Private finance for development unravelled

Assessing how Development Finance Institutions work

By María José Romero and Jan Van de Poel

eurodad
european network on debt and development

Acknowledgements

This report was written by Eurodad's Maria José Romero and Jan Van de Poel, based on inputs by the Bretton Woods Project (IFC), Counter Balance (EIB), Jubilee South Asia/Pacific Movement on Debt and Development (ADB), Both ENDS (FMO), CCFD-Terre Solidaire (Proparco) and Urgewald (DEG).

Useful inputs and comments were also provided at different stages of the research process by the following people: Peter Chowla, Mathilde Dupré, Bodo Ellmers, Anouk Franck, Jesse Griffiths, Dario Kenner, Homi Kharas, Jutta Kill, Florian Krätke, Jeroen Kwakkenbos, Patricia Miranda, Lidy Nacpil, Jeff Powell, Xavier Sol, Tim Strawson, Stephen Spratt, Antonio Tricarico, Berber Verpoest and Carol Welch.

Special thanks go to the experts from the different Development Finance Institutions (DFIs) included in the report who reviewed earlier drafts. This report does not represent the views of these organisations or their staff.

Vicky Anning and Julia Ravenscroft edited the report.

Design: studio@base-eleven.com

July 2014

Contents

Acronyms

ACP	African, Caribbean and Pacific States
ADB	Asian Development Bank
AFD	Agence Française de Développement (French Development Agency)
BIO	Belgian Investment Company for Developing Countries
CSO	Civil society organisation
CSR	Corporate social responsibility
DEG	Deutsche Investitions– und Entwicklungsgesellschaft mbH (German Investment Corporation)
DFI	Development Finance Institution
DOTS	Development Outcome Tracking System
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Export Credit Agency
EDF	European Development Fund
EDFI	Association of European Development Finance Institutions
EIB	European Investment Bank
ELM	External Lending Mandate
EP	European Parliament
ESG	Environmental, social and corporate governance
EU	European Union
Eurodad	European Network on Debt and Development
FDI	Foreign Direct Investment
FMO	Nederlandse Financierings –Maatschappij voor Ontwikkelingslanden (Netherlands Development Finance Company)
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
GNI	Gross National Income
GPR	Corporate Policy Project Rating
GTFP	Global Trade Finance Programme
IATI	International Aid Transparency Initiative
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	World Bank's Independent Evaluation Group
IF	Investment Facility
IFC	International Finance Corporation
IFI	International Finance Institution
IFU	Danish International Investment Funds
IMF	International Monetary Fund
IRS	Interest rate subsidy
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
LIC	Low-income country
LMIC	Low- and middle-income country
MDB	Multilateral Development Bank
MENA	Middle East and North Africa
MIC	Middle-income country
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, small and medium-sized enterprises
NDB	National Development Bank
NGO	Non-governmental organisation
ODA	Official development assistance
OECD-DAC	Organisation for Economic Co-operation and Development's Development Assistance Committee
OeEB	Oesterreichische Ent-wicklungsbank (Austrian Development Bank)
OFC	Offshore financial centre
OOF	Other official flows
PPP	Public-private partnership
Proparco	Promotion et Participation pour la Coopération économique (Investment and Promotion Company for Economic Cooperation, France)
SIMEST	Società Italiana per le Imprese all'Estero SpA (Italian Development Finance Institution)
SME	Small and medium-sized enterprises
SOFID	Sociedade para o Financiamento do Desenvolvimento, Instituiçao Financeira de Crédito, SA (Portuguese Development Finance Institution)
SSA	Sub-Saharan Africa
TA	Technical assistance
UNEP FI	United Nations Environment Programme Finance Initiative
UNPRI	United Nations Principles for Responsible Investment
WBG	World Bank Group

Executive summary

Bilateral and multilateral Development Finance Institutions (DFIs) are government-controlled and invest in private sector projects in developing countries. These institutions have a long history. However, over the past few years there has been a sharp increase in the amount of support they offer to the private sector, on the basis of non-overseas development assistance (ODA) sources of revenue. This gives these institutions a greater role in the field of development finance.

Since 2002 the International Finance Corporation (IFC) has increased its investment commitments six-fold and in 2013, it stood at more than $18 billion. At the European level, from 2003 to 2012 the consolidated portfolio of the 15 members of the association of European Development Finance Institutions (EDFI) increased from €10 billion to €26 billion, which represents a 160% increase. However, serious questions have been raised about the development impact of these investments and the lack of transparency and accountability of these institutions.

This report assesses the portfolios of six of the largest multilateral and bilateral DFIs that are providing support to private investments in developing countries, highlighting the main features of DFI operations, as well as their potential strengths and weaknesses. It offers an exploration of the different challenges and risks of DFI financial instruments, such as loans, equity and guarantees. The objective is to inform and support civil society organisations' advocacy and campaigns towards DFIs, as well as to contribute to the broader debate on the impacts of private financial flows.

This report finds that:

- The objectives of DFIs are often multiple and their mandates vary. Some explicitly include development as their overarching objective, whereas others prioritise support to an efficient private sector as the missing link between development and financial profitability, or have mandates that do not explicitly recognise development outcomes. Although development impact is the key focus for all DFIs covered in this report, they are organised as private corporations with commercial and profitability considerations, which often implies a trade-off between these goals.

- Due to the nature of DFIs' shareholding and/or their voting power structures, the six DFIs in our sample are dominated by developed countries. While the capital base of multilateral DFIs is supplied by member state governments and voting power is based on capital stock, bilateral DFIs' ownership varies between being fully state-owned and fully privately owned.

- DFIs and development agencies are frequently interlinked, as most DFIs receive transfers from shareholder governments to support their activities. These resources are aimed at private sector beneficiaries either through direct subsidies (e.g. in the form of interest rate subsidies) or indirectly through the conditions under which DFIs operate (e.g. cheaper borrowing costs). However, each institution presents different features in this regard and currently it is difficult to know how many DFI operations are reported as ODA because of the lack of harmonised reporting standards and poor data.

Challenges in DFIs' practices and use of financial instruments:

- DFIs target individual companies operating in developing countries using specific financial instruments or tools. Usually, a distinction is made between loans and equity, but other more complex financial instruments such as mezzanine finance and guarantees are also used by DFIs.

  From 2008 to 2012, four institutions from our sample – the Asian Development Bank (ADB), German Investment Corporation (DEG), IFC and Proparco (the Investment and Promotion Company for Economic Cooperation) – committed an estimated €67 billion to the private sector. Half of these resources were committed as loans, while equity made up an estimated 16%. Quasi equity instruments appear to be only marginally used and guarantees amount to 29%, which is mainly attributable to the IFC and ADB.

- DFIs cover all regions with their operations, but middle-income countries represent a large proportion of DFI operations. At the global level, a significant proportion of IFC investments are in upper middle-income countries. Over the last five years, commitments in International Development Association (IDA) countries have dropped from 42% to 36% as a percentage of the IFC's overall commitments. While equity is more frequently used in operations in African countries than in other regions, higher income countries attract more debt finance.

- DFIs invest in a wide variety of sectors, ranging from the financial sector to infrastructure and agribusiness. Most DFIs are increasingly concentrating on the financial sector, which is prioritised in all regions. DFIs claim the rationale is rooted in the need to address access to finance problems of micro, small and medium-sized enterprises (MSMEs). But lack of transparency and poor monitoring make it impossible to know whether they have been successful in reaching these targets. DFIs also invest in the financial sector to develop capital markets to provide business with long-term funding and to 'hedge' against various risks. However, there is no conclusive evidence about the impact of these interventions.

- Not all of the financial instruments used by DFIs are suitable for different actors and contexts. They have an impact on the macroeconomic situation and the size and structure of the financial system in receiving countries. Private capital flows may increase recipient countries' exposure to macroeconomic risk, financial instability and the volatility of capital flows. The links between DFI operations and these kinds of risks seem not to be sufficiently explored and addressed. Other important problems in relation to the use of some financial instruments, for example guarantees, relate to poor financial and development additionality.

A lack of development impacts and stringent responsible finance standards:

- DFIs face important challenges demonstrating causal effects on poverty reduction in developing countries, including impacts on reducing inequality, on women's right and on marginalised groups. This is partially due to the nature of investing in the private sector, where social outputs are not normally the objective of the private sector partner, and are difficult to measure.

- Standards and safeguards may differ considerably between DFIs, resulting in different criteria for measuring the performance of projects. Recent years have seen a movement towards harmonising the standards and safeguards applied by DFIs, with the IFCs becoming globally recognised as a benchmark for environmental and social risk management. These safeguards and standards have been developed with direct operations in mind, while recent increases of investment via financial intermediaries pose specific challenges to standards, monitoring and evaluation. Challenges also remain with the implementation of standards that are in place.

Poor transparency and accountability:

- DFIs face serious transparency problems, especially when dealing with financial intermediaries. DFIs' transparency vis-à-vis the general public is limited, which in turn constrains the ability of stakeholders to effectively exercise external control. This lack of information is often justified based on banking secrecy and protection of their own and business partners' commercial interests.

- DFIs face serious problems in terms of accountability to a variety of actors. Parliamentary scrutiny is rare and dialogues with civil society organisations (CSOs), both in donor and recipient countries, and governments and parliaments of recipient countries, are also unusual. While some multilateral DFIs have already put in place independent redress mechanisms, at a bilateral level developments in this area are not so highly developed.

In key areas, policies are still not consistent with a development focus:

- DFIs often structure investments through offshore financial centres that form the nexus of massive illicit capital flight from developing countries and the loss of much-needed tax revenues associated with those flows. In recent years, most DFIs have formulated specific guidelines to deal with transparency issues related to the use of offshore financial centres (OFCs) mostly based on the Organisation for Economic Co-operation and Development (OECD) Global Forum Peer Review process. However, this approach has proven to be ineffective, as it has not resulted in significant changes in investing structure patterns, and finance through financial intermediaries remains sensitive to tax evasion practices.
- DFIs are boosting finance to address climate change-related problems through specific strategies or policies in the areas of 'clean energy' and 'energy efficiency'. DFIs are also boosting finance for climate adaptation and mitigation projects using different instruments such as blended finance and public-private partnerships. However, energy investments of many DFIs are still not consistent with policy pronouncements to promote the shift away from fossil fuel and the institutions have been criticised for using market-based approaches and promoting carbon markets. Serious questions have been raised regarding the efficacy of the proposed 'solutions' in reducing emissions and delivering development outcomes, and the negative consequences for communities.

The next few months are a crucial time for the future of development finance as the post-2015 debate continues and goals and targets for development finance are being set. Donors are realising that existing global public resources will be not be sufficient to meet the world's development needs, and many are increasingly turning to private actors – using scarce ODA to 'leverage' this sector. CSOs like Eurodad recognise that there is a role for the private sector in development. However, institutions like DFIs must ensure that they focus on development impacts and comply with responsible finance standards, including strong environmental and social safeguards. They should target the most vulnerable populations with the appropriate instruments in a transparent way in order to avoid putting profit before developing countries' needs.

Introduction

The landscape of development finance has changed substantially over the last decade, particularly in terms of volume, actors, motives and instruments. After the economic and financial crisis, aid budgets were squeezed by many donors and it is becoming increasingly unlikely that most donor countries will meet the target of spending 0.7% of Gross National Income (GNI) on overseas development assistance (ODA) by 2015. At the same time, the largest flows to developing countries in aggregate are commercial or private, although resources also flow out of developing countries in the form of repatriated profits on foreign direct investment (FDI), repayments on loans and illicit financial flows. In addition, flows from development finance institutions (DFIs) in support of private sector operations have grown rapidly since the start of the millennium, on the basis of non-ODA sources of revenue, which gives these institutions a greater role in the field of development finance.

DFIs are government-controlled institutions that invest in private sector projects in developing countries. There are bilateral and multilateral DFIs. The former refers to national institutions whose mandates are linked to their governments' international development cooperation policies. The latter are the private sector arms of the multilateral development banks, such as the International Finance Corporation (IFC) of the World Bank Group (WBG) and the private sector activities of the European Investment Bank (EIB) and the Asian Development Bank (ADB). In Europe, 15 bilateral DFIs are members of the Association of European Development Finance Institutions (EDFI), which was founded in 1992.

Different DFIs use different sets of financing instruments to channel their funds in support of the private sector in developing countries. Given the dramatically increasing balance sheets and relevance of these institutions in the development agenda and the broad framework of the post-2015 financing debate, there is a need for an updated and detailed analysis of the way they operate, the financing modalities used and their implications. Some of the instruments might pose financial and other macroeconomic risks for developing countries, which undermine their capacity to contribute to positive development outcomes.

This report aims to describe and analyse DFI operations, including a detailed analysis of the financial instruments used by these institutions and their potential implications. It offers an exploration of the different challenges and risks based on an analysis of instruments and policies. The objective is to inform and support CSOs' advocacy and campaigns towards multilateral and bilateral DFIs, as well as to contribute to the broader debate on the impacts of private financial flows.

For this report, Eurodad and partner organisations assessed the portfolios of some of the largest DFIs providing support to private investments in developing countries for the period 2008-2012. Our sample includes: the World Bank's International Finance Corporation (IFC); the external lending operations of the EU's European Investment Bank (EIB); the non-sovereign lending of the Asian Development Bank (ADB), and three bilateral DFIs from the Netherlands (FMO), Germany (DEG) and France (Proparco). We have prepared separate fact sheets on each institution, which serve as primary sources for this report. A summary of the methodology can be found in Annex A.

This report is structured as follows:

- The first section presents the economic and political context and explains the continuing rise of DFIs within the broader landscape of development finance. This part offers a comprehensive description of DFIs' size of operations, mandates, ownership structure and use of subsidies. It also includes a summary of the main civil society concerns in relation to DFI operations.

- The second section presents the different financing instruments used by DFIs and describes recent trends in the use and scale of various instruments, including sectors and regions covered. This section also includes an analysis of the effectiveness and potential problems of financing instruments.

- The third section identifies several challenges in the form of questions that should be answered and analysed by the wider development community. The challenges presented have a dual nature:

    a) they relate to development effectiveness principles, such as transparency, accountability, country ownership, alignment with national development strategies and policy coherence for development;

    b) they relate to the financial 'ecosystem' to which DFIs want to contribute.

- The final section summarises the findings and presents ideas for further research and analysis.

Part 1: The continuing rise of DFIs in development finance

Flows from bilateral and multilateral DFIs in support of private sector operations have grown rapidly since the start of the millennium, mainly on the basis of non-ODA sources of revenue. This gives a greater role to these government-controlled and private sector-oriented institutions in the field of development finance. This section presents the economic and political context and offers a comprehensive description of the main features of DFI operations, such as size of operations, mandates, ownership structure and use of subsidies. It also includes a summary of the main civil society concerns in relation to DFI operations.

