordinary growth in DFI finance, the literature on DFI effectiveness remains exceedingly thin and overwhelmingly draws on development theories rather than empirical evidence. One of the few empirical studies on DFI performance, a 2011 report commissioned by 31 multilateral and bilateral DFIs, concluded that DFIs might best focus on different funding instruments and different project types depending on the level of development of the host country. Namely, the report concluded DFIs were best suited to offer leasing, bank equity, and microfinance services in Least Developed Countries (to build basic financial infrastructure), followed by equity, long term loans and bonds, and property insurance equity in lower Middle Income Countries (to support productivity increases), and finally loans and equity for "green" energy efficiency greenhouse gas mitigation investments, as well as broader insurance and risk-sharing investments such as guarantees in upper Middle Income Countries (to deepen financial markets and support social and environmental goals) (IFC 2011). However the evidence in support of these claims was largely anecdotal - and virtually no peer-reviewed or otherwise published DFI-specific reviews of investment performance, or broader development impacts, were found at the present time.

In spite of the paucity of DFI-specific findings, there exist many studies examining the more general effects of grants, loans and related financial instruments on economic performance, both at a macro (state) and micro (firm) level.¹² For example, some general lessons and hypotheses regarding DFI performance can be drawn from the relatively more developed literature looking at the performance of state-level aid. Collier (2005) argues that in some high-risk, low-income environments, such as in countries after or during

¹² These include studies of ODA performance (for example: Doucouliagos and Paldam 2008; or for a more optimistic view of aid see Sachs 2006, while for the opposing view see Easterly 2006) and microfinance institutions (for example: Morduch and Haley 2002; Khandker 2005; Karlan and Zinman 2010; and Banerjee et al. 2013).

conflict, substantial debt-based lending is inappropriate for both creditor and borrower. The risk level is sufficiently high that default is likely, further damaging rather than restoring the reputation of the borrower. Odedokun (2003) similarly highlights varying circumstances in which different combinations of grants, concessional loans ("soft loans"), and non-concessional loans might have comparative advantages, noting that in cases where aid recipients face poverty or low economic activity due to long-term resource constraints (as opposed to temporary liquidity problems), loans may worsen a debtor's situation. Cohen et al. (2007) also recommend combinations of both loans and grants, noting the poorest countries are also the most volatile and least able to manage debt, and concluding that "Debt and debt cancellations are indeed two complementary instruments which, if properly managed, perform better than either loans or grants taken in isolation." Finally Tew (2013) concludes grants remain likely to be preferable to returnable capital finance when:

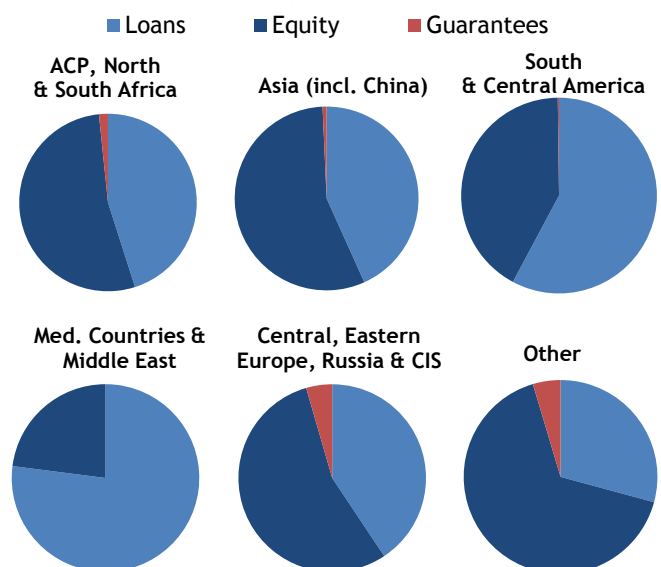
- The recipient is at risk of debt distress
- The recipient is a low-income country (rather than a middle income country (MIC))
- The aid is intended to fund the social sectors.

Many of these more general lessons also appear to apply to DFI-specific returnable capital finance, although solid empirical evidence remains scarce.

Country-Level Determinants of DFI Returnable Capital Effectiveness

The income level of a country may also have consequences for DFI returnable capital instrument choice and performance. Both the availability of private sector capital and the willingness of investors to support different project types and financial instruments vary by country and region. As summarized in Figure 11, there has been a slightly higher

Figure 11. Distribution of Total European DFI Finance by Instrument and Region (EDFI 2012 Annual Report)



focus on equity than loans in African and Asian countries in recent years, while in South and Central America DFI investments have favored loans. Guarantees have been largely limited to use in more developed countries (including more developed countries in less developed regions).

Such differences in the use of instruments across regions may imply relative strengths of different instruments in different contexts - as previously noted, a key area in which DFIs can most effectively invest is where the private sector can be “leveraged in” (Kingombe et al. 2011) to boost capital flows. The most effective types of leverage can vary by geography, history, and current political and economic context.

However differences in instrument use may also reflect the specialties and political preferences of different DFIs themselves. For example, CDC’s strategy is to make 75% of its investments in low-income countries with annual gross domestic product (GDP) per capita below USD \$905 (per the World Bank 2006 definition). Similarly, a total of 50% of its investments must be in Sub-Saharan Africa (Kingombe et al. 2011). This goal - largely a result of British domestic political pressures demanding improved development impacts from Britain’s DFI - combined with CDC’s expertise in equity, partially explains a large share of equity investments directed from European DFIs to Sub-Saharan Africa to date.

Currency volatility is yet another important factor influencing DFI investment decisions. Many DFIs invest using “international currencies”, such as the US dollar, the Euro, the Japanese Yen, and, increasingly, the Chinese Renminbi. While in the past it appeared that DFIs were lending increasingly in domestic currencies, the trend seems to have reversed: overall, lending in domestic currencies peaked at just 13% of lending in 2005 and was down to less than 10% by 2009 (Perry 2011). This trend is also seen in individual DFIs. For the World Bank’s IFC, lending in domestic currencies reached almost 30% in 2007 but was then down to less than 15% in 2009. Similarly, the ADB’s share of domestic currency loans fluctuated between 10 and 30%, while the AfDB’s peaked at only 10% in 2008 (Perry 2011). It is currently unclear whether the shift towards investments in international currencies has been positive or negative for DFI investment performance or development impacts. However there is reason to suspect such shifts may be to the detriment of investees and loan recipients: the IMF has issued warnings that borrowers of foreign currencies are vulnerable to sudden shifts in exchange rates (Rosenberg and Tirpak 2008), and given the often-volatile exchange rate for developing countries and macroeconomic instability (Perry 2011; Romero and Van de Poel 2014), lending in domestic currencies may offer a more stable source of finance (Brookins 2008). Moreover, many developing countries are dependent on primary product exports, which are especially vulnerable to exchange rate volatility (Bleaney and Greenaway 2001). As such, lending in local currency may be one way to make DFI finance more “pro-poor.”