A. Economic and political context

The landscape of development finance has changed substantially over the last decade, particularly in terms of volume, actors, motives and instruments. In 2013, aid levels bounced back from two years of decline to reach a record high of $134.8 billion. However, it is becoming increasingly unlikely that most donor countries will meet the target of spending 0.7% of Gross National Income (GNI) on ODA by 2015[1] and there are worrying signs that the quality of aid may be deteriorating.[2] Whereas ODA was the largest resource flow for 95 developing countries in the early 1990s, in 2011 it was the largest resource flow for just 43 countries.[3] At the same time, the largest flows to developing countries in aggregate are commercial or private.[4] In 2011, foreign direct investment (FDI), remittances and loans accounted for the largest flows to all developing countries at $472 billion, $343 billion and $340 billion respectively.[5] However, resources also flow out of developing countries in the form of repatriated profits on FDI, repayments on loans and illicit financial flows.

Actors in development finance have also changed in number and in nature. New donors outside the traditional group of the OECD Development Assistance Committee (DAC) members have proliferated, together with private development assistance providers, such as philanthropic foundations and non-governmental organisations (NGOs). At the same time, flows from DFIs in support of private sector operations have grown rapidly since the early 2000s, mainly on the basis of non-ODA contributions and funds raised from capital markets.

In addition, the financial and economic crisis resulted in an increased focus on the private sector. Aid and public finance in general is increasingly expected to catalyse private investments and financial flows to generate growth and deliver public services. This shift also seems to be rooted in an official recognition and promotion of the potential role that the private sector can play in promoting economic growth and development. As a result, recent initiatives at the global and European level have sought to place the focus on how to leverage private investment and finance by promoting new financing instruments, such as 'blending' mechanisms (see box 1 – overleaf) and even driving a reinvigorated push towards existing instruments such as public-private partnerships to finance service delivery projects.

At the global level, the UN has opened up several avenues to debate the development agenda. These include a discussion on the development goals beyond 2015 and the process initiated after the Rio+20 to prepare a report proposing "*options on an effective sustainable development financing strategy to facilitate the mobilisation of resources*" from a variety of sources.[6] In addition, in December 2013 the UN General Assembly also agreed to convene a third international conference on financing for development, which will take stock of progress made and agree on international commitments.

The G20, in turn, is looking at private investments to close the development finance gap. In February 2013, the G20 finance ministers set up a "Study Group on financing for investment" to "*determine a work plan for the G20, considering the role of the private sector and official sources of long-term financing*". One year later, the finance ministers restated their focus on the need to "*promote long-term private sector investment*" and urged multilateral development banks to "*undertake reforms to remove constraints to private investment*".[7]

At the EU level, there has been a strong push for greater private sector involvement in development supported by several EU governments. The European Commission's "Agenda for Change" policy paper, from October 2011, lays out a strategy for all EU programmes focusing on "*leveraging private sector activity and resources" as key to "delivering public goods*". Since its endorsement by the heads of government – the European Council – in May 2012, numerous EC policy

Box 1: EU blending mechanisms on the rise

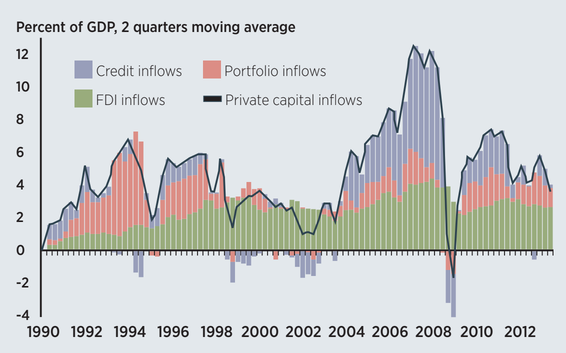
The term 'blending' refers to a mechanism that links a grant element, provided by ODA, with loans from publicly owned institutions or commercial lenders. Blending grants and loans is not something new in Europe or around the world. Historically, this mechanism has mostly been used to subsidise loans to the public sector in developing countries. For many years, multilateral and bilateral development banks, such as the EIB, the German Kreditanstalt für Wiederaufbau (KfW) and the French Agence Française de Développement (AFD) have blended their own loans for infrastructure and other development initiatives with grants from donor countries. However, what is new in the current context is the great promotion of EU blending instruments to both support private sector projects and leverage private finance from different sources and the new narrative that is being developed around it.

Recently, many development banks and DFIs have increased their use of blending mechanisms under the auspices of the European Commission, which has set up eight facilities covering all the geographical regions of EU development cooperation. So far the allocation of EU funds has been limited to €1.5 billion over the period 2007-2013. However, the EC has been driving the push for greater private sector blending through the setting up of an EU Platform for blending in external cooperation, dedicated to facilitating the scaling up of these blended resources, the drafting of several policy documents, including a recently launched paper on the private sector in development and the 2013 discussions on the next EU budget period (2014-2020). As a result we can expect a significant increase in EU ODA being devoted to private sector blending in the near future.

papers and public statements from EU officials have included explicit references and commitments to this effect. In a July 2013 policy paper on financing for development, the Commission argues that private finance is the "*key driver for growth*" and that countries should "*use public resources to invest in areas that leverage private investments towards policy priorities*". In practice, this means that a greater amount of EU ODA will be channelled through 'blending' mechanisms to finance private sector development projects.

This agenda has been challenged by CSOs, the European Parliament and others. CSOs have raised specific concerns relating to the following: little evidence of development impact; potential for crowding out private investment; and very low levels of accountability and transparency. A European Parliament resolution adopted on 23 October 2012 on the EC's Agenda for Change warned that the "*exclusive attention to economic growth and excessive confidence in the effects of automatic redistribution of development in the private sector could lead to unbalanced, non-inclusive growth without having a real impact on poverty reduction*".[8] In addition, in its June 2013 resolution on financing for development, the European Parliament echoed civil society concerns in relation to EU blending mechanisms,[9] calling on the EU "*to properly evaluate the mechanism of blending loans and grants – particularly in terms of development and financial additionality, transparency and accountability, local ownership and debt risk*". Furthermore, a recent study commissioned by the European Parliament[10] also pointed out key limitations of private finance, such as its pro-cyclical and volatile nature (see Figure 1), its preference for higher income countries, and difficulties in targeting micro, small and medium-sized enterprises (MSMEs), which provide the majority of employment and Gross Domestic Product (GDP) in developing countries.

Figure 1: Private capital inflows to developing countries



Source: World Bank Global Economic Prospects, 2014.

In the meantime, donors are pushing to expand the definition of ODA set by the OECD-DAC in order to reflect their efforts in using aid as a capital base for catalysing private finance and to capture new types of finance as development contributions. In fulfilment of a mandate given by the ministers of the DAC in its High Level Meeting in December 2012,[11] the OECD is currently in the process of 'modernising' the ODA concept and developing a new measure of "*total official support for development*". Such a new measure should account for the use of market-based or market-like instruments that OECD member states are increasingly using in their efforts to mobilise private financial flows for development. The OECD's search for a new measure capturing donors' efforts to mobilise private finance underpins the current trend for channelling scarce development cooperation resources "*to where they can make most difference*", with most donors arguing that it is to catalyse foreign or domestic private investment.[12]

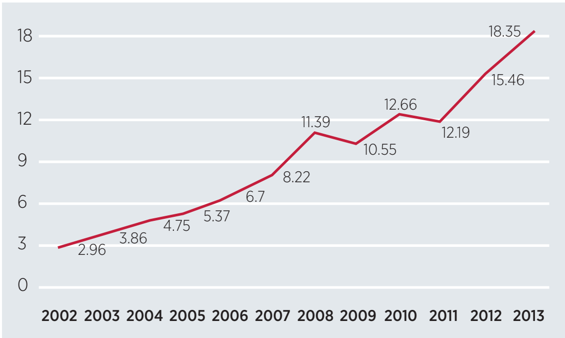
It is worth noting that, while some DFI activities are captured as ODA or other official flows, a considerable share is not (yet) recorded under these categories.[13] This suggests an opportunistic approach when counting DFI flows that do qualify as ODA while leaving aside others. Currently, different issues that concern DFIs are being discussed as part of the ODA redefinition debate, such as concessionality of loans, donors' capital expenditures to DFIs and guarantees.[14] At the time of writing, there is insufficient data to assess different options but there is a high risk that this process could end up being captured by donors' opportunistic attitude towards ODA eligibility in order to increase ODA figures without budgetary costs.

B. The rise of DFIs

Bilateral and multilateral DFIs are engaged in supporting the private sector and in mobilising additional private finance. Although these institutions have a long history of supporting cross-border private investments, the last few years have seen a sharp increase in their annual commitments as part of the increased interest in, and funding for, private sector development by most donors. According to a report published by the IFC in 2011, the joint financial commitments of 31 DFIs, including bilateral and multilateral institutions, increased from $10 billion in 2002 to over $40 billion per year in 2010.[15] This makes them all a much more prominent component of overall development finance than they were ten years ago.

At the global level, the IFC has increased its commitments six-fold since 2002 with an average annual growth rate of 15% (see Figure 2). In 2013, at more than $18 billion, it became the biggest lender of the World Bank Group (WBG), when the International Bank for Reconstruction and Development (IBRD) accounted for $15.2 billion in FY2013. However, it is likely to change again due to a new increase in IBRD commitments, thanks to WBG budget changes and the new corporate strategy.[16]

Figure 2: IFC's total commitments (2002-2013, in US$ billion)



Source: IFC, annual reports.

At the European level, several bilateral institutions have boosted their financial capacity. From 2003 to 2012, the consolidated portfolio of the 15 members of the EDFI increased substantially: from €10 billion to €26 billion, which represents a 160% increase. This is also reflected in the number of supported projects, which rose from 2,755 to 4,705 in the same period.[17] The size of projects has also increased: the average investment in 2012 was €6.5 million per project, which represents a 10% increase compared to 2011 (€5.9 million). In addition, EDFIs are increasingly working together in co-financed projects, which also increased by almost 10% from 2012 to 2011. These figures exclude specific co-financing facilities, such as the European Financing Partners and the Interact Climate Change Facility established together with the EIB and AFD.[18]

Table 1: Main features of selected DFIs

DFI (country, year of establishment)	Ownership	Portfolio 2012 (in €)	Financial products (2012)	Sector focus (2012)	Regional focus (2012)
IFC (multilateral, 1956)	184 member countries represented by 25 Board Directors	35,838 million	Loans 46% Equity 17% Guarantees 36% Risk management 1%	Financial markets Infrastructure Manufacturing	Latin America 25% Europe and Central Asia 20% Sub-Saharan Africa 18% East Asia and Pacific 15% MENA 13% South Asia 9%
EIB (European Union, 1958)	28 European member states represented on Board of Directors + EC	52,159 million (includes operations inside and outside the EU)	Loans 95% combined with other instruments such as guarantees, grants or risk management	Transport Energy SMEs	EU countries 89% Pre-accession and neighbouring countries, Europe & Central Asia 5.9% MENA 2.8% Asia 0.67% Central and Latin America 0.68% Africa, Caribbean and Pacific states (+South Africa) 0.75%
ADB (Asia & Pacific, 1966)	67 member countries, 48 of which are from Asia	5,056 million (non-sovereign operations) [21]	Loans 67% Equity 17% Guarantees 16% %	Energy Financial sector	All Asia
DEG (Germany, 1962)	80% German Federal Republic, 20% German states	5,958 million	Loans 61% Equity 26% Mezzanine 12% Guarantees 0%	Financial sector Manufacturing Infrastructure	Africa 18% Asia 29% Europe/Caucasus 27% Latin America 26%
FMO (Netherlands, 1970)	51% government; 42% commercial banks; 7% trade unions, employers and individual investors	6,281 million	Loans 52% Equity and quasi-equity 44% Guarantees 4%	Financial institutions Energy Agribusiness Food & water	Africa Asia Latin America East & Central Asia
Proparco (France, 1977)	57% AFD; 26% banks; 13% international financial institutions; 3% French multinational companies; 1% ethical funds	3,100 million	Loans and guarantees 80%, equity 9% Other 11%	Investment funds Financial sector Companies and infrastructure	Sub-Saharan Africa MENA Asia Latin America Overseas territories

Source: DFI annual reports.
Note: IFC and ADB portfolios are in € million, converted US$/€ 0.7223, as of 30 April 2014.
IFC portfolio corresponds to fiscal year 2013.

This dramatic increase is backed up by the fact that most DFIs have sovereign guarantees (DEG and Proparco are excluded from our sample). It is also backed up by their *de facto* preferred creditor treatment, which has implications when partnering up with commercial lenders in syndicated schemes, as this status is often extended to these commercial partners. Generally speaking, preferred creditor status means that DFIs are first in line in debt service, are exempt from withholding tax and expect immunity of their assets to sovereign rescheduling. However, in practice it means different things to different DFIs. In the case of the IFC, for instance, preferred creditor status means that "*member governments grant IFC loans preferential access to foreign currency in the event of country foreign exchange crisis*" in addition to preferential treatment in case of country debt rescheduling.[19] As the IFC notes, "*this is not a legal status, but is embodied in practice, and is granted by the shareholders of IFC*". In other cases, such as with FMO, the institution benefits "*from advantageous bilateral tax treaties and de facto preferred creditor treatment in some of FMO's countries of operation*".[20]

Table 1 (previous page) presents a summary of the main features of selected DFIs in terms of ownership, portfolio, financial instruments, sectoral and regional focus. Some of these features will be discussed in more detail in part 2 of this report.

C. DFI operations

Different DFIs share many characteristics but also differ significantly in terms of size of operations, mandates and ownership, source of finance and use of subsidies. This section presents the main features of the institutions included in our sample.

Size of operations

Over the past five years, five DFIs covered in this report – excluding the EIB – committed €73 billion to the private sector operating in developing countries (see Table 2). At the same time, the total portfolio of these institutions stood at €56 billion by the end of 2012. As Table 2 shows, the whole EIB portfolio in 2012 (including public and private investments, operations within and outside the EU) was €52 billion, which makes it the biggest institution in our sample. However, disaggregated data for its private sector commitments outside the EU were not available, making it impossible for us to include this institution in our aggregated private sector figures. It is worth noting that currently the vast majority of EIB operations (90%) take place within the EU.

In terms of the size of EDFI members' portfolios, at the end of 2012 the range varied between €8 million (in the case of the Portuguese SOFID), and €6.3 billion in the case of the largest European bilateral institution (the Dutch FMO). While FMO is one of the largest bilateral DFIs in the world, most multilateral DFIs are still significantly larger (by July 2013 IFC's committed portfolio came close to $50 billion or €36 billion).