Ultimately, like the general evidence on DFI performance, the evidence on country-specific determinants of DFI outcomes remains very thin. Moreover, the limited use of some forms of returnable capital in some developing country contexts to date does not necessarily imply that such finance cannot succeed. For example, in the past authors such as Bulow & Rogoff (2005) have noted that a disproportionate share of returnable capital-based assistance (from both multilateral development banks and DFIs) goes to middle income countries (MICs) rather than to the poorest countries - in part because MICs are better able to attract and repay returnable capital finance.¹³ But recent data suggest the poor increasingly live in middle-income countries (Carbonnier & Sumner, 2012), perhaps increasing the possibility that returnable capital-based finance at the state level will reach the poor at the intra-state level. In other words, returnable capital finance –whether through ODA or through DFI activities–may at times not be an effective way to support poor countries, but it may yet offer important opportunities for reaching poor regions and communities in MICs able to manage returnable capital finance to the benefits of sub-regions with concentrated extreme poverty.

Sector-Level Determinants of DFI Returnable Capital Effectiveness

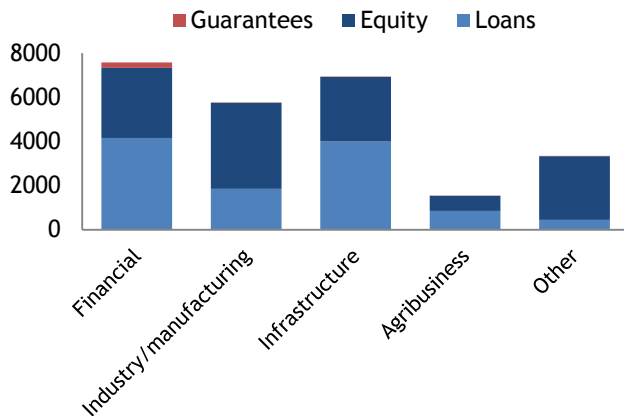
At the sector level, again, empirical evidence of factors predicting DFIs’ successful application of returnable capital instruments remains scarce. Nevertheless, DFIs may be especially effective at providing financial additionality (i.e., providing access to resources otherwise unavailable to firms) in certain situations. First and foremost, DFI investment is likely to be most beneficial in activities where private investment is questionable (Kingombe et al. 2011), such as where businesses are at high risk of failure or in under-capitalized sectors (DGAG 2009) or where there are high risks or high sunk costs (te Velde and Warner 2007). Non-tradable sectors are also likely to benefit from DFI investment, as private sector investment is unlikely (Perry 2011).

There is also a small but growing literature on the theoretical effectiveness of DFIs, particularly as pertains to DFI investments in the financial sector. Private financial firms in developing countries can serve as an important intermediary between DFIs and the private sector, and improvements in the financial sector are likely to increase domestic lending (Kingombe et al. 2011; Perry 2011; Beck 2013). This emphasis is seen in the sheer amount of DFI lending to the financial sector (Figure 12).

To the extent that such financial resources reach the target firms (often small and medium enterprises (SMEs) and other

¹³ The International Financial Institution Advisory Commission (2000) report made a similar argument, concluding that while returnable capital instruments might be well-suited to MICs, assistance directed to LDCs should continue to focus on grant-based aid.

Figure 12. Instrument use by sector (15 European DFIs, EDFI 2012)



firms with high job creation potential) the theoretical development impacts of DFI support of the financial sector is large (Dalberg 2010). However in recent years DFI investment in financial providers - now estimated to exceed 50% of total European DFI investments - have also received substantial criticism. In a 2014 Eurodad report, one of the most comprehensive critical reports on DFI lending to date, Romero (2014) charges that the development impacts of DFI investments in the finance sector have been exaggerated, that DFI reporting remains inadequate to evaluate true economic and development impacts of interventions, and ultimately that many (and sometimes most) DFI financial investments end up going to financial firms in developed countries, tax havens, or otherwise outside the target countries, greatly reducing the potential for such investments to realize positive development spillovers. Eurodad (2011) has developed a “Responsible Finance Charter” in response to perceived weaknesses in DFI accountability in the financial sector, which among other requirements calls for third-party verification of DFI investment decisions and impact claims.

Finally, as for social sector investments, apart from the anecdotal evidence presented in the sections below, there is very little systematic data available on DFI social sector activities. DFIs, by definition, are partly created to focus their investments on sectors with potential for high positive externalities, including health, education, and infrastructure (Perry 2011). However while infrastructure has attracted a large share of DFI finance, investments (and reporting) on other social sectors is exceedingly limited.

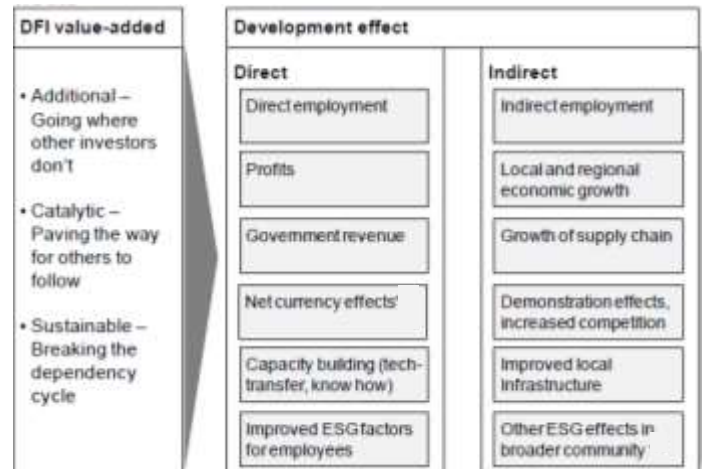
(iv) Pathways for Pro-Poor DFI Returnable Capital Finance

Like general evidence of DFI returnable capital performance, evidence of pro-poor impact is lacking (UK House of Commons 2009), although there has been some theory development in this area (Figure 13) and some DFIs report to be explicitly targeting “pro-poor” impacts as described below.

Figure 13 summarizes the pathways through which DFIs are theorized to contribute both directly and indirectly to development outcomes in the countries in which they invest

(figure adapted from European Development Finance Institution reports, as summarized in Dalberg (2010)). In addition to direct impacts such as employment, increased investment and government tax revenues, and favorable impacts on trade and currency markets, DFIs are also believed to contribute directly and indirectly to human capital accumulation (e.g., education and capacity-building among investees) and to other environmental, social, and governance (ESG) benefits from increased transparency in financial markets (IEG 2009) to improved labor standards in sponsored companies (Dalberg 2010), to expanded emphasis on energy efficiency and reducing greenhouse gas emissions from industrial development (te Velde 2011).

Figure 13. Theories of DFI-led Development (Dalberg 2010)



On an aggregate level, European DFIs regularly attempt to forecast the development effects their investments will generate. They measure three specific quantitative indicators: jobs created, tax revenues generated in recipient countries, and net trade effects (imports versus exports) generated through their portfolios. For example, Proparco claims its own investments have generated 125,000 direct jobs and 147,000 indirect jobs (Proparco 2014). In the same report, Proparco also states that its investments helped increase tax revenues in supported countries by €429 million. Among regional DFIs, Asia’s ADB claims export volumes grew more than 10 times within the Greater Mekong Subregion (including parts of Cambodia, China, Laos, Myanmar, Thailand, and Vietnam), at least partially due to the DFI’s investments and financing (ADB 2013). Finally the World Bank Group’s IFC Annual Report for 2013 emphasizes that IFC clients support 2.7 million jobs (IFC 2014) - although the organization also acknowledges that its indicators capture overall development results of client companies, and do not provide an estimate of results attributable specifically to IFC’s investment.

In addition to these quantitative effects, the investments generate substantial qualitative effects, which are hard to measure and aggregate and are rarely captured (Dalberg,

2010). But at least among some DFIs such development impacts are beginning to be monitored (see review in Dalberg 2010). In Europe, the corporate policy project rating (GPR) tool developed by Germany's DEG is now widely applied among EDFIs: the tool seeks to capture development effects as well as return on equity, with quantitative indicators including profits, employment, government revenue, net currency effects, and additional value-added benefits to communities (Dalberg 2010). Other tools used by European DFIs include CDC's financial, economic, environmental, and social and governance (ESG) performance evaluation (where the key quantitative development indicators include employment and taxes paid) and FMO's "scorecard" (which monitors environmental and social performance and measures a range of sector outreach indicators). The World Bank Group's IFC has developed its own assessment approach named DOTS, which covers financial, environmental, and social performance, with additional quantitative and qualitative indicators of development impact such as number of patients treated, or households gaining electricity access (IFC 2014; Dalberg 2010).

Other institutions have developed separate institutional entities for explicitly targeting social outcomes, seeking to serve otherwise unreachable firms and communities. Britain's CDC (as previously noted, the oldest DFI in the world) and Britain's foreign aid agency DFID recently announced their intention to jointly invest "in activities that combine a clear and significant pro-poor impact with financial discipline" through the new DFID Impact Fund (DFID 2014). Launched in late 2012 and with a mandate to invest 100 million pounds over the next 13 years, the Impact Fund seeks to promote private investment in social sectors and explicitly pro-poor private sector activities that otherwise have difficulty attracting finance.¹⁴ Unlike CDC's usual investments, the DFID Impact Fund has no set target for returns, but will at least expect to have its capital returned upon exit (EDFI, 2012). In part a response to overwhelming British public outcry over past CDC financial decisions (including a perceived over-investment in lucrative financial markets as opposed to direct pro-poor development activities), the Impact Fund is now cited as evidence that the CDC is aware of its development mandate, and takes seriously the targeting of businesses "that are otherwise unable to attract commercial investments," yet have "pro-poor" qualities.¹⁵

The LDC Infrastructure Fund managed by the Netherlands Development Finance Company (FMO) represents a similar instance of a DFI responding to sponsor or host country mandates to engage in pro-poor activities by developing a

separate institution and combining returnable capital with pure grants to fund social projects. Under the FMO Playpumps in Mozambique project, for example, following a mandate from the Netherlands government that FMO invest more in social projects such as water, health and education, FMO concluded opportunities to fund these public sectors with loans and equity participation were limited, and instead opted to finance these sectors with grants from the LDC Infrastructure Fund (IOB 2009, in Spratt and Collins 2012).

In still other cases DFI investment activity may realize positive development and pro-poor impacts from improved environment, social and governance (ESG) factors, such as through introducing environmental and social standards, transparent governance structures and better adherence to local labor laws along with child labor restrictions, fair wage practices, and gender equality. Dalberg (2010) cites Norfund's investment in the Bugoye hydropower station project in Uganda as an example of an ambitious corporate social responsibility program, including reconstruction of the local clinic, malaria prevention measures, HIV/AIDS awareness building, tertiary education for women, and support for local sports teams (Norfund 2009). However to date evidence in support of such pro-poor impacts remains largely anecdotal and difficult to compare across DFIs.

DFI Stated Strategies for Pro-Poor Investment

Finally, while the results of this review do not allow us to say for certain which strategies best combat poverty, we can report on what DFIs believe to be the best strategies for pro-poor investment. Thus this final section briefly outlines some of the areas on which DFIs *state* they focus in order to maximize their development effectiveness.

For example, among bilateral DFIs Britain's CDC discusses its development performance in its 2013 Annual Review, claiming it "prioritise[s] sectors based on their propensity to create jobs, both skilled and unskilled. This new investment strategy is already beginning to shift the portfolio towards these sectors" (CDC 2014: 30). CDC further states that to support such claims it is gathering data on "number of businesses supported, number of workers in investee businesses, sector analysis, investment geography, taxes paid, and adding value as an investor" (28).