Ownership and shareholding structure

Multilateral institutions are characterised by a completely different ownership structure than bilateral DFIs as their capital base is supplied by member state governments. Those governments are represented in the institutions' governing boards. In the case of the IFC and the ADB, all member countries (184 and 67 respectively) are represented by a governor who elects the members of the Board of Directors. Voting power in both cases is based on capital stock, which has political implications for how the institutions approach their work and who can exercise voting power in decision-making processes. In the case of the IFC, high-income countries have over 70% of voting power,[22] allowing them to dictate preferences and policy choices. In the case of the ADB, borrowing shareholders hold 33.1% of voting power, while non-borrowing shareholders hold 66.9%. [23]

Bilateral DFIs' ownership can vary between fully state-owned and fully privately owned. Most DFIs have a mixed ownership with shareholding divided between governments, large financial institutions and commercial banks, private companies and individual investors. In most cases, governments hold a majority of shares. Six out of 15 European DFIs are fully state owned, while only Austria's Development Bank (OeEB) is wholly owned by private banks. The OeEB is a wholly-owned subsidiary of Oesterreichische Kontrollbank AG, the Austrian Export Credit Agency (ECA) owned by Austrian private banks. Nevertheless, the OeEB acts with a mandate from the federal government and is

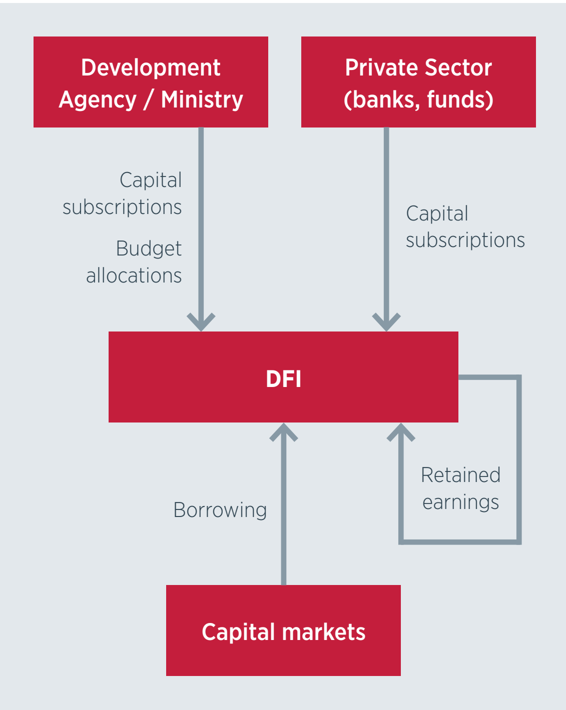
Table 2: Financial overview of selected DFIs 2008-2012

	IFC	ADB	FMO	DEG	Proparco
Commitments signed (billion €)	49.97	7.26	5.95	6.03	3.91
Average annual net income (billion €)	0.80	0.36	0.13	0.11	0.25
Average annual return on assets (%)	1.66	0.85	2.04	NA	NA
Average annual return on equity (%)	5.74	3.21	7.22	8.45	NA

Source: DFI annual reports.
Note: IFC and ADB portfolios are in € billion converted US$/€0.7223, as of 30 April 2014. IFC commitments cover FY 2009-FY2013. ADB amounts refer to non-sovereign approvals.

obliged to pursue the mission of Austrian development cooperation. Germany's DEG is a particular case. Although it is fully owned by the German development bank KfW, the government indirectly holds control over DEG as KfW is 80% owned by the Federal Republic and 20% by the states (the German "Bundesländer"). KfW's supervisory board is currently headed by the German Minister of Economic Affairs and Energy with the Finance Minister acting as deputy. For detailed information on the selected DFIs, see Table 2.

Figure 3: How DFIs are financed



Where do the funds come from?

Most DFIs are funded by donors' development agencies, private banks and can raise additional funds through capital markets (see Figure 3). In the case of Proparco, even though funding for loans is raised through AFD, it is fully sourced on capital markets. DFIs such as the Dutch FMO and the German DEG also manage facilities for donor governments' accounts. In the case of FMO, 13% of its portfolio is made up of off-balance sheet government funds for high-risk investments in specific sectors such as infrastructure and energy in poorer or least-developed countries. This means the assets and liabilities of these funds do not appear on FMO's balance sheets but are assumed by the Dutch government directly. In the case of DEG, 4% of its invested capital comes from trust funds financed mostly by ODA. [24] Apart from these "special funds" managed on behalf of the governments, most DFIs channel grants for technical assistance and concessional loans.

Mandates

Originally, many DFIs were conceived to protect the overseas interests of their governments in their former colonies. This is still apparent in the case of Denmark (IFU) and Italy (SIMEST), whose DFIs are directly tied to the interests of national industries. This means their interventions are aimed at promoting the activities of companies based within their country in developing countries. In some other cases, DFI mandates have shifted towards supporting the development of a private sector to kick-start the growth necessary to create better living conditions for the poor.

The mandates of today's DFIs are often multiple and heterogeneous: some explicitly include development as the overarching objective of their interventions, whereas others prioritise the support to an efficient private sector as the missing link between development and financial profitability, or simply have mandates that do not explicitly recognise development outcomes (see Table 3). Although development impact is the key focus for all DFIs covered in this report, they are organised as private corporations with commercial and profitability considerations, which often implies a trade-off between these goals (see Box 2).

The EIB has a mixed mandate that has evolved over time. While the EIB was originally designed to support large infrastructure investments in European Union member states, it developed its lending to the SME sector in Europe and has also been lending outside the EU guided by various mandates approved by the European Parliament and Council of the European Union. These mandates are based on EU external cooperation and development policies (see table 3 – overleaf).

Use of subsidies by DFIs

DFIs and development agencies are frequently interlinked, as most DFIs receive transfers from the public sector (shareholder governments) to support their activities. These resources are aimed at private sector beneficiaries either through direct subsidies (e.g. in the form of interest rate subsidies) or indirectly through the conditions under which DFIs operate (e.g. lower costs of capital due to the fact that governments do not require commercial rates of return on their investments). However, each institution presents different features in this regard.[27]

As the Overseas Development Institute describes in a briefing from 2007 focused on infrastructure,[28] there are three main forms of subsidies in the operations of DFIs:

- **High level of liquidity:** "*Levels of liquidity in DFIs are higher than in commercial banks because of large levels of paid-in stock; additional 'callable' capital; exemptions on dividends and corporation tax; cheaper cost of borrowing due to their institutional AAA credit ratings and implicit state guarantee; and income from trading in borrowings.*"[29]

- **Ability to access technical assistance funds:** Technical assistance can be provided for a fee or on a cost-sharing basis or in grants. For instance, in 2012 FMO contributed €2.7 million to 33 projects in its capacity development programme, which is a technical assistance scheme on a cost-sharing basis with the beneficiary. That financing came from the Foreign Affairs Ministry and FMO itself.[30]

- **Subsidies passed on directly to beneficiaries/ clients:** This is mainly in the form of offering partial credit risk guarantees and longer maturing loans

Box 2: Drivers for DFI operations

Development mandate – Most DFIs have a public mandate to promote development policy by fostering the private sector and economic growth. Economic growth is seen as a prerequisite for sustainable development and poverty reduction. This rationale is reflected in most DFI mission statements. In fostering economic growth, DFIs focus on developing capital markets following two main principles:

a) Additionality (DFI operations should address market failures and not crowd out other investors) and b) Catalytic effect (by reducing risk for other market operators and positive demonstration effects).

Commercial motives – Most DFIs are organised as private corporations pursuing commercial and profitability goals. Their main emphasis is often on projects' financial sustainability. Commercial targets may lead to risk-adverse behaviour and thus a less additional and catalytic functioning. These commercial motives may conflict with DFIs' development mandates.

Donor interests – DFIs are at times linked to donor interests. Some DFIs, such as Denmark's IFU, use their resources to support overseas operations of private sector actors from the donor country. Other DFIs present an opportunity to contribute to ODA quantity targets. This is the case for the Belgian DFI, BIO-Invest, which receives money budgeted as ODA, which it then uses to issue concessional loans. These loans are considered ODA neutral over their lifespan, as returns on the principle are deducted from aid figures. However, in fact they should be considered ODA negative, as returns on interest are not deducted.

Table 3: Mandates and objectives of selected DFIs

Selected DFIs	Mandates and objectives
IFC	"*As a member of the World Bank Group, IFC has two overarching goals:* • End extreme poverty by 2030 • Boost shared prosperity—in every developing country" "*IFC's purpose is to create opportunity for people to escape poverty and improve their lives by catalyzing the means for inclusive and sustainable growth.*"
EIB	"*As the EU bank, we provide finance and expertise for sound and sustainable investment projects in Europe and beyond.*" EIB operations in Africa, the Caribbean and Pacific (ACP) are carried out under the ACP-EC Partnership Agreement (the Cotonou Agreement). "*Under the Cotonou Agreement the central objective of ACP-EC cooperation is poverty reduction and ultimately its eradication; sustainable development; and the progressive integration of the ACP countries in the world economy.*" Besides loans to ACP countries, most of the EIB's operations outside of the EU are covered under the bank's External Lending Mandate (ELM). The ELM outlines the guidelines, benchmarks and objectives for EIB's external lending. It establishes that the bank should act in coherence with the relevant principles of the European Consensus on Development, the aid effectiveness principles and the EU Strategic Framework and Action Plan on Human Rights and Democracy. Its general objectives are: a) local private sector development, in particular support to SMEs; b) development of social and economic infrastructure; and c) climate change mitigation and adaptation. This mandate covers EU pre-accession countries, Southern and Eastern Neighbours, Asia and Central Asia, Latin America and South Africa.
ADB	"*The purpose of the Bank shall be to foster economic growth and co-operation in the region of Asia and the Far East and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually.*" It is committed to "*improving people's lives in Asia and the Pacific*" and working for "*an Asia and Pacific free from poverty*" and "*help[ing] create a world in which everyone can share in the benefits of sustained and inclusive growth*".
FMO	"*We support sustainable private sector growth in developing and emerging markets by investing in ambitious companies. We believe a strong private sector leads to economic and social development, empowering people to employ their skills and improve their quality of life.*"
DEG	"*The mission of DEG, a subsidiary of KfW, is to promote business initiative in developing and emerging market countries as a contribution to sustainable growth and improved living conditions of the local population. To this end, we make long-term financing and advice available to private enterprises investing in these countries.*" [25] Within the KfW Group, DEG's focus remains on financing and structuring of investments to private companies operating in developing and transition countries, claiming that "*it also seeks to ensure that their investments have positive impacts on the societies in developing countries. DEG commits exclusively to projects that are developmentally sound and environmentally and socially compatible*". [26]
Proparco	"*Proparco supports and promotes private investment in emerging and developing countries in order to achieve the Millennium Development Goals. Investments need to be "financially and economically viable, socially equitable and environmentally sustainable*".

Source: DFI websites

than would be possible without their involvement (e.g. while a local commercial bank can offer loans for three to five years, DFIs can provide loans of up to ten to 15 years). Other forms include longer grace periods, subordinated debt or other forms of quasi-equity finance characterised by higher risk.

Currently, funds raised by DFIs and ODA resources are increasingly pooled together and blended. Although the OECD-DAC establishes the necessary criteria for flows to be reported as ODA, the question of what proportion of DFI funds are reported as ODA is difficult to answer due to the lack of harmonised reporting practices and poor data. [31] Apart from technical assistance funds channelled through DFIs, donors report their capital subscriptions to DFIs as ODA and also provide grants that are matched with DFIs' own funds, making them concessional. Some DFIs also use ODA to back up commercial finance with guarantees, which can be seen as a way to soften or 'blend' its investments. Moreover, under the current reporting system for ODA, loans under market conditions can meet the concessionality criteria and can still be considered ODA leading to inflated ODA figures and incentives for loan-based over grant-based aid.[32] This issue has been in the spotlight for some time now and some changes should be expected as a result of the debate taking place at the level of the OECD-DAC, which focuses on reporting ODA criteria and assessing non-ODA flows.

D. Concerns

In recent years CSOs and political leaders in several countries have questioned the developmental role of multilateral and bilateral DFIs.[33] These debates have been centred on the development impact of DFI investments and ensuring responsible financing principles, including the issue of structuring investments through offshore financial centres as a way of supporting tax dodging practices. The general concern is that DFI expansion in development finance may undermine the role of public development finance, as there are no guarantees that DFI financing decisions are guided by priorities laid out by the national development strategies of recipient countries.

For almost four years now, civil society groups, including Eurodad and its members, have continued to raise concerns about the increasing use of public funds to leverage private finance and DFIs' investment strategies (see Box 3). Eurodad research from 2012 showed that DFIs providing support to private investments operating in developing countries have followed market-driven patterns regarding the sectors – a dramatic increase in lending and investments to the financial sector – and type of companies that they finance. Around 40% of the companies in Eurodad's sample are big companies listed in some of the world's largest stock exchanges. In addition, it shows that DFIs face serious challenges in measuring development impact, which casts doubt on whether they can truly be considered as development actors.

A recent report commissioned by the European Parliament points to a number of challenges and risks associated with private sector mechanisms used by DFIs.[34] The report suggests that DFIs face serious difficulties in supporting SMEs. There is a weak financial and institutional 'additionality' and so much obscurity around the concept of 'leverage' (the ability to use public money to mobilise other funds for investment). In addition, it also points to DFIs' lack of participatory governance, accountability, transparency and lack of harmonised standards and monitoring and evaluation systems. Furthermore, this report raises a number of concerns in relation to the macroeconomic impacts of DFIs' backing for private investments in developing countries. DFIs' operations are driven by demands from the private sector ignoring possible impacts on private and public debt, increased volatility and vulnerability as a consequence of exposure to global financial markets.

Box 3: Civil society reports on DFIs – main focus and concerns

- *Bottom lines, better lives?* (ActionAid et al, 2010)[35] – This report focused on six of the main multilateral development banks and found that their approach to the private sector and development has been controversial and not always sufficiently focused on promoting sustainable development or reducing poverty.

- *Development diverted* (Eurodad, 2010)[36] – This report assessed IFC operations in low-income countries (2008-2010) and found that the IFC fails to prioritise development effectiveness as the overriding criteria when choosing projects to invest in. It also stated that the IFC fails to show how it supports developing countries in having ownership over their investment policies and strategies, or the development of their financial and private sectors.

- *Hit and run development* (Counter Balance, 2010)[37] – This report covered EIB lending practices in sub-Saharan African countries (2007-2009) and revealed how the bank's use of intermediated loans and private equity funds facilitates corruption and tax evasion. It concluded that the use of these lending tools "goes against any kind of development logic".

- *Out of sight, out of mind?* (Bretton Woods Project, 2010)[38] – This paper analysed IFC lending through financial intermediaries, and found a number of causes for concern, including a worrying lack of transparency, inadequate attention to social and environmental concerns, and a failure to link directly to proven developmental impacts.

- *Investing in private sector development: what are the returns?* (Norwegian Church Aid, 2011)[39] – This report reviewed development impact evaluation systems in European DFIs and concluded that, despite some recent reforms giving higher priority to development impact, there are problems remaining in terms of what the data tells us, particularly how much change can be attributed to the contribution of the DFIs.

- *Risky business* (Oxfam and CIEL, 2012)[40] – This briefing paper highlighted the increasing use by DFIs of financial intermediaries to channel their funding. It called for focus on development impact, transparency and greater due diligence.

- *'Leveraging' private sector finance* (Bretton Woods Project, 2012)[41] – This briefing explained the existing ways in which the World Bank Group attempts to use its investments to leverage additional investment from private actors, and set out ten risks associated with doing this.

- *Cashing in on climate change?* (Eurodad, 2012)[42] – This report looked at some of the main instruments that can be used to leverage private climate finance through financial intermediaries and analysed data from some major DFIs. It presented major shortcomings in the use of financial intermediaries as a tool to address climate change issues.

- *Private profit for public good?* (Eurodad, 2012)[43] – This report assessed recent grant and loan trends, and the portfolios of some of the largest multilateral and bilateral development agencies providing public support to private investments in developing countries and concluded with a call for a greater focus on development impacts.

- *Doing business to fight poverty?* (11.11.11, 2012)[44] – This report analysed the performance of BIO-Invest, the Belgian DFI, and indicated that financial outputs take precedence over development outcomes.

- *Follow the money: The World Bank Group and the use of financial intermediaries* (Bretton Woods Project, 2014)[45] – This report analysed in detail the IFC's financial intermediary portfolio and discussed the development impact of these types of investments. It also included ways forward for CSOs.

Part 2: How are DFIs targeting different private sector beneficiaries?

DFIs use different financing instruments to target private sector actors operating in developing countries. Usually, a distinction is made between loans and equity instruments, but other more complex financial instruments are also part of DFI financial products (see Table 4). This part of the report discusses DFI instruments in detail, including information by geographical regions and sectors targeted, alongside an analysis of the effectiveness of each type of instrument.

As part of its work on modernising the ODA concept, the OECD-DAC's Working Party on Development Finance Statistics has made an attempt to classify different instruments used by bilateral and multilateral DFIs (see Annex B). This is based on the IMF's balance of payments method.[46] The following description and classification of instruments draws strongly on the OECD-DAC's work.

Equity and investment fund shares

When a DFI acquires equity in a company or shares in an investment fund, this means the DFI owns a residual claim on the assets and earnings of that company or the companies the fund subsequently invests in. The residual value of the company's assets is the remaining value after the claims of all the creditors have been met. Equity is evidenced by shares, stocks and participations. These can be listed and traded on an exchange (e.g. stock exchange).

Table 4: Financial instruments used by selected DFIs

DFI	Loans	Equity	Other (including technical assistance)
IFC	Loans & syndicated loans Blended loans	Equity Structured finance Private equity & investment funds	Risk management Trade finance (guarantees) Advisory services
EIB	Loans (senior, subordinated) Blended loans Mezzanine debt	Equity Funds Venture capital	Guarantees Derivatives Project bonds Advisory services
ADB	Loans (hard and local currency, senior and subordinated) B-Loans Mezzanine loans	Equity (common shares, preferred stock, convertibles) Private equity funds	Guarantees Technical assistance
FMO	Direct & syndicated loans Local currency loans	Private equity Investment funds Mezzanine equity	Guarantees Capital markets (securitisations) Mezzanine Trade finance
DEG	Long-term loans (fixed and variable rates) Mezzanine loans	Equity Mezzanine equity	Advisory services, technical assistance & feasibility studies PPPs with German/EU companies Guarantees
Proparco	Loans (senior, and subordinated debt)	Equity Investment funds Quasi-equity (shareholder current accounts, participating loans, mezzanine)	Guarantees (bond guarantees, bank loan guarantees, local currency loan guarantees, liquidity guarantee of mutual funds)

Source: DFI websites and annual reports.

There are sub-categories relating to equity that are worth mentioning:

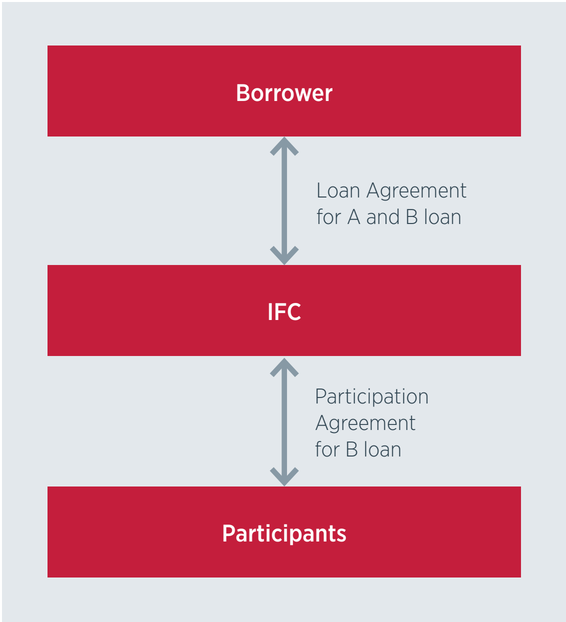
- 'Private equity' is a very broad term covering different forms of long-term financing in return for an equity stake in unquoted companies. It can refer both to 'venture capital' (the seed to expansion stages of investment) and management buy-outs and buy-ins.
- Investment funds are collective investment undertakings where investors pool funds that issue shares (or 'units' in case of a trust structure). Equity does not provide DFIs with predetermined income as it is dependent on the company's economic performance.
- Preferred equity is a class of ownership in a company that has a higher claim on the assets and earnings than common equity. Preferred stock generally has a dividend that must be paid out before dividends to common stockholders and the shares usually do not have voting rights. Preferred stock is a financial instrument that has characteristics of both debt (fixed dividends) and equity (potential appreciation). Therefore it is also referred to as mezzanine equity.

Debt instruments: different types of loans

Debt instruments require the repayment of the principal and/or interest at some predetermined point in the future, limiting the creditor's exposure. Generally, debt instruments can take the form of loans (non-tradable) and debt securities (tradable). Based on their risk profile, a distinction is made between senior and junior loans. Senior loans are the first to be paid back in case of default, whereas junior loans are the last to be paid back. Subordinated debt is very similar to junior loans and ranks after all other debt.

As we mentioned above, most DFIs enjoy preferred creditor status, which facilitates the institutions to issue 'syndicated loans' in which they act as a broker between borrowers and commercial lenders. Generally, in the case of the IFC, it acts as the sole 'lender of record', which decreases the risk for commercial lenders to step in as they benefit from the preferred creditor status

Figure 4: Structure of IFC syndicated loan



Source: IFC website.

of the IFC. As shown in Figure 4, a 'syndicated loan' includes market financing (the B-loan) and a portion retained by the IFC for its own account (the A-loan). The borrower signs a single loan agreement with the IFC and the IFC signs a participation agreement with the other lenders. In Europe, the EIB is increasingly using this instrument, applying to 70% of its activities in 2012. Bilateral DFIs generally do not enjoy preferred creditor status, but as they are politically backed by their respective governments, this lowers the perceived risk for co-lending institutions.

According to the IFC, such syndicated loans are beneficial both to borrowers and participants. Borrowers will get loans with longer tenors, get access to new banking relationships and enjoy the IFC 'stamp of approval' and its 'environmental and social leadership'. Similarly, participants enjoy the benefits of the IFC's preferred creditor status and are exposed to less risk as IFC risk mitigation is recognised by regulators, rating agencies and the Basel committee on banking supervision, as well as equally enjoying IFC advice and guidance.[47]

Quasi-equity & mezzanine finance

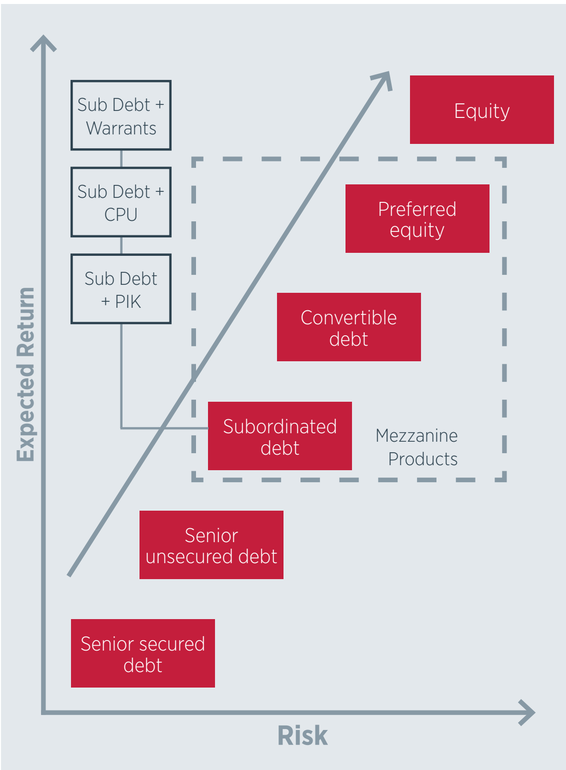
Quasi-equity or mezzanine finance is a hybrid form of long-term investment combining the characteristics of debt and equity. Subordinated debt is a preferred form of mezzanine finance, ranking below senior and secured debt. Normally subordinated debt brings in additional returns to compensate for the additional risk (higher interest rates or ownership shares). The different forms of mezzanine finance, such as subordinated debt, convertible debt and preferred equity, are represented in the grey boxes in Figure 5. They constitute a layer of finance with risk and return profiles (for investors) between debt and equity.[48]

Guarantees

A guarantee is defined as a legally binding agreement under which the guarantor agrees to pay part or the entire amount due on a loan, equity or other instrument in case the entity guaranteed (borrower) defaults. Guarantees generally do not involve an actual transfer of funds, unless the borrower defaults. Guarantees mainly serve to reduce the risk of investment so that capital will be attracted towards higher-risk projects (see Figure 6).

A particular form of guarantees, used by the IFC and FMO, are meant for trade finance related transactions by local banks. Trade finance can be regarded as guarantees covering the risk of non-compliance by a contract party to fulfil agreed obligations. While guarantees can be a separate instrument, other instruments such as debt or equity are often combined with guarantees. Interest rate subsidies, lowering the cost of debt instruments, can be used in the form of grants together with guarantees. This mix of instruments complicates the discussions on the classification of instruments such as the one currently taking place at the OECD-DAC.

Figure 5: Risk-return matrix for mezzanine instruments for investors



Source: DEG website

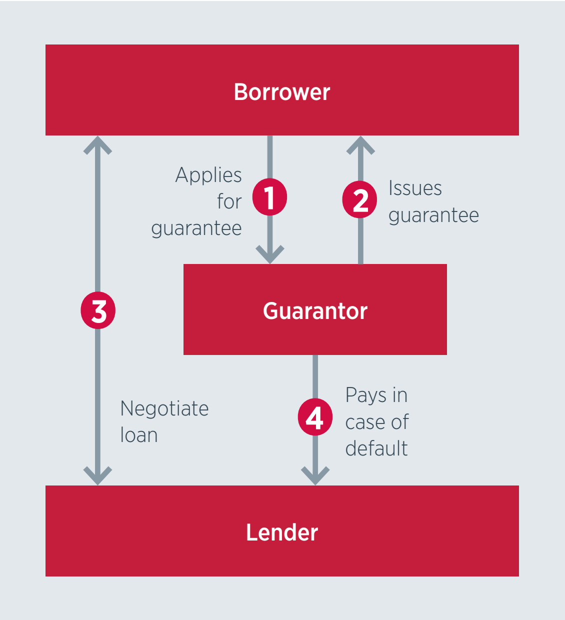
Grants

Grants are transfers made in cash, goods or services for which no repayment is required. The most common type of grants used by DFIs and reported as ODA are advisory services and technical assistance. DFIs argue that private sector development requires more than just finance. Thus, DFIs offer advisory services to private companies and governments on very diverse issues such as corporate governance, environmental and social issues, and tax.

Apart from advisory services, DFIs also provide clients with capacity building through technical assistance programmes focusing on management and organisational development, corporate governance and environmental, social and governance. Feasibility studies for investment projects are also provided by many DFIs, often funded by ODA. The second and most recent type of grants used by DFIs are in the form of interest rate subsidies to soften the conditions of private investments in developing countries.

A notable example of DFI use of a grant is blended finance/blending mechanisms, where a grant component, either in the form of technical assistance, interest rate subsidies or direct investment grants, is linked to a loan or other financial instrument (see Box 1 – EU blending mechanisms on the rise).

Figure 6: Illustration of approaches to guarantee extension



A. Use of different instruments by selected DFIs

From 2008 to 2012, four institutions from our sample – ADB, DEG, IFC and Proparco – committed an estimated €67 billion to the private sector. More than half of these resources (over 50% or €34 billion) were committed as loans, while equity made up an estimated 16% of total new commitments (or approvals) between 2008 and 2012 (see Figure 7). Quasi-equity instruments appear to be only marginally used, although real figures are much higher as quasi-equity is often reported as either debt or equity instruments and more detailed data is often unavailable. Guarantees amounted to 29% of total new commitments made between 2008 and 2012, which is mainly attributable to the IFC and ADB. As FMO does not report on new commitments (or annual contracts) disaggregated by financial instruments, it was not possible to include it in this analysis.

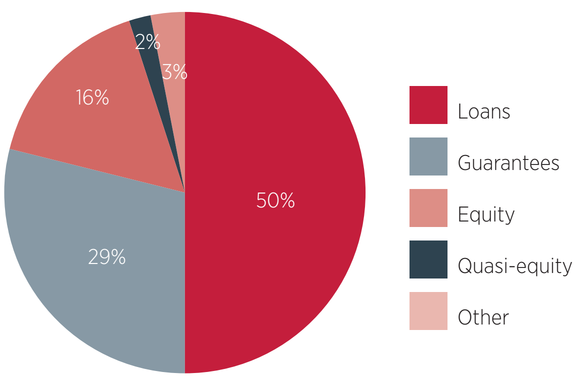
It is worth noting that, at the level of EDFI members, by the end of 2012 the consolidated portfolio of its 15 institutions was 51% equity, 47% loans and 2% guarantees.[49]

These aggregated figures mask a very wide diversity among various institutions, mainly at multilateral level (see Figure 8). While the ADB mainly uses debt instruments, almost 70% (this is also the case for the EIB, with more than 90%), this is not remarkably high in the case of the IFC as a proportion of total operations for the same period (46%). In the case of bilateral DFIs, differences are less important. Both Proparco and DEG prefer debt instruments – around two thirds – although equity and quasi-equity account for 30% in the case of DEG and just 11% for Proparco. In the case of FMO, loans have accounted consistently for half of its annual portfolio between 2009 and 2012. Once again, lack of harmonised data in the reporting of DFIs in relation to the use of financial instruments by annual new commitments (or approvals) and annual portfolio means it is not possible to present conclusive evidence.

The issue of guarantees for development: not clear development impact

No comprehensive and internationally comparable data on guarantees and the volume of finance mobilised by them is currently available. However, the OECD-DAC's Working Party on Development Finance Statistics has embarked on an effort to capture this instrument in order to feed the OECD-DAC work to modernise statistics on external development finance post-2015. In 2013, the OECD-DAC conducted a survey of guarantees for development, which included over 1,000 long-term guarantees issued by 14 countries and organisations

Figure 7: Selected DFIs' usage of financial instruments, 2008-2012
(% of new commitments, aggregated data)



with a development mandate (see Annex C). For the purpose of the survey, the OECD-DAC considers 'guarantees for development' the guarantees extended with the promotion of the economic development and welfare of developing countries.