At the regional level, Asia's ADB describes five key areas that it believes contribute to development: "infrastructure environment, regional cooperation and integration, finance sector development, and education" (ADB 2014: 9). Within these sectors, it further focuses on expanding inclusive economic growth and providing adequate social protection. Other regional DFIs, including the Inter-American Development Bank (IADB) have overall strategic priority areas for both sovereign lending (to states) and private sector investments (IDB 2013). The IADB believes it can have the highest development impact by focusing on social policies

¹⁴ More on British ODA: "We believe that grants should continue to be used for financing access to basic minimum needs in LICs, like health education, sanitation and water and where speed is of the essence, for example for emergency relief; for failed states and major conflict areas; and for global public goods which cannot be funded in other ways." (<http://news.uk.msn.com/call-for-more-overseas-aid-loans>)

¹⁵ Additional details available via: <http://www.cdcgroup.com/dfid-impact-fund.aspx>

(early childhood investments and education), infrastructure for social welfare, institutions for growth and social welfare, and environmental sustainability and responses to climate change (Annex B, 1-7). However, the report goes on to state that the creation of evaluation criteria for non-sovereign-guaranteed (NSG) projects has not yet been completed, whereas the evaluation criteria for sovereign-guaranteed projects have already been implemented.¹⁶

At the international level, the World Bank Group's IFC 2013 Annual Report points to several different ways in which IFC "plays a leading role in development" (IFC 2014, p. 56). First, it invests in conflict-afflicted areas because "conflict and instability are a leading cause of poverty across the world" (59). In these areas, IFC attempts to create jobs and rebuild infrastructure destroyed during conflict. In fiscal year 2013, IFC reported it invested more than USD \$500 million in conflict-affected areas. IFC also claims it invests "where other investors often hesitate to go: in the poorest countries and regions of the world" (56), while outlining its own "development goals" based on the UN Millennium Development Goals. The so-called IDGs (IFC Development Goals) include improving sustainable farming opportunities, improving health and education, increasing access to micro-finance and other services for individuals and SMEs, improving infrastructure, and reducing greenhouse gas emissions.¹⁷ Though its DOTS evaluations have begun providing some quantitative data on these goals (see e.g. IFC 2014, p. 28), however, little impact data are yet publicly available.

Finally, the World Bank Group's guarantee-based MIGA also reports on its development goals, emphasizing its focuses on conflict-affected areas. MIGA also targets it guarantees to fragile economies and "complex projects" such as natural resource extraction and power generation (MIGA 2014: 14). A final area of focus is on the promotion of South-South investments, by which MIGA attempts to use its guarantees to leverage foreign direct investment from one developing country to another. Although its "development effectiveness indicators" focus on the usual DFI areas - domestic taxes and fees generated, locally procured goods, training, employment, and community development (MIGA 2012) - MIGA's South-South focus and guarantee-based portfolio may offer particular benefits, while also being especially difficult to evaluate in terms of impacts and additionality.

Taken together, it appears that most DFIs share a belief that focusing on specific pro-poor sectors (e.g., health, education, SME finance) is the key to maximizing pro-poor development impacts. However, there is little discussion in any of these reports about more specific strategies and even less about

specific instruments and approaches best suited to pro-poor initiatives.

Indeed, in one of the most comprehensive reviews of DFI performance to date, Spratt and Collins (2012, p. 44) identified only four projects (out of 86 projects reviewed; see examples in Box 1) with "direct poverty reduction outcomes" as opposed more general "trickle-down" assumptions about benefits from economic investment. They further noted that "closer examination of these four projects revealed that all were found to be funded in part by non-commercial financing." In other words, the only explicitly pro-poor DFI investments in Spratt and Collins' sample were *projects that were also funded by humanitarian aid or NGOs with social missions*. Spratt & Collins (2012, p. 46) further identified some DFI failures to support pro-poor development, such as "projects that priced out the poor, had unforeseen

Box 1. Examples of Pro-Poor DFI Finance

Omdurman Water Supply & Optimization Project (FMO) As described by Spratt & Collins (2012): "The new plant will have a large effect on the total water supply and consumption. Simulations...suggest that the new plant will raise water consumption by 25%-30%. The effects of this improved supply will be largest for the poorest groups without a connection to the network. These people (approximately 35%- 40% of the households in North Omdurman) have an income below USD 200 per month." Reports estimate this water plant in Sudan could raise water consumption by upwards of 30 percent.

Grameen Phone (Norad, Norfund and others) As reported by Spratt & Collins (2012) "The Norad loans (and later Norfund's investments) were relevant [for pro-poor development]: Grameen Phone provides millions of poor people in rural areas with phone communication, where there was none before." The project extends phone coverage to millions of individuals and families in Bangladesh.

Least Developed Countries (LDC) Infrastructure Fund (FMO) In 2002, the Dutch Minister for Development Cooperation established the Least Developed Countries (LDC) Infrastructure Fund, to be managed by the Netherlands Development Finance Company (FMO) and implemented in dozens of the neediest countries from Afghanistan to Zambia. The objective of this fund is to provide financial instruments to stimulate private infrastructure investments in LDCs. Interesting models including combining multiple instruments, e.g. grants for feasibility studies, followed by equity and (less) guarantees to catalyze investment in projects determined to be feasible.

LOMC Micro Finance As highlighted in the 2012 Annual Report of the European Development Finance Institutions (EDFI 2012), LOMC is a microfinance company providing small leases (average USD 990) for small vehicles (3-wheelers and motorcycles) and agricultural equipment, and group loans to women. FMO, Proparco and BIO joined forces in financing LOMC, one of the largest microfinance institutions in Sri Lanka, together with partners Cordiant (Canada) and OFID (the OPEC Fund for International Development). The 5 institutions have provided USD 55.5 million and created the largest-ever microfinance syndicated facility.

¹⁶ In fact, an analysis of a working model of NSG evaluation criteria by the Office of Evaluation and Oversight found that the resulting evaluation yielded misleading scores.

¹⁷ http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IDG_Home/IFCDevelopmentGoals/

consequences resulting in the growth they mobilised being unlikely to lead to poverty reduction, or were not aligned with country priorities,” while also noting that evidence on failed DFI projects is often difficult to obtain, in part owing to private sector interests in confidentiality.