The main findings included in the survey are:

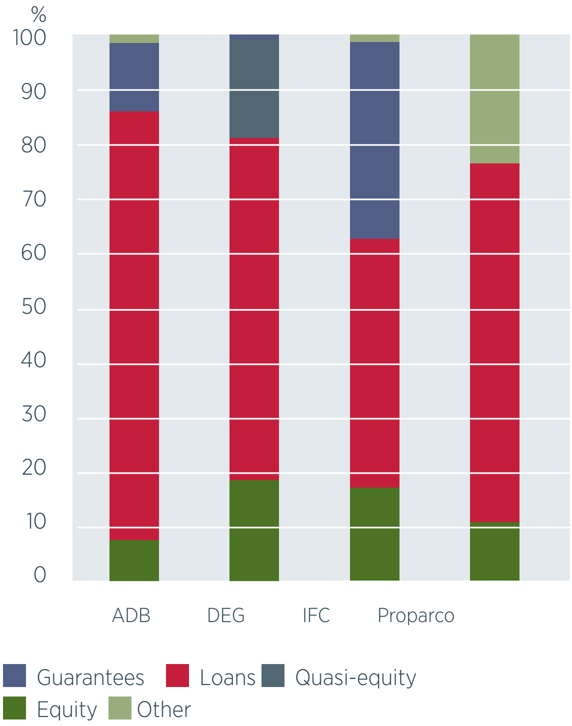
- Guarantees for development mobilised $15.3 billion from the private sector from 2009 to 2011, with an average net exposure of 70% (see Figure 9).

- Over 50% of amounts mobilised[50] is generated by multilateral institutions, such as regional development banks and the arms of the WBG that lend to the public sector (IBRD and IDA). The reason put forward is that bilateral institutions are often obliged by law to offer only ODA-eligible finance and currently, guarantees are not counted as ODA as they do not represent a financial flow.

- More than 50% of the amounts mobilised by guarantees are benefitting upper middle-income countries, with Africa as the most targeted region.

- Guarantees are covering both commercial and political risks and cover mostly loans (70% of amount mobilised).[51]

Figure 8: Selected DFIs' usage of financial instruments, 2008-2012 (% of total new commitments)



Source: Annual reports of selected DFIs.

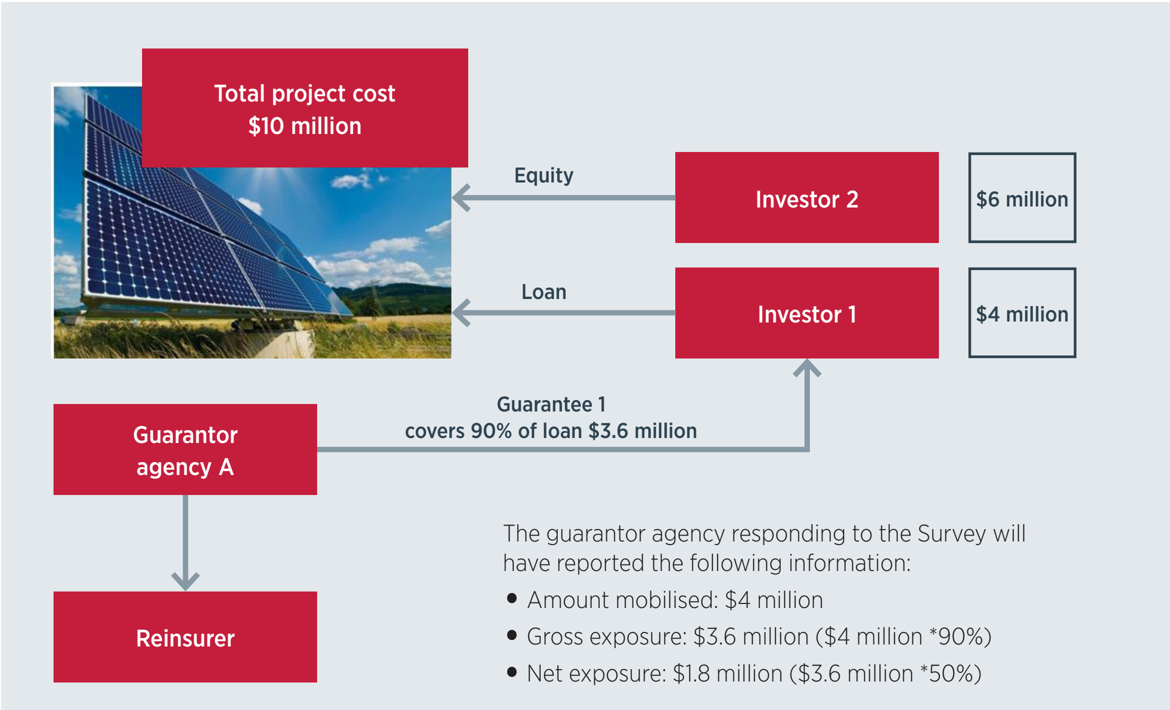
Note: ADB figures are non-sovereign approvals and loans include B loans. Figures on guarantees include trade finance, partial credit and political risk guarantee. IFC figures cover FY2009-FY2013 (IFC fiscal year goes from 1 July to 30 June). IFC does not report disaggregated figures for quasi-equity, which is included in the loan portfolio. Guarantees include trade finance. Proparco figures for loans also include guarantees and 'other' includes AFD participations.

This survey also exposes specific challenges that relate to the leverage effect and financial additionality. DFIs often refer to the 'leverage ratio' associated with guarantees. At the time of writing, no internationally agreed definition of 'leverage' exists and terms such as 'mobilising' and 'catalysing' are frequently used as alternatives. The OECD-DAC survey aims to propose a measure for the leverage effect of guarantees based on the ratio of amounts mobilised and 'donor effort'.

The 'amount mobilised' is defined as the full nominal value of an instrument (loan, equity) to which the guarantee relates, regardless of the share of this value covered by the guarantee. This entails the implicit and controversial assumption that the investments would not have been possible without the guarantee, i.e. "causality is assumed between the guarantee and the instrument being guaranteed". In the case of the 'donor effort', it does not refer to an actual flow outside the donor country, which is also controversial, and means that 'donor effort' has to be assessed in terms of risk taken by the donor institution.

On the key aspect of financial additionality, the OECD-DAC survey suggests that it is impossible to determine whether these resources have helped to mobilise additional private finance or whether they have simply subsidised investments that would have happened regardless of (parts of) the guarantee. This shows that there is a genuine risk that 'guarantees for development' could crowd out commercial insurers or that the risk, which the guarantee should cover, is transferred to public partners who will be liable if the project defaults. In both cases, the private operator may cash profits without necessarily delivering additional economic activity and development value. Measuring guarantees as development finance thus proves to be highly problematic.

Figure 9: Amount mobilised, gross and net exposure in OECD-DAC survey (example)



Source: OECD-DAC survey.

Furthermore, guarantees with 'high leverage ratios' – meaning high amounts mobilised – are problematic in several ways. First, there is a risk that guarantees with high leverage ratios will be achieved in markets with relatively low risk profiles where third-party lenders are more likely to step in. Donor institutions may be incentivised to use instruments for projects in high-income group countries and relatively well-developed sectors. Secondly, high leverage ratios may lead to moral hazard as borrowers or investees profiting from extended guarantees may have little incentive to manage their assets to the best of their abilities. Third, high leverage ratios mean lower DFI contributions to the overall investment. This implies that the DFI can exercise less influence over the design and implementation of the investment. This suggests a negative correlation between leverage ratios and influence over how development-friendly the business model is.[52]

Finally, although guarantees are used by all selected DFIs in our sample, reporting remains very unclear, as there is no actual transfer taking place (unless the underlying investment of the guarantee defaults). Most DFIs in our sample do not report guarantees separately, but as part of their lending portfolio. The issue of whether these represent long or short-term finance also matters and figures on this are not easily accessible.

Trade finance: short-term development finance with questionable additionality

Trade finance is a specific form of short-term private finance. Trade finance refers to financing arrangements that support international trade transactions. Financial institutions – normally banks – provide guarantees or loans to assist exporters that require prepayment in order to ship their products, or to reduce the risk for purchasers who need to pay for goods before actually receiving them. This should allow traders and producers suffering from credit constraints to have more access to credit and thus enjoy greater integration in international trade markets.

The IFC is increasingly making use of short-term guarantees as part of its extensive trade finance programme. Currently the Multilateral Investment

Guarantee Agency (MIGA), part of the World Bank Group, is still the largest provider of guarantees, promoting foreign direct investment by providing insurance for companies investing in developing member countries. MIGA has $1 billion operating capital (shareholders paid-in capital, retained earnings and portfolio reserve) and its shareholders have pledged an additional $1.5 billion if necessary.[53] In 2013, its net exposure stood at $6.4 billion.[54] This exposure is expected to rise in the next few years, as the World Bank announced it would increase MIGA guarantee extension by nearly 50% over the next four years, mainly to middle-income countries (MICs).[55]

Although trade finance has not been part of the core business of DFIs, most institutions engaged in trade finance when emerging and developing countries were squeezed out of capital markets during the Asia crisis in the late 1990s and the 2009 financial crisis. A thorough assessment of its implications should be made, as its additionality could be seen as rather limited. Other issues including difficulties demonstrating development impacts are highlighted in Box 4.

B. Where are different instruments used?

Data does not allow comprehensive cross-sectional comparisons of the use of instruments in different country income groups. Many DFIs do not report systematically on investments by country income groups, although some DFIs have more or less fixed strategic priorities in terms of regional targets and

Box 4: The IFC Trade Finance Programme

The IFC introduced the Global Trade Finance Programme (GTFP) in 2005. The programme has been increasing rapidly since then. Currently, its authorised exposure ceiling stands at $5 billion. In 2012, the GTFP accounted for 39% of total IFC commitments, 53% of its commitments in sub-Saharan Africa, and 48% of its commitments in Latin America and the Caribbean. The programme offers major international and regional banks partial or full insurance guarantees that cover various forms of trade finance instruments, such as letters of credit, promissory notes and advance payment guarantees. This enables them to offer risk guarantees to local financial institutions in emerging markets so they can expand the trade finance services they offer to local exporters and importers. The programme also encompasses a technical assistance element, which offers on-site advisory services and trade finance training courses to build the capacity of participating banks.

The IFC's rapidly expanding activities in trade finance point to a remarkable shift in the action radius of DFIs, as commercial transactions have been the preserve of banks. Moreover, this shift can be interpreted as a shift from the development mandates of DFIs, as 'increasing trade' *per se* can hardly be regarded as a development outcome.

Surprisingly, the IFC only began implementing a formal monitoring and evaluation system in FY12 with the inclusion of a pilot GTFP in its Development Outcome Tracking System (DOTS). According to the World Bank's Independent Evaluation Group (IEG), "inclusion of trade finance in DOTS represents an important effort on IFC's part to try and measure the development outcomes of its short-term trade finance products". However, "the logical relationship between some of the DOTS indicators and guarantees on trade finance transactions is questionable" as the evaluation approach used for long-term IFC investments is not suitable for short-term finance. This also means that additionality is not properly assessed and monitored.[56]

In addition, a recent evaluation by the IEG of the GTFP over the period 2006-2012[57] casts doubt over the benefits for small-scale SMEs, as the programme is mainly targeted at linking international and local banks without necessarily influencing the relationship between local banks and their local SME clients. Moreover, additionality is not clearly demonstrated. The IEG's survey reveals that 44% of issuing banks (accounting for 17% of GTFP commitments since 2006) and 20% of confirming banks (5% of commitments) indicated that they have used the GTFP for transactions that they would have done anyway.

Table 5: Regional distribution of DFI commitments, 2009-2013 (in %)

	IFC	EIB	FMO	DEG	Proparco
Africa/SSA	18	10	29	18	31
MENA	13	20	NA	NA	25
Asia	24	6	27	29	19
Latin America & Caribbean	25	9	21	26	19
Europe & Central Asia	20	54	18	27	NA
Other	0	NA	6	NA	7

even specific targets relating to LIC and LMIC. FMO for instance aims to invest at least 70% in low and lower-middle income countries, and at least 35% in the 55 poorest countries through its own financing. DEG mainly targets Africa, where it has country offices in South Africa, Kenya and Ghana and has defined both countries for "*doing broad business*" and countries where "*finance will be delivered in a selective, opportunity-driven basis*".[58] Table 5 shows regional distribution of DFI commitments.

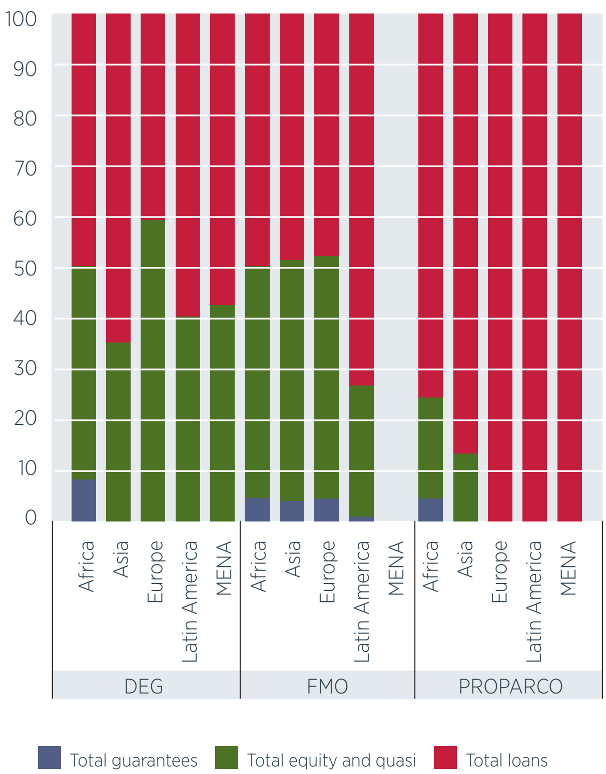
It is worth noting that, although the ADB works in five different sub-regions of Asia and the Pacific, the bulk of its non-sovereign and private sector financing goes to China and India, which received 44% of total approved non-sovereign financing in 2012. In the same year, China, India and Indonesia together accounted for 48% of the total non-sovereign outstanding portfolio.

At the global level, a significant proportion of IFC investments are in upper middle-income countries, such as Brazil, China and India (BRIC countries Brazil, Russia, India and China make up 24% of the IFC's global portfolio). At the same time, over the last five years, commitments in IDA countries increased in nominal terms by 50%, but as a percentage of the IFC's overall commitments they dropped from 42% to 36%.[59] Figures on the breakdown of the distribution of the world's poorest show that 16.7% live in upper middle-income countries, 57.7% in lower middle-income countries, and 25.7% in low-income countries.[60] On this basis, questions have been raised about whether the IFC is effectively targeting poverty and development impact.[61]

Emerging markets have also been the focus of bilateral institutions. For instance, commitments in India, Brazil, China and South Africa represented 21% of DEG's total portfolio in 2012 and BRIC countries (1. India; 2. China; 3. Russia; and 4. Brazil) represented 18.5% of FMO's global portfolio. An increased share of Proparco's global portfolio is also concentrated on Latin America & the Caribbean region – from 5.5% in 2008 to 15% in 2012.