Spratt and Collins (2012) ultimately conclude that DFIs’ current economic viability-driven model impedes pro-poor engagement, arguing that if DFIs “are now to be expected to deliver additional direct poverty and/or environmental impacts they need to be mandated, financed and staffed in way that facilitates rather than obstructs this” (2012, p. 7). Finally, perhaps the recent and relatively ambitious reform of the world’s oldest DFI (Britain’s CDC) to re-prioritize development impacts and re-focus investments on Least Developed Countries (CDC 2014), as well as recent moves by Europe’s largest DFI (the Dutch FMO) to target extreme poverty through the grant-based LDC Infrastructure Fund and to improve impact monitoring and measurement through the FMO “scorecard” of environmental and social performance, represent some preliminary steps in the direction of pro-poor institutional reform among DFIs more broadly.

(v) Conclusions and Research Gaps

While we have uncovered much theoretical literature and some empirical studies of DFI finance and impacts, more comprehensive evaluations of DFI instrument choice and subsequent development impacts remain lacking (Nishizawa 2011). Spratt and Collins (2012) identify three reasons for this: 1) difficulty in measuring the causal relationship between instruments and development (specifically, they argue, between infrastructure and development); 2) difficulty attributing the share of any causal relationship that does exist to DFI activity; and 3) the focus on leveraging private finance which has heretofore precluded the development of a rigorous system to track DFI impacts. They go on to say:

It is important to note that project level information made public by DFIs is limited, primarily because of concerns over commercial confidentiality... only project evaluations that DFIs choose to make public are available, creating an obvious selection bias. (Spratt and Collins 2012: 8-9)

Until DFIs release more information regarding all investments and development outcomes, good and bad, evidence of effectiveness will be limited. Not surprising, this lack of transparency is a common critique of DFIs (Spratt and Collins 2012; Romero and Van de Poel 2014; Romero 2014).

Unfortunately, the evidence that does exist on DFI activities and impacts is often overly broad, and DFI self-reports of performance often offer relatively little by way of concrete findings. Such ambiguity may hamper DFIs’ ability to realize their development potential and thus be to the detriment of recipient countries - but such data deficiencies may also be to the detriment of DFIs more directly as sponsor country

demands for evidence of impacts grow stronger. For example, a 2008 DFID study of Britain’s CDC concluded that its “portfolio supports DFID’s broad strategic objectives, in particular in promoting economic growth in target... countries through advancing private participation in infrastructure development” (DFID 2008: ix, quoted in Spratt and Collins 2012: 18), without offering any quantitative analysis of the veracity or extent of this far-reaching claim. Such ambiguity in performance measures, along with the fact that Britain’s CDC long relied primarily on portfolio financial performance as an indicator of development, led some Parliament members to call for the disbandment of CDC, a debate which culminated in CDC’s recent dramatic structural reforms (UK House of Commons 2009).¹⁸

Ultimately, to date DFIs still seldom undertake or report rigorous evaluations of ex post impacts (Kingombe et al. 2011), and when evaluations are undertaken, the different evaluation systems employed by different organizations make comparisons of development impact difficult (Grettve 2007, cited in Kingombe et al. 2011). Some authors argue the World Bank Group’s IFC might play an even greater leadership role in setting international standards for impact assessment (see IFC 2014, p. 98) - although others claim IFC’s criteria are themselves suspect, with one concluding “IFC’s evaluation framework does not quantify benefits to poor and vulnerable groups and thus has no specific indicator for measuring a project’s poverty effects” (IEG 2011: xviii). At least for now, such tendencies to under-emphasize pro-poor considerations in DFI reporting appears to be the norm, rather than the exception, as many DFI evaluations still rely heavily on traditional financial profitability figures when making investments and evaluating performance (Francisco et al. 2008; UK House of Commons 2009). This leads authors such as Romero (2014), Spratt and Collins (2012) and others to conclude that as of yet there is no evidence that DFIs “actively... influence project design or policy to improve direct poverty outcomes” (Spratt and Collins 2012: 66). This while most DFIs continue to argue that the financial performance of their portfolios is evidence of their success at promoting development (Kingombe et al. 2011) this remains, by and large, an untested hypothesis.

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¹⁸ The UK House of Commons admitted as much, saying “by mid-2008, CDC had completed only four evaluations of its development impact, against an expected 22... However, these assessments lacked depth, with little performance data apart from financial performance” (UK House of Commons 2009).

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Appendix A. Most Recent Available Data on DFI Returnable Capital Finance (2012-2013)¹

Name of DFI	Country of Origin	Total Funding in 2012 (2013 in () if available)	Funding by Instrument	Funding by Region	Funding by Sector* (*from Kingombe 2011)	Data Source (Unless otherwise noted)
BIO - Belgian Investment Company for Developing Countries	Belgium	New commitments: EUR 145.1 million (EUR 124.5 million) Outstanding portfolio EUR 283.1 million (EUR 373.9 million)	2013 outstanding portfolio: Loans (72%), Equity (28%)	2013 contracts signed (total EUR 112 million): Africa (EUR 72.2 million, 64%), Asia (EUR 21.0 million, 19%), Latin American and Caribbean (LAC - EUR 18.9 million, 17%) 2013 outstanding portfolio: Africa (39%), Asia (27%), LAC (20%), Multiregional (13%)	Finance 45% Infrastructure 20% Agribusiness 5% Industry & manufacturing 30% Other 0% [Update from 2013: Microfinance 17%, Banks 26%, Financial 9%, Investment funds 5%, SMEs 16%, Enterprises 13%, Infrastructure 14% [health represents <1% of total infrastructure investments in 2013]	BIO Annual Report 2013, P. 48: http://www.bio-invest.be/en/publications/annual-report.html
CDC - CDC Group plc	United Kingdom	New commitments: £169.2 million (€608.3 million) Outstanding portfolio: £2,246.0 million (€2,504.2 million)	Total equity valuation 2012: £2,139.3 million 2013: £2,358.3 million New fund commitments 2013: £438.5 million	2013 outstanding portfolio: Africa (51%), South Asia (21%), Rest of World (28%)	Finance 23% Infrastructure 34% Agribusiness 6% Industry & manufacturing 18% Other 19% [Update: health represents 3% of total investments, and education 2% in 2012]	Investment Instruments: http://www.cdcgroup.com/How-we-do-it/Types-of-capital/ Full Financial Report: http://www.cdcgroup.com/Documents/Financial%20Publications/CDC%20Annual%20Accounts%202013.pdf
COFIDES - Spanish Development Funding Company	Spain	New approvals: EUR 197.7 million (EUR 243.3 million) Outstanding portfolio: EUR 737.20 million (EUR 872.53 million)	New approvals 2012: Equity (40%), Loans (60%) 2013: Equity (40%), Loans (60%)	New approvals 2012: Latin America (54%), Asia and the Middle East (17%), Western Europe (11%), Central and Eastern Europe (9%), North America (6%), Africa (3%) 2013: Latin America (29%), Asia and Middle Easter (24%), Western Europe (10%), Africa (8%), North America (8%), Central and Eastern Europe (5), Regional (16%)	Finance 1% Infrastructure 45% Agribusiness 5% Industry & manufacturing 47% Other 3% [As of the 2012 Annual report there is no reporting of health or education investment volumes. Water infrastructure was 2% of 2012 investments.]	COFIDES Annual report 2012, P. 37: http://www.cofides.es/ficheros/2012_COFIDES_ANNUAL_REPORT.pdf COFIDES Annual Report 2013, P. 33: http://www.cofides.es/ficheros/Informes/2013_Annual_Report.pdf