Analysis of instruments used by bilateral DFIs in different regions indicates that equity instruments are more frequently used in Africa than in other regions (see Figure 10), which means that relatively poorer regions with less developed capital markets attract more equity finance from DFIs. In the case of FMO,

Figure 10: Regional split of portfolio, selected bilateral DFIs 2012



Source: FMO Annual Report, 2012; EDFI Annual Report, 2012. Categories labelled as 'other', 'diverse', 'multiregional' or 'global' have not been included.

Africa accounts for 29% of its total portfolio, while Africa takes up 40% of its equity instruments. Proparco is characterised by a similar pattern: sub-Saharan Africa accounts for 31% of the total portfolio but for 50% of the equity portfolio. Conversely, Latin America is attracting more quasi-equity and debt finance. In the case of Proparco, Latin America accounts for 25% of the total portfolio but only 4% of the equity portfolio. Data collected on the IFC confirms that debt instruments are more frequently used for higher income countries and risk management and guarantees are more often targeted at low-income countries.[61] As equity carries more risk, these results are in line with what you might expect as DFI mandates include additionality as important guiding principles for investments.

C. In which sectors are different instruments used?

Cross-sectional comparisons of the instruments used by DFIs in different sectors are difficult as DFIs do not report on instruments and sectors in a uniform manner. However, available data allow us to make some general observations on the sectoral distribution and on the use of different instruments in various sectors.

Multilateral and bilateral DFIs are increasingly specialising in a small number of sectors. The financial sector is the first priority sector for both multilateral and bilateral DFIs in our sample, receiving both significant amounts in equity and debt instruments. This is to support the financial sector directly or to use it as a third party financial entity that is set to lend to other entities. As Figure 11 shows, bilateral DFIs are increasingly concentrated in the financial sector. In bilateral DFIs, the financial sector varies between 30% and almost 50% of committed portfolios in 2012. It is worth noting that, while the FMO's focus on the financial sector has increased steadily as part of its

Figure 11: Sectoral distribution of committed portfolios, selected bilateral DFIs 2012

Source: DFI annual reports.

Figure 12: Sectoral distribution of loans, equity and guarantees for selected bilateral DFIs, 2012

Source: FMO Annual Report, 2012; EDFI Annual Report, 2012. For FMO, category labelled as 'Funds' is not included as it is not clear which sectors these entail, but nearly 100% is equity finance.

committed portfolio, Proparco's activity in the financial sector has been fluctuating around 50% for some years.

In the case of multilateral DFIs, available figures show a substantial increase in intermediary lending over direct investments. As a recent report by the Bretton Woods Project[63] shows, the financial sector represents 31% of its commitments between 2009 and 2013 and if we consider short-term trade finance, the financial sector amounts to more than half of its portfolio. Compared to other selected institutions, the EIB presents an exceptional case focusing mainly on infrastructure, transport and energy. However, in the last decade it also looked at ways to reach SMEs through financial intermediaries. In regards to the ADB, there is no publicly available data on the breakdown between investments via financial intermediaries and direct investments.

When analysing the sectoral distribution of financing instruments for the three bilateral DFIs in 2012 (see Figure 12), Proparco relies mostly on loans to invest in all sectors, while DEG presents a more balanced split between loans and equity.

Box 5: The financial sector as a way to reach SMEs?

The IFC claims that "*working with FIs [financial institutions] allows IFC to support far more micro, small, and medium enterprises than we would be able to on our own*". However, using financial institutions such as banks, funds and financial service companies to target MSMEs entails many challenges, starting with DFIs' definition of these types of companies. In the case of the IFC, the definition is "*a registered business with 10-300 employees and assets or annual sales between US$100,000 and US$15 million*". In practice the IFC financial markets department categorises businesses based on the size of the loan, not on the size of the business. Although correlation between loan size and business size can be assumed, it is not self-evident that a loan of up to $2 million can still count as an MSME loan.

In addition, a recent evaluation by the World Bank's Independent Evaluation Group (IEG)[66] includes some revealing figures, which cast serious doubt on the effectiveness of the current model using primarily intermediaries and support CSOs' repeated concerns on this issue. The IEG evaluation report states that a review of 166 IFC investment projects that target SMEs through financial intermediaries shows that only 20% of the projects define SMEs and have provisions mentioning SMEs as beneficiaries. Moreover, "*for this evaluation, IEG reviewed 82 IFC investment projects that sought to support SMEs through financial intermediaries. Of these, around 40% did not meet SME financing targets.*" The reasons identified by evaluators for this failure were the macroeconomic environment and the financial intermediary changing its strategy, especially in the case of banks. In addition, the IEG also states that "*equally problematic in gauging efficacy is the secrecy surrounding the clients of banks supported by IFC*". According to the IEG, "*it is unclear what impact these investments are having at the firm level and there has been no attempt to assess impact through a systematic study*".

It is worth noting that financial services, and particularly access to credit, is just one of the many systemic needs that SMEs experience on the ground. According to CAFOD's ground-breaking report *Thinking small*,[67] other key priorities include infrastructure and services, demand, human capital and risk, stability and vulnerability, and all of them need proactive, targeting, comprehensive and locally appropriate interventions. Therefore, an excessive focus on financial services might lead to a biased approach in itself. Although closing the finance gap for local MSMEs in developing countries is a fundamental challenge for development finance, a book by Sarah Bracking[68] from the University of Manchester argues that DFIs are not the solution but rather contribute to the 'missing middle' problem. The concentration of bilateral and multilateral DFIs on more mature private actors in developing and emerging countries constrains the evolution of medium-sized enterprises. This creates a gap between a few big enterprises that control the economies (for instance, in Africa), and a myriad of small and micro enterprises that are trapped in the informal sector.

DFIs claim that the rationale for favouring the financial sector is rooted in the need to address access to finance problems of micro, small and medium-sized enterprises (MSMEs). As DFIs have no public banking facilities, they engage with MSMEs through intermediaries, which also implies lower transaction costs for them. However, lack of transparency in the reporting of this sector and inadequate monitoring and evaluation mechanisms made unclear whether DFIs have been successful in achieving their intended targets (see Box 5).

Moreover, DFIs wish to develop capital markets to provide business with long-term funding through bonds and equity markets and to 'hedge' against various risks through derivatives markets. However, there is no conclusive evidence, either empirical or theoretical, on the impact of these interventions.[64] Many countries have seen successful development trajectories without focusing on strong capital markets. The development of financial markets is not positively correlated with growth in all type of markets. According to Thorsten Beck from Tilburg University and the Center for Economic Policy Research,[65] empirical evidence suggests this relationship varies largely across countries at different stages of economic development. The impact of financial market development on growth seems to be highest in middle-income countries and is relatively limited in low-income countries. Therefore, deepened financial markets should not be seen as a prerequisite for development, as most DFIs seem to assume.

D. Effectiveness and potential problems of financing instruments

DFIs use a wide variety of instruments, but there is little theoretical and empirical evidence available to support any decision-making on the most appropriate instruments at a general level.[69] DFIs can have an impact on the macroeconomic situation and the size and structure of the financial system in receiving countries. These private capital flows may increase these countries' exposure to macroeconomic risk, financial instability and volatility (capital flow reversal or stop). The links between DFI operations and these kinds of risks seem not to have been sufficiently explored and addressed.

Based on our mapping of the use of different instruments, this section presents a number of key issues that need to be addressed when assessing the full effectiveness of financial instruments used by DFIs (see Table 6).

From an investor's perspective, equity is associated with higher returns but higher risk (see Figure 13). Debt instruments are considered less risky for an investor as they guarantee fixed returns and an obligation to pay an amount of the principal and/or interest. From the recipient company's point of view, both equity and debt imply a cost. In the case of debt, this cost equals the interest paid on the loan, while the cost of equity can be seen as the dividend paid out to the investor. Figure 13 represents the relation between the risk for investors and the cost of capital for the receiving company. Risky investments incur high costs for companies.

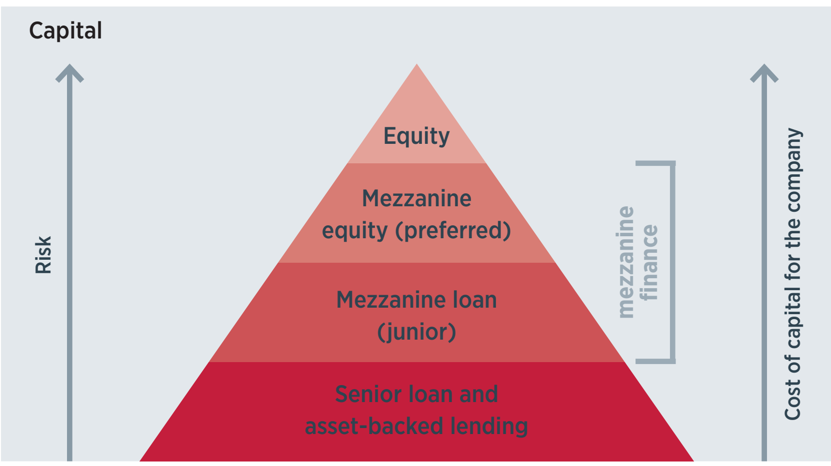
Loans at responsible terms may provide beneficiary companies with long-term finance that is more stable than equity finance, but may be associated with significant debt impacts. When a private borrower who is granted a DFI loan defaults, there are three possible options. First, the DFI can write off the loan without any effect on public debt levels. Second, the donor country can bail out the private borrower, affecting the debt levels of the donor country. Third, the recipient country bails out the private borrower, affecting debt levels in the recipient country. Currently, data on the default rate of DFI-supported investments is missing, which would shed light on the key question: who bears the final risk in case of unsuccessful projects? In the case of Export Credit Agencies, non-performing loans are often written off by donors that take over the costs (in debt relief operations), often with the result that ODA for other purposes is reduced.[70]

Direct equity may increase debt-free financing for beneficiary companies (if it is additional equity and not mere transfer of ownership) and may increase their creditworthiness allowing them to attract additional long-term finance. As direct equity is matched with a certain level of control and influence by DFI shareholders, DFIs may have more leverage to strengthen the capacity of beneficiary companies. High policy leverage is correlated to the strength of the position the DFI takes in the companies' ownership structure. This seems to conflict with the catalysing role of DFIs, which incentivises them to take up small participations, thus maximising their catalysing effect.

Table 6: Possible benefits and potential problems with different instruments

Instrument	Possible provider benefits	Possible recipient benefits	Potential problems
Loans	Contribute to ODA or FDI & other official flows (OOF) – depending on the conditions of the loans	Clear cost of finance – represented by interest More stable than equity in relation to changes in ownership	Potential debt impacts (private and/or public)
Mezzanine	Increased risk compared to senior loans, but higher returns compared to (senior) loans	Lower costs than equity if senior loans unavailable Increased creditworthiness	Additionality very difficult to assess Increases private debt
Blended loan	Fixed returns The face value of the loan is reported as ODA	Reduce perceived risk for projects/ countries Cheaper financing/ additional technical assistance	Unclear financial and development additionality Unclear alignment with partner country development objectives Insufficient transparency and accountability Unclear monitoring and evaluation
Direct equity	High risk and high returns In current DAC statistics 'successful' projects (resulting in profitable exits) are penalised as a negative flow Higher level of control and influence than funds	Increased debt-free financing Increased creditworthiness	Unclear demonstration effect as links between public and private equity in companies' capital is difficult to track Challenging to reach SMEs or informal companies Potential volatility
Investment funds	High risk Easy, cheap and efficient way to diversify portfolios, compared to direct equity First-loss shares catalyse private capital providers	Easy for accessing various investors Increased creditworthiness and access to risk capital	Confidentiality constraints hamper transparency and accountability It can increase private debt if companies are loaded up with debt used to buy them Risk of asset sale out to lower debt burden

Figure 13: Financial instruments, investor risk and company's cost of capital



Source: OECD-DAC, 2013.

Currently, aggregated data is lacking on average DFI stakes in beneficiary companies. Demonstration effects remain unclear, as the links between public and private equity in the company's capital structure can be hard to track by other investors. In general, direct equity is associated with higher levels of volatility than debt finance. DFIs have an objective to leverage additional private investors. These may be active international capital markets and are more likely to move to other sectors and regions following growth and return patterns. This volatility affects market perceptions of companies, which in turn affects the cost of capital.

To minimise operational costs and mitigate lack of knowledge of local markets, DFIs structure equity participations through intermediary investment funds. Intermediary funds present problems such as confidentiality constraints that conflict with essential development effectiveness criteria such as transparency and accountability. Other issues include a risk of increasing private debt when investors off-load the cost of the sale on the company, which may lead to the sale of assets to deal with this debt burden. Likewise, blended loans to private companies raise several concerns in relation to financial and development additionality, alignment with partner country development objectives, insufficient transparency and accountability and unclear monitoring and evaluation.[71]

DFIs claim to be 'demand-driven' institutions that address the specific needs of private sector entities. They develop and offer financing instruments with the objective of addressing these demands. However, these instruments may or may not fit into the national development strategies of the countries where DFI clients operate. This is an important issue that is also linked to the ownership structures of DFIs, which in most cases are heavily influenced by countries from the global north with mandates and objectives that are often multiple (see Box 2 – Drivers for DFI operations).

Part 3: Key challenges and risks for DFI operations

Financial instruments aiming to leverage private investment for development are becoming more diversified and complex. Apart from different forms of lending, DFIs are increasingly making use of various equity and risk-mitigation instruments such as guarantees. Their selection of instruments could challenge the way that these institutions ensure their development mandates are effectively met. This could also expose beneficiary countries to additional risks such as macroeconomic problems, financial instability and volatility. As institutions with a development mandate, DFIs should take these risks into account.

In this part of the report, we present several challenges in the form of questions that need to be answered and analysed properly by the wider development community. We also analyse some of the most relevant issues from a civil society point of view as a way of contributing to this discussion. The challenges presented in Table 7 have a dual nature:

a) they relate to development effectiveness principles, such as transparency, accountability, country ownership, alignment with national development strategies and policy coherence for development;

b) they relate to the financial 'ecosystem' to which DFIs want to contribute.

A. Development effectiveness principles

1. Focus on development and responsible finance standards

DFIs face important challenges demonstrating causal effects on poverty reduction in developing countries, including impacts on reducing inequality, on women's rights and on marginalised groups. This is partially due to the nature of investing in the private sector, where social outputs are not normally the objective of the private sector partner, and are difficult to measure. DFIs have developed different systems for assessing the impact of their operations, among them the IFC's DOTS, the DEG's Corporate Policy Project Rating (GPR) and the EIB's Results Measurement framework (ReM). However, despite recent efforts to try to harmonise practices and systems, it is still very difficult to compare 'development impact' on the basis of the available data.