<u>DEG - German Investment Corporation</u>	German	Outstanding portfolio: EUR 5,958 million (EUR 6,783 million)	2013 commitments: Loans (EUR 1120.7 million, of which EUR 242.9 million have equity features), equity (EUR 329.3 million), guarantees (USD 22.2 million, 666 guarantees)	2013 outstanding portfolio: Sub-Saharan Africa (EUR 890 million), Asia (EUR 1,981 million), Latin America (EUR 1,824 million), Europe (EUR 1,273 million), North Africa and Middle East (EUR 121 million), Supra-regional (EUR 116 million)	Finance 35% Infrastructure 19% Agribusiness 13% Industry & manufacturing 27% Other 6% [2013 update: Finance: 45% Manufacturing: 22% Energy & water: 12% Infrastructure: 7% Services: 9% Agriculture: 4% Mining: 1%]	DEF Annual Report 2013, P. 5; and P. 29: https://www.deginvest.de/DEG-Documents-in-English/Download-Center/DEG_Annual-Report_2013.pdf
<u>Finnfund - Finnish Development Finance Company</u>	Finland	New commitments: EUR 274 million (EUR 250 million) Outstanding portfolio: (EUR 461 million)	2013 commitments: Loans (EUR 114.5 million), Equity (Shares and Funds—EUR 135.4 million)	Estimates for outstanding portfolio 2013: Africa (EUR 201 million), Asia (EUR 113 million), Latin America (EUR 64 million), Eastern Europe and Central Asia (EUR 41 million), International (EUR 41 million), Mediterranean (EUR 1 million)	Finance 19% Infrastructure 28% Agribusiness 1% Industry & manufacturing 44% Other 7% [2013 update (approx): Funds: EUR 132 million Energy: EUR 82 million Resource industries: EUR 70 million Finance: EUR 48 million Forestry: EUR 40 million Infrastructure: EUR 34 million Manufacturing: EUR 32 million Hotels: EUR 13 million Health: EUR 4 million Telecommunications: EUR 4 million]	Finnfund Annual Report 2013, P. 8: http://annualreport.finnfund.fi/2013/filebank/400-Finnfund_Annual_Report_2013.pdf
<u>FMO - Netherlands Development Finance Company</u>	Netherlands	Outstanding portfolio: 5,564 Million Euro (6,184 Million Euro)	Outstanding portfolio 2012: Net loans (EUR 2,817 million), Equity (EUR 2,952 million), Deb Securities (EUR 3,292 million) 2013: Net loans (EUR 2,981 million), Equity (EUR 2,025 million), Deb Securities (EUR 3,610 million)	Outstanding portfolio (loans and equity only) 2012: Africa (EUR 914 million), Asia (EUR 1,076.4 million), LAC (EUR 1,043.6 million), Europe and Central Asia (EUR 617.8 million), Non-region specific (EUR 171.4 million) 2013: Africa (EUR 998.3 million), Asia (EUR 1,171.4 million)	Finance 42% Infrastructure 24% Agribusiness 3% Industry & manufacturing 30% Other 2% [2013 update: Finance: EUR 3 billion Energy: EUR 1 billion Agribusiness: EUR 0.4 billion]	FMO Full Annual Report & Accounts 2013, P. 3: http://annualreport.fmo.nl/ (Website to download the report)

				million), LAC (EUR 1,113.6 million), Europe and Central Asia (EUR 740.2 million), Non-region specific (EUR 185 million)	Other: EUR 1.1 billion]	
IFU/IO/IFV - Danish International Investment Funds	Denmark	Total contracted for active projects by Dec. 31 2013: (DKK 4,809.99 million)	Total contracted for active projects by Dec. 31 2013: Loans (DKK 1,938.6 million), Equity (DKK 2,871,3 million)	Total contracted for active projects by Dec. 31 2013: Africa (DKK 1,974.9 million), Asia (DKK 2,038.6 million), Europe (DKK 1,193.2 million), Latin America (DKK 275.6 million), Global (DKK 167.6 million)	Finance 5% Infrastructure 10% Agribusiness 15% Industry & manufacturing 63% Other 8% [no more recent update available]	Portfolio as of Dec 31, 2013: http://www.ifu.dk/en/investments/portfolio-as-at-31-december-2013-audited
Norfund - Norwegian Investment Fund for Developing Countries	Norway	New committed investments: (NOK 1.87 billion) Outstanding portfolio: (NOK 9.6 billion)	New investments 2013: Equity (63%), Funds (12%), Loans (25%) Outstanding investments 2013: Equity (61%), Funds (21%), Loans (18%)	New investments (excluding SN power) 2013: Africa (66%), Asia (14%), Latin America (20%) Outstanding investments 2013: Africa (63%), Asia (18%), Latin America (18%)	Finance 23% Infrastructure 55% Agribusiness 5% Industry & manufacturing 11% Other 5% [2013 update: Renewables 50% SME Funds: 15% Finance: 24% Industry: 11%]	Norfund Annual Report 2013, P. 15: http://www.norfund.no/getfile.php/Documents/Homepage/Reports%20and%20presentations/Annual%20and%20operational%20reports/Virkso mhetsrapport_2013_net.pdf
OeEB - Austrian Development Bank	Austria	New commitments: (EUR 175.3 million) Outstanding portfolio: (EUR 658 million)	Outstanding portfolio 2013: Loans (EUR 625 million), Equity (EUR 33 million)	Outstanding portfolio 2012: Eastern Europe and Central Asia (30%), Sub-Saharan Africa (17%), Central America (9%), Other (25%), Supraregional (19%) 2013: Eastern Europe and Central Asia (30%), Sub-Saharan Africa (12%), Central America (12%), Other (24%), Supraregional (22%)	(formerly 100% finance in Kingombe 2011; now finance is classified by end use) From 2012 OeEB Annual Report: Finance 27% Infrastructure 12% Agribusiness 0% Industry & manufacturing 6% Other 24% Energy & Climate 31%	OeEB Financial Figures 2013 (Website): http://www.oeeb.at/en/about-oeeb/pages/facts-and-figures.aspx OeCB Development Report 2013: http://www.oeeb.at/en/osn/DownloadCenter/OeEB-Development-Report-2013.pdf
OPIC - Overseas Private Investment Corporation (US)	United States of America	New commitments: (USD 3.9 billion) Outstanding portfolio: (USD 18 billion)	2013: Financing (71%), Investment Funds (17%), Political Risk Insurance (12%)	2013: Sub-Saharan Africa (USD 3.9 billion - 21%), North Africa and Middle East (USD 3.1 billion - 17%), Latin America (USD 5.1 billion - 27%), Asia and the Pacific (USD 2.7 billion - 15%), Europe and Eurasia (USD 2.9 billion - 16%)	(not included in Kingombe study) From 2013 Annual Report: Finance: \$8.5 billion Power: \$4.1 billion Services: \$2.1 billion Manufacture: \$1 billion Oil/Gas: \$0.8 billion	OPIC Annual Report 2013, P. 2: http://www.opic.gov/sites/default/files/files/OPIC_AR2013_final.pdf