Some ex-post evaluation reports have cast doubt on the real impacts of DFI operations and challenged the way DFIs decide their investment strategies. In the case of the IFC, an IEG evaluation report from 2011 on the IFC's poverty focus and its effectiveness for greater poverty impact, demonstrated that the investments the IFC makes do not specify poverty eradication as a clear goal of the investments. Projects are designed to contribute to growth and therefore may have poverty effects. However, it has been challenging for IFC to incorporate distributional issues in interventions. According to the report, "*fewer than half the projects reviewed for this evaluation included evidence of poverty and distributional aspects in project design*".[72]

In addition, a recent evaluation of FMO focused on whether the institutional set-up is geared towards generating development results, and is not conclusive about whether development outcomes are actually driving investment decisions.[73] It states that, in 50% of the sample, the ex-ante expectation on development impact was more positive than the ex-post results.[74] In addition, it mentions that "*there is very little information or analysis available (...) to demonstrate development impact or additionality comprehensively*".[75]

Arising from their development mandates, DFIs employ environmental, social and fiduciary standards that set minimum conditions and benchmarks to measure performance. These safeguards have different functions, such as preventing and mitigating harm, steering investment decisions and providing a basis for monitoring and evaluation and accountability mechanisms. Currently, discussions in relation to these revolve around two separate issues. The first one is substantial and asks whether safeguards address all relevant aspects related to sustainable development. The second one is more procedural and asks questions about the implementation of safeguards in actual investment policies.

Standards and safeguards may differ considerably between DFIs, resulting in different criteria for measuring the performance of projects. As DFIs often operate jointly, different standards and criteria are imposed on the same projects, making cross-DFI comparisons of performance extremely difficult. Moreover, as DFIs often operate in syndications or joint ventures, variations in standards and safeguards increase the transaction costs for separate DFIs and for the recipient company.

Although the IFC's Performance Standards have become globally recognised as a benchmark for

Table 7: Mapping of relevant issues

Issues	Key questions
a) Development effectiveness principles	
Contribution to development objectives	– How ambitious are DFIs in fulfilling their development mandates? – Are development objectives actively promoted, monitored and evaluated?
Responsible finance standards	– Are sufficient safeguards in place to ensure responsible finance practices in terms of environmental and social rights? – Do safeguards proactively guide investment decisions? – Are safeguards proactively promoted by DFI operations? – Are safeguards implemented in due course?
Transparency and accountability	– Do all stakeholders have the right to access sufficient information to scrutinise and participate in an informed way? – Are DFIs accountable to affected communities and the general public? – Are affected communities able to submit a formal complaint through an independent complaints mechanism, if they deem to be affected by DFI operations?
Governance and ownership	– Do governance structures include all relevant stakeholders? – Do governance structures guarantee alignment with national development priorities? – Are decision-making processes democratically guided?
Coherent policies	– Are the impacts of different policies/aspects of DFI operations considered from a development perspective, i.e. taxation, climate change, food security?
b) Macroeconomic principles	
Financial sector development	– What model of financial sector and financial market development is promoted by DFI operations? – What kind of financial instruments are most suitable for different kinds of economic sectors?
Integration in global financial system	– What are the trade-offs related to integration in the global financial system? – In what ways do DFI investments affect debt risks for developing countries and firms?
Differentiation	– What financial sectors are most effective in different stages of economic development?

environmental and social risk management, there are still considerable differences in DFI standards. In 2012, the IFC Performance Standards were revised following a multi-year consultation process.[76] These revised standards make up an important part of the IFC's updated sustainability framework. Key changes included: the categorisation of financial intermediaries' projects according to risk; a requirement for free prior and informed consent from indigenous peoples in certain situations; the addition of protection for migrant workers; strengthened transparency on greenhouse gas emissions; better integration and evaluation of biodiversity; the disclosure of extractives project contracts; and the promise of more project-level information. However, the revised performance standards have been criticised for being too weak on human rights due diligence to ensure that communities affected by the IFC's activities are protected,[77] as well as for its lack of independent verification or adequate disclosure of its monitoring and supervision reports and weak language on free and prior informed consent.[78]

In recent years, bilateral DFIs have engaged in different standard harmonisation exercises, although all of them are voluntary initiatives and some civil society groups have questioned them for being insufficient and inadequate.[79] In 2009, EDFIs developed EDFI Harmonised Standards for co-financed projects, which are also applicable to investments made by FMO, Proparco and DEG. The IFC Performance Standards provide a reference for many bilateral DFIs, although they are developing more hybrid models integrating environmental, social and corporate governance (ESG) and/or corporate social responsibility (CSR).

For instance, FMO adopted four other international schemes that should ensure the sustainability of its operations: the OECD guidelines on multinational enterprises; the United Nations Principles for Responsible Investment (UNPRI); the Global Impact Investing Network (GIIN); and the UN Environment Programme Finance Initiative (UNEP FI). Proparco also uses the Performance Standards as a reference and also adopted the Global Compact. These schemes also take national laws in beneficiary countries into account. In the case of FMO, the IFC Performance Standards and OECD guidelines for multinational companies are seen as an absolute minimum. International laws will apply if these impose higher standards.

The implementation of safeguards and standards has often been developed with direct operations in mind, while recent increases in intermediary investment pose specific challenges to standards, monitoring and evaluation. Intermediary lending, as well as dealing with suppliers and subcontractors within global value chains, present particular challenges to due diligence procedures. In order to fulfil their development mandates, DFIs should actively promote the standards they subscribe to with beneficiaries and other financiers they are partnering with. This means DFIs should set objectives for active rather than passive demonstration effects in terms of responsible finance standards. Currently, there is not enough information in the public domain to make an assessment about how DFIs are engaging with clients to reach such active demonstration effects. Available reports cast doubt over whether DFIs are actually successful in fulfilling this objective, which is a crucial element of the development rationale for DFIs.[80]

2. Transparency and accountability

Based on a narrow understanding of DFI mandates, DFIs could regard their fund managers and private sector clients as their main stakeholders, since they are mainly accountable to them, in practice, without clients there is no 'business'. As development actors, however, DFIs should be accountable to a variety of actors and provide meaningful information that enables public scrutiny and mechanisms for the participation of affected communities. As most DFIs are at least partly owned by donor governments, consultations with donor governments are common, although a recent report from the OECD refers to "*very little evidence of any co-ordination attempts*"[81] in this regard. In any case, parliamentary scrutiny is rarer. Dialogues with CSOs, both in donor and beneficiary countries, and governments and parliaments of beneficiary countries are also unusual. As DFIs often claim, at the project level, stakeholder consultations are required by the IFC Performance Standards, including the establishment of grievance mechanisms both at the level of project-affected stakeholders, as well as the personnel of the investee companies. However, questions often arise in terms of proper implementation of what is written on paper.

While the three multilateral DFIs analysed for this report have already put in place independent redress mechanisms some time ago, developments at a bilateral level in this area are more nascent. In January 2014, FMO[82] and DEG[83] established an independent complaints mechanism, which in the case of the former involved consultation with CSOs. It remains to be seen how these mechanisms will impact on the investments of these institutions.[84] Accountability to affected communities means an active involvement of national and local stakeholders on the basis of an informed process. In addition to these mechanisms, the institution of an ombudsman usually facilitates communication with the local population, decentralised decision-making with delegated authority to local representations and country-level working groups with government and aid agencies. These would also be important instruments to strengthen accountability. Furthermore, views of affected populations and beneficiary countries should be involved in planning, monitoring and evaluation efforts to align them with agreed development effectiveness principles.

Currently, transparency standards are not consistent with development effectiveness principles, especially when dealing with financial intermediaries. Independent evaluations have concluded that DFIs' transparency vis-à-vis the general public is limited, which in turn constrains the ability of stakeholders to effectively exercise external control.[85] This lack of information is often justified based on banking secrecy and protection of their own and business partners' commercial interests. As DFIs are publicly backed institutions with development mandates, they should adhere to transparency standards applicable to other development actors.

Generally, multilateral DFIs seem to do a better job of disclosing information. The IFC discloses all commercially non-sensitive information. This means financial information on the project level and non-financial information regarding contractual relationships are not disclosed, but periodic updates that include development and risk ratings of projects are available. In 2010, the EIB adopted a revised transparency policy, following a consultation with relevant stakeholders[86] and a new review process was recently launched. This policy means that currently the EIB publishes information in advance about new projects, including environmental and social assessments. The EIB has also joined the International Aid Transparency Initiative (IATI), a voluntary multi-stakeholder initiative seeking to increase access to aid information. Although this is a good step towards more transparency on aid spending, it presents particular challenges to capture flows aimed at leveraging private sector investment.[87]

At the bilateral level, FMO's recent disclosure policy that includes institutional information, policies and procedures could be seen as the most far-reaching among bilateral DFIs. However, it is still below IFC practices in this regard.[88] In the case of DEG, although it joined the Extractive Industries Transparency Initiative (EITI) in 2010 (the three multilateral DFIs in our sample are also part of the initiative), and the Corporate Governance Development Framework,[89] it is by far the institution with the least formalised and comprehensive policy in terms of transparency and disclosure of information as it refers to the German Banking Secrecy Law.

3. Governance and ownership

Ownership of developing countries is a key principle for development effectiveness, recognised by various international commitments made by the donor community. Applied to development finance, this could mean working in closer cooperation with developing country governments and national development banks. DFIs could apply their resources to increase corporate and 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. This would increase the additional and catalytic role of DFIs, as national development banks have a proven track record as countercyclical investors and have huge potential to mobilise domestic savings.[90] In order to develop effective strategies on working with national development banks, there is a need for upgrading their social and environmental standards, as some of them have been challenged for having little regard for the impacts of their lending.[91] There is also a need to address important knowledge gaps on the impact of these institutions on the development of local financial systems.

Multilateral and bilateral DFIs do not have governance structures that are conducive to involving the participation of governments and citizens from developing countries. Beneficiary countries are not represented in the governance structures in most DFIs, which constrains the definition of coherent policies in line with national development strategies and priorities, although in some cases country strategy papers, drawn-up in consultation with partner countries, are drafted. As mentioned in part 1 of this report, the voting power of the IFC and the ADB is based on capital stock, which means that high-income countries have over 70% of voting power in the case of the IFC, while in the case of the ADB, members of the OECD hold 58.5% of total voting rights. Whereas the EIB is owned by EU member states, bilateral DFIs just have governing bodies according to their own shareholding.

Most DFIs such as Proparco, FMO and DEG have regional representatives in the field that could potentially liaise with local governments and citizens in a more systematic way. Currently, these offices have very limited resources, cover a group of countries and/or regions and are mainly focused on managing the first end of the project pipeline, although each DFI has its own specific way of working at the country level and maintaining relations with national governments. Another way of dealing with this issue is the establishment of advisory boards on which civil society, developing country counterparts and other stakeholders are represented.

4. Coherent policies

As development actors DFIs can have additional spillover effects in other policy areas, thereby maximising development additionality. For instance, we present two areas in which DFIs can strengthen these positive spillover effects:

4.1 Tackling illicit financial flows and potential tax evasion and avoidance

Previous research conducted by civil society groups and academics[92] shows that DFIs often structure investments through offshore financial centres (OFCs), which enable massive illicit capital flight from developing countries. Although there is an overwhelming recognition of the negative impacts of channelling investments through OFCs for domestic resource mobilisation in developing countries, their practices are in fact indirectly legitimising the potentially harmful use of such jurisdictions. Not addressing illicit finance could undermine and counter the development results that DFIs set out to achieve.

In recent years both bilateral and multilateral DFIs have formulated specific guidelines to deal with transparency issues related to the use of OFCs. These guidelines are mostly based on the OECD Global Forum Peer Review process, which assesses countries against ten evaluation criteria in relation to the availability of and access to tax information, and tax information exchange. Implementation of these guidelines varies significantly between different DFIs. The reports of the Global Forum inform the IFC and EIB's board on whether to invest in a company operating in an OFC.[93] According to critical views from think tanks and civil society groups, this approach has proven to be ineffective as it has not resulted in significant changes in investing structure patterns, and finance through financial intermediaries remains sensitive to tax evasion practices.[94] Currently, CSOs are pushing both institutions to review their policies to detect tax evasion and avoidance risks that endanger the bank's reputation and undermine development efforts.

EDFI members have agreed to a number of guidelines that set out criteria related to the use of offshore financial centres. These are non-binding and it is up to individual DFIs to set up their own policies. In the case of Proparco, the AFD group informed civil society groups, just in June 2014, about the internal rules adopted in 2009. According to the AFD group, these rules prohibit the use of financial intermediaries located in non-cooperative jurisdictions, on the basis of the French list of non-cooperative countries and territories. Several civil society organisations, however, argue that this list does not include the most important secrecy jurisdictions. At the same time, the "General Policy on Combating Corruption, Fraud, Anti-Competitive Practices, Money Laundering and Terrorist Financing" approved in Novermber 2012 by the AFD board stipulates that attention should be paid to OFCs only when receiving accounts changed their location to non-cooperative territories and when payments came from these same territories. The policy does not mention the prohibition of investments in financial intermediaries registered in such jurisdictions. Finally, in May 2013 Proparco adopted a formal policy regarding the use of OFCs. According to AFD, this policy serves as the extension of the aforementioned rules from 2009. The French list of non-cooperative countries and territories now also includes countries that failed to pass Phase I of the OECD Global Forum peer review process. FMO, in contrast, has 'adopted' EDFI guidelines but so far there is not a specific internal policy on this issue. FMO claims that it is currently developing a framework to create more insights into tax payments by its clients using its influence as financier.

4.2 Targeting climate change

In view of the urgency of the climate crisis, it is imperative that development strategies include the objectives of building resilience and adaptive capacities to climate change impacts and making the shift to carbon free development as quickly as possible. Financing of carbon intensive sectors such as natural gas, oil and coal have been part of DFI strategies addressing 'energy deficits'. Both the IFC and the ADB, for instance, devote a sizeable share of its investments to fossil fuel projects.

In recent years, these two institutions and the other multilateral and bilateral DFIs in this sample have taken on the challenge of climate change. As part of their response, they have formulated strategies and/or policies in the areas of 'clean energy' and 'energy efficiency'. However, projects financed under these programmes include – but are not limited to – renewable energy such as hydro, solar and wind power. Their investments in 'clean energy' also cover fossil fuel projects such as 'clean coal' under the logic of shifting to 'lower emission' fuels.