<u>Proparco - Investment and Promotion Company for Economic Cooperation</u>	France	Newly approved commitments: (EUR 1.0 billion) Outstanding portfolio: (EUR 3.4 billion)	Commitments 2009-2013: Loans (94%), Indirect Equity Investments (3%), Direct Equity investments (2%), Other (1%)	Commitments 2013: Sub-Saharan Africa (46%), Mediterranean and Middle East (6%), Latin America and the Caribbean (26%), Asia (14%), French Overseas Territories (3%), Multi-country (5%) Outstanding portfolio 2013: Sub-Saharan Africa (32%), Mediterranean and Middle East (24%), Latin America and the Caribbean (20%), Asia (18%), French Overseas Territories (4%), Multi-country (2%)	Finance 45% Infrastructure 36% Agribusiness 4% Industry & manufacturing 12% Other 2%	Proparco Annual Report 2013, P. 6: http://issuu.com/objectif-developpement/docs/annuel_report_2013_proparco/6?e=4503065/8580974
<u>SBI-BMI - Belgian Corporation for International Investment</u>	Belgium	Newly approved commitments: (EUR 3 million) Outstanding Portfolio: (EUR 23 million)	Outstanding portfolio as of Dec 31 2012: Equity and quasi-equity (81%), Loans (19%)	Outstanding portfolio as of Dec 31 2012: Central and Eastern Europe (EUR 5 million), Asia (EUR 5 million), South and Central America (EUR 1 million); Africa and the Caribbean (EUR 1 million); Other (EUR 11 million)	Finance 21% Infrastructure 13% Agribusiness 18% Industry & manufacturing 47% Other 0%	EDFI Annual Report 2012, pp. 45-46: http://www.edfi.be/news/news/30-2012-annual-report.html
<u>SIFEM - Swiss Investment Fund for Emerging Markets</u>	Switzerland	New commitments: USD 29.0 million (USD 48.2 million) Outstanding portfolio: USD 259.6 million (USD 255.6 million) Total active commitments: (USD 502.8 million)	Outstanding portfolio as of Dec 31 2013: SME Private Equity Funds (69%), Direct & non Funds Investments (14%), Infrastructure Fund (5%), Mezzanine Fund (3%), MF Equity Fund (3%), Other Private Equity Fund (6%)	New commitments 2013: Africa (EUR 8 million plus USD 7 million), Asia (USD 19 million), Central and Eastern Europe & Commonwealth of Independent States (CEE & CIS - 0), Global (EUR 5 million), Latin America (USD 5 million) Outstanding portfolio as of Dec 31 2013: Africa (28%), Asia (37%), CEE & CIS (11%), Global (8%), Latin America (16%)	Finance 18% Infrastructure 3% Agribusiness 0% Industry & manufacturing 79% Other 0%	SIFEM Annual Report 2013, P. 3: http://www.sifem.ch/med/242-sifem-report-2013-en.pdf
<u>SIMEST - Italian Development Finance Institutions</u>	Italy	New approvals: EUR 103.7 million Total commitments: EUR 849 million (EDFI 2013)	All equity (100%)	New approvals 2012: EU (EUR 32.5 million), Eastern Europe, North Africa, and the Middle East (EUR 8.4 million), sub-Saharan Africa (EUR 0.8 million), Asia (EUR 25.0 million), North America (EUR 4.8 million)	Finance 2% Infrastructure 8% Agribusiness 8% Industry & manufacturing 78% Other 4%	SIMEST Annual Report 2012: http://www.simest.it/page-en.php?id=4

SOFID - Portuguese Development Finance Institutions	Portugal	New commitments: EUR 7.5 million Outstanding commitments: EUR 10.15 million	Total 2013 portfolio: Loans (EUR 7.7 million, 59%), Guarantees (EUR 5.4 million, 41%)	Total 2013 portfolio: Mozambique (EUR 5.6 million), Angola (EUR 4.0 million), South Africa (EUR 2.0 million), Mexico (EUR 0.9 million), Morocco (EUR 0.6 million)	(formerly 100% industry in Kingombe 2011; now industry is classified by subsector) From 2012 SOFID Annual Report: Industry: 44% Commercial & services: 23% Agribusiness: 11% Communication: 11% Infrastructure: 11%	SOFID website (in Portuguese): http://www.sofid.pt/atividade/sintese-atividade
SwedFund - Swedfund International AB	Sweden	Outstanding portfolio: SEK 2.7 billion	Outstanding portfolio 2012: Equity - direct (49%), Loans (29%), Funds - indirectly owned equities (21%), Guarantees (1%)	Outstanding portfolio 2012: Africa (49%), Asia (26%), Latin America (1%), Eastern Europe (16%), Middle East (3%), Globally (5%)	Finance 8% Infrastructure 22% Agribusiness 1% Industry & manufacturing 64% Other 5%	SwedFund Annual Report 2012, p. 36: http://www.swedfund.se/en/SWEDFUND_Sustainability_Annual_Report_2012.pdf
AfDB - The African Development Bank Group	Tunisia	Approved operations 2013: UA 4.39 billion [ADB (UA 1.83 billion), ADF (UA 2.27 billion), NTF (UA 31.2 million), Special Funds (UA 253.4 million)]	2013: Loans (UA 2.86 billion), Grants (UA 697.0 million), HIPC (UA 22.3 million), Participations (UA 99.5 million), Guarantees (UA 431.7 million), Loan Reallocations (UA 17.8 million), Special Funds (UA 253.4 million)	All Africa	(not included in Kingombe 2011) 2013 allocation (includes sovereign loans): Transport 32% Energy: 16% Multisector: 13% Agriculture: 12% Social: 9% Finance 8% Water: 8% Communications: 1%	AfDB Website: http://www.afdb.org/en/about-us/ Annual Report 2013: http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publication_s/Annual_Report_2013.pdf
ADB - Asian Development Bank	Philippines	Total disbursement: USD 8.6 billion (USD 8.5 billion) Outstanding portfolio: USD 21.294 billion (USD 21.023 billion)	Portfolio 2012: loans (USD 11.468 billion), Equity (USD 131 million), Guarantees (USD 403 million), Grants (USD 670 million), Direct Value-Added Cofinancing (USD 8.232 billion) 2013: loans (USD 13.193 billion), Equity (USD	All Asia	(not included in Kingombe 2011) 2013 allocation (includes sovereign loans): of \$21 billion portfolio, Energy: \$6 billion Transport: \$5 billion Finance: \$3 billion Water: \$2 billion Agriculture: \$1 billion Education: \$0.8 billion	ADB 2013 Annual Report, P. 6: http://www.adb.org/sites/default/files/adb-annual-report-2013.pdf See also: http://www.adb.org/sites/default/files/defr-2013-report.pdf

142 million), Grants (USD 849 million), Guarantees (USD 35 million), Direct Value Added Cofinancing (USD 6.648 billion)

Health: \$0.5 billion

[Bancoldex](#)

Colombia

Total disbursement: USD 759 million
Total portfolio COP 4,799,836 millions

All Colombia

(not included in Kingombe 2011)
From 2012 Annual Report:
Services: 34%
Finance: 20%
Oil & chemicals: 15%
Agriculture: 9%
Commerce: 7%
Industry: 13%

Bancoldex website - "Our Bank 2012":
http://www.bancoldex.com/portales/ingles/annual-report/Our_Bank_2012.aspx

[BICE - Investment and Foreign Trade Bank](#)

Argentina

Total disbursement ARS 1,450 million

Direct Investment in Companies (79%)

All Argentina

(not included in Kingombe 2011)
From 2012 Annual Report:
Construction 10%,
Energy 8%, Auto 8%,
Chemicals 7%, Wine 6%,
Services 6%,
Textiles 5%, Other 5%,
Metal/Mechanic 13%,
Fossil fuels 11%,
Food processing 11%,
Agriculture 10%

BICE Management Report 2012, P. 18:
http://www.bice.com.ar/bice_en/uploaded/PDF/IGBICE2012ENG.pdf

[BSTDB - Black Sea Trade and Development Bank](#)

Greece

Outstanding portfolio: EUR 779.3 million (EUR 785.9 million)

Outstanding portfolio:
2012: Loans (726,405,000 Euro),
Equity (52,934,000 Euro)
2013: Loans (742,614,000 Euro),
Equity (43,290 Euro)

Black Sea Region (Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia, Turkey, Ukraine)

(not included in Kingombe 2011)

BSTDB Annual Report 2013, P. 76:
http://www.bstdb.org/publications/BSTDB_Annual_Report_2013.pdf

CAF - Latin American Development Bank	Venezuela -- Offices throughout South America	Outstanding portfolio USD 16.5 billion Total approvals: USD 9.3 billion	Outstanding portfolio 2012: Loans (USD 16.355 billion), Equity (USD 147 million) Total approvals 2012: Sovereign loans (USD 4.6 billion), Corporate loans and credit lines (USD 4.3 billion), Guarantees (USD 151 million), Equity (USD 192 million)	All Latin America	(not included in Kingombe 2011) From 2012 Annual Report (new commitments): Agriculture \$63 million, Manufacturing \$208 million, Electricity \$5.5 billion, Transport \$5.8 billion, Finance \$1.1 billion, Development institutions \$641 million, Education and healthcare \$1.9 billion	CAF Annual Report 2012, P. 31: http://www.caf.com/media/1636253/annualreportcaf2012.pdf
DBSA - Development Bank of Southern Africa	South Africa	Total disbursements: R 8.0 billion (R 9.2 billion)	Funds disbursed 2012: Development loans (R 6.5 billion), Development equity (R 588 million) 2013: Development loans (R 8.4 billion), Development equity (R 1.643 billion)	All South Africa	(not included in Kingombe 2011)	Annual Report 2012/2013: http://www.dbsa.org/EN/About-Us/Publications/Annual%20Reports/DBSA%20%20Integrated%20Annual%20Report%202012-13.pdf
IFC	Multilateral Global	Outstanding portfolio USD \$49.6 billion (total 2013 commitments: \$18.3 billion)		Global	As of 2013: Finance: 55% Infrastructure: 12% Social: 9% Manufacturing: 7% Agribusiness: 7% Funds: 5% Telecommunications: 3% Mining: 2%	Annual Report 2013 http://www.ifc.org/wps/wcm/connect/d020aa004112357a8975fffe5679ec46/AR2013_Full_Report.pdf?MOD=AJPERES

¹ All figures have been accessed directly through the data source listed on the respective row. Funding by sector is from Kingombe (2011) owing to highly inconsistent reporting across DFIs in more recent reporting years (updated data are included for funding by sector in some cases, emphasizing available health and education data where available).