However, energy investments of many DFIs remain inconsistent with their policy pronouncements to promote the shift away from fossil fuel. Investments in fossil fuels still far outweigh investments in 'clean energy'. From 2008 to 2013, the World Bank invested a total of $21 billion in fossil fuel with the IFC accounting for $9.47 billion invested in the form of loans, equity and guarantees. In contrast, during the same period the World Bank invested only $9.75 billion for 'clean energy' of which the IFC provided $2.98 billion. Moreover, these investments include fossil fuel exploration projects for which the World Bank invested more than $3.1 billion. Of this amount, $2.3 billion was provided by the IFC.[98]

DFIs have also taken on other programmes aimed at climate change. Different institutions are boosting finance for climate adaptation and mitigation projects using different instruments such as blended finance, public-private partnerships (PPPs) and World Bank hosted trust funds (Climate Investment Funds). FMO even launched a scheme auctioning sustainability bonds to airline company KLM and the sustainable bank Triodos. Some institutions, such as the EIB, have set specific targets for investing in climate change adaptation and mitigation. The EIB aims to commit 25% of its portfolio to climate change, increasing operations outside the EU in this field as well.

However, many of these programmes have been criticised by CSOs for using market-based approaches to adaptation and mitigation and promoting carbon markets.[99] Serious questions have been raised regarding the efficacy of these 'solutions' to reducing emissions and delivering development outcomes, and the negative consequences to communities. Many question the underlying framework of treating nature as capital and the impact of commodification and financialisation of what is essentially a public good (emissions reduction and achieving stable global temperatures).

B. Macroeconomic risks

1. Financial sector development

While we do not challenge the potential role of the financial sector in promoting development, questions remain as to which financial sector is needed and what are the appropiate ways to foster local enterprise development and growth and sustainable development of the local economy.

Most DFI portfolios are concentrated on financial sectors and financial market development is increasingly emphasised in private sector development strategies. This focus is justified based on the argument that well-operating financial markets are a basic requirement for an efficient market economy and are lacking in most developing and emerging economies. Strong and efficient financial markets will ensure that investment is allocated where its is needed most and generates profits. Moreover, DFIs channel funds through financial intermediaries to target MSMEs in a more cost-efficient manner. In a way, this indirect business model demonstrates DFIs' inability to reach targeted beneficiaries at the local scale. Other issues related to the indirect lending model include unclear development impacts as a consequence of lack of transparency and accountability.

As to the question about which financial sector DFIs need to support, different economists make a case for developing countries' national development banks (NDBs). They offer the advantage of being closer to clients, in particular when the development bank system is decentralised with independent outlets at provincial and local levels. A 2012 global survey conducted by the World Bank indicates that many of these banks have played an important countercyclical role in recent times of economic turmoil.[100] Donor governments should learn from these experiences and target DFI strategies towards strengthening NDBs and community-based financial institutions and think about ways to improve governance and responsible finance standards designed and implemented by these institutions. Some crucial challenges include targeting development priorities of local producers/SMEs with the 'right' instruments, which in some cases might imply strengthening support to frontier sectors with high added value and local competitive advantages.[101]

2. Integration in global financial markets

DFIs increase the exposure of developing countries to foreign capital markets and investors. Currently, very little is known about the impact of such integration in the global financial system in the growth of MSMEs, certainly in low-income countries.[102] However, DFIs should be aware of the risks associated with the integration of local financial sectors in the global financial systems.

A first risk is associated with external, private borrowing potentially leading to unsustainable debt situations threatening financial stability. The recent debt crises in the US and Greece have shown that existing oversight mechanisms were incapable of monitoring and mitigating unsustainable debt risks. These experiences show how private debt may end up as public debt through explicit or implicit government guarantees, which is known as contingent liabilities. In many developing countries, this institutional framework is a lot weaker so that actual magnitudes of private debt and related risks are not known to regulators and policy-makers. Moreover, regulatory norms cannot simply be taken from developed economies and transplanted to developing countries. Governments should think about appropriate regulatory mechanisms and safeguards to deal with potential debt unsustainability.

Regulatory mechanisms are also needed to monitor and control equity flows to developing countries. Apart from long-term direct investments, capital flows to developing countries also contain indirect investments (short-term portfolio investments). Both types of capital inflows are part of different investment policies and need different types of regulation. Equity instruments are not necessarily less problematic than debt instruments, but problems associated with them are of a different nature. It is often argued that developing countries will be less vulnerable to external financing difficulties if current account deficits are financed largely by FDI inflows, rather than debt-generating capital flows. This argument goes beyond the complex nature of FDI, which is often funded by debt.

There are a number of reasons why a more cautious approach to FDI is appropriate:

i) when considering repatriated profits as the 'price', FDI can be very expensive, especially for low-income countries

ii) investors can shift financial resources very easily from one country to another thereby making FDI, and especially greenfield FDI, a very volatile source of finance

iii) FDI investors often use derivatives such as currency swaps and options that may put local currencies under pressure, thereby contributing to volatility

iv) FDI is pro-cyclical with large inflows during periods of high growth and outflows during recessions

v) FDI can have negative 'second-round' balance of-payments effects, as foreign corporations tend to import a larger share of their inputs.[103]

3. A differential approach towards the financial system

There is a potential conflict between DFI objectives regarding leveraging private capital and their development mandate urging them to maximise additionality and catalytic effects. As private capital flows mainly concentrate on higher income countries and emerging markets, high leverage ratios will likely be achieved there. On the other hand, additionality is higher in less developed economies. Financial markets in low-income countries are often dominated by large banks that generate high profits focusing on large (foreign) corporations and governments. They have few incentives to diversify into other sectors with lower profits and higher risks (agriculture, MSMEs).

This means that DFIs need to rethink their operations in low-income countries based on a strategic reflection of the role and structure of a financial sector that is conducive for sustainable development. This should be inclusive and led by developing country actors. This reflection might find that low-income countries, for instance, are better served by a large number of small banks serving local areas and sectors they understand well. This reflection could also look at which financial services are actually most important for poor people and how to deliver these.

Lending and investment of both multilateral and bilateral DFIs has seen a dramatic increase as part of development strategies focusing on private sector-led growth and cross-border private investment as an alternative for other forms of development finance. Instruments used by DFIs are becoming more diverse and complex. Apart from different forms of loans, DFIs are increasingly making use of various forms of equity and risk-mitigation instruments such as guarantees.

DFIs are increasingly focused on the financial sector as a way to support this sector directly or to use it as a third-party financial entity that is set to lend to

Conclusions

other entities. This is a big change in comparison to DFIs' previous focus on direct lending operations, and poses important challenges in terms of transparency, accountability and development impacts.

As this report shows, DFIs target individual companies operating in developing countries using specific instruments. However, not all of them are suitable for different actors and contexts. They have an impact on the macroeconomic situation and the size and structure of the financial system in receiving countries. These private capital flows may increase these countries' exposure to macroeconomic risk, financial instability and volatility (the reversal or halting of capital flow reversal). The links between DFI operations and these kinds of risks seem not to have been sufficiently explored and addressed.

DFI operations and their choice of financial instruments are challenged by the huge need for financial resources aimed at financing development needs. As discussed in section 3 of this report, for DFIs to reach their potential as development actors, there need to be detailed considerations on the impacts of their operations and the standards that they promote. DFIs should also go beyond 'do no harm' principles to actively promoting responsible finance standards, which also include substantive progress on transparency and accountability, developing country ownership and policy coherence for development. Civil society groups have made a substantive contribution to this work over the years, by pushing multilateral and bilateral DFIs to improve their standards and practices. However, much more work needs to be done in order for them to contribute to sustainable development.

While we do not challenge the potential role of a performing financial sector in promoting development, questions remain as to which financial sector is needed and what are the appropiate ways to foster local enterprise development and growth and the sustainable development of local economies. However, a strategic reflection led by developing country actors is necessary. Further research is also needed on the macroeconomic implications of DFI operations, such as issues related to financial sector development, integration in global financial systems and strategies that suit different types of companies and countries.

Annex A: Methodology

This research is based on information gathered from annual reports and policy documents publicly available for the three multilateral DFIs, three bilateral DFIs, the Association of European DFIs (EDFI) and other information publicly available on the institutions' websites.

Based on this information, a database was developed for each institution including figures on portfolio assets, annual commitments, instruments used, sectors and regional focus for the period 2008-2012.

Further analysis is based on research papers and official documents. Academic experts, think thanks and officials from the institutions included in this report were contacted at different stages of the research.

Annex B: OECD-DAC classification of instruments

Broad types		Grants			Loans		Equity			Risk mitigation instruments (incl. non-flow products)				
COUNTRY/ AGENCY	Specific Instruments	Public-Private Partnership	Interest subsidy	Technical assistant grant	Senior loan	Line of credit	Direct investment	Portfolio investment	Investment in private equity funds	Subordinated loan	Performance- based loan	Convertible loan	Preferred shares (equities)	Guarantees
AUSTRIA	OeEB			x	x	x		x	x	x	x			x
BELGIUM	BIO				x			x		x		x		x
DENMARK	IFU				x			x						x
EU INSTITUTIONS	EIB		x	x	x	x		x	x	x	x	x		x
FINLAND	FINNFUND	x			x	x		x	x	x				x
FRANCE	PROPARCO			x	x	x		x	x	x	x	x		x
	AFD			x	x	x		x	x	x	x	x		x
GERMANY	DEG	x		x	x			x		x				x
	KfW		x	x	x									
ITALY	SIMEST		x	x	x		x	x	x	x		x		
JAPAN	JBIC				x			x	x				x	x
KOREA	KEXIM				x									x
NETHERLANDS	FMO			x	x			x	x	x		x		x
NORWAY	NORFUND			x	x			x	x	x		x	x	x
PORTUGAL	SOFID				x			x						x
SPAIN	COFIDES				x		x	x	x	x	x			
SWEDEN	SWEDFUND							x	x	x	x	x	x	
SWITZERLAND	SIFEM			x	x		x	x	x					
UNITED KINGDOM	CDC			x	x		x	x	x					x
UNITED STATES	OPIC				x				x					x

Annex C: OECD-DAC survey of guarantees for development

List of countries and institutions in the sample

Responders (country and institution)	Guarantees for development?	Amount mobilised 2009-11 $million)
Australia – AUSAID	No response	
Austria – Oesterreichische Entwicklungsbank AG	Yes	304.3
Belgium – DGDevelopment, Ministry of Foreign Affairs	No	
Canada – Export Development Canada	No	
Denmark – DANIDA	No	
European Union – EuropeAid; EIB	No response	
Finland – FINNVERA	Yes	209.1
France – Agence Francaise de Développement; PROPARCO	Yes	1116.1
Germany – KfW; DEG	Yes	62.9
Greece – Ministry of Foreign Affairs	No	
Ireland – DFA	No response	
Italy – Ministry of Foreign Affairs – General Directorate for Development Cooperation	In the near future	
Japan – MFA; JICA; JBIC	No	
Korea – KEXIM	In the near future	
Luxembourg – Directorate for Development Cooperation, Ministry of Foreign Affairs	No	
Netherlands – Atradius, Min. Dev. Coop.; DG International Trade, Foreign Ec. Relations	No	
New Zealand – NZAID	No response	
Norway – NORAD; NORFUND	Yes	29.7
Portugal – SOFID	Yes	3.7
Spain – CESCE	No	
Sweden – SIDA	Yes	12.6
Switzerland – SECO	No	
United Kingdom – DFID; UK Export Finance	No	
United States – USAID; OPIC	Yes	5621.2
Asian Development Bank (ADB)	Yes*	
African Development Bank (AFDB)	Yes**	139.5
Arab Fund for Economic and Social Development (Arab Fund)	No	
Arab Bank for Economic Development in Africa (BADEA)	No	
Caribbean Development Bank (CDB)	No	
Credit Guarantee and Investment Facility (CGIF)	In the near future	
Climate Investment Funds (CIF)	No response	
European Bank for Reconstruction and Development (EBRD)	Yes***	
Inter-American Development Bank (AIDB)	Yes ****	
Int. Bank for Reconstruction and Dev./Int. Dev. Association (IBRD/IDA)	Yes	
International Fund for Agricultural Development (IFAD)	No	
International Finance Corporation (IFC)	Yes****	
Islamic Development Group [ISDB (ICIEC)]	Yes	
Multilateral Investment Guarantee Agency (MIGA)	Yes	
Nordic Development Fund (NDF)	In the near future	
OPEC Fund for International Development (OFID)	No response	
Private Infrastructure Development Group (PIDG) – GuarantCo	Yes[b]	144.2

* Issues both long and short-term guarantees. Only short-term guarantees were reported as no long-term guarantee was issued in the period 2009 to 2011. Data on short-term guarantees is not reported in this table as not comparible to long-term guarantee data.

** Issues both long and short-term guarantees. Only long-term guarantees were reported as no short-term guarantee was issued in the period 2009 to 2011.

*** Issues both long and short-term guarantees. Both were reported to the Survey, however long-term guarantees were excluded from the analysis as the investor was a multilateral organisaion (not private).

**** Issues both long and short-term guarantees; both were reported to the Survey.

[a] The gross exposure was used as a proxy of the amount mobilised. [b] The gross exposure was used as a proxy of the amount mobilised.

Endnotes

1 European Commission (2013) *EU Accountability Report 2013 on Financing for Development Review of progress by the EU and its Member States.* See http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/financing_for_dev_2013_accountability_report_01_en.pdf

2 Griffiths, J. (2014) *Did aid really rise in 2013? It's too early to tell.* Eurodad. See http://www.eurodad.org/Entries/view/1546198/2014/04/24/Did-aid-really-rise-in-2013-It-s-too-early-to-tell

3 Development Initiatives (2013) *Investments to End Poverty.* See http://devinit.org/report/investments-to-end-poverty/.

4. Ibid.

5 Ibid.

6 Intergovernmental Committee of Experts on Sustainable Development Financing (2014) *The Future We Want.* See http://sustainabledevelopment.un.org/index.php?menu=1558

7 Communiqué, Meeting of Finance Ministers and Central Bank Governors, Sydney, 22-23 February 2014.

8 European Parliament resolution of 23 October 2012 on an Agenda for Change: the future of EU development policy. See http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2012-0386&language=EN

9 European Parliament resolution of 13 June 2013 on the Millennium Development Goals – defining the post-2015 framework. See http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2013-0283+0+DOC+XML+V0//EN

10 European Parliament (2014) *Financing for Development post-2015: Improving the contribution of private finance.* See http://www.europarl.europa.eu/RegData/etudes/etudes/join/2014/433848/EXPO-DEVE_ET(2014)433848_EN.pdf

11 OECD-DAC (2012) Communiqué. See http://www.oecd.org/dac/externalfinancingfordevelopment/documentupload/HLM%20Communique%202012%20final%20ENGLISH.pdf

12 measurement and monitoring of external development finance. See http://www.oecd.org/dac/externalfinancingfordevelopment/documentupload/DCD-DAC(2012)48-REV2-ENG.pdf

13 Development Initiatives (2013) *Investments to End Poverty.* p128. See http://devinit.org/report/investments-to-end-poverty/.

14 OECD-DAC (2014) Development Finance – Modernising Official Development Assistance (ODA). Options for modernizing the ODA measure. See http://www.oecd.org/dac/externalfinancingfordevelopment/documentupload/ERG%20S1%20Jan%202014%20-%20Options%20for%20Modernising%20the%20ODA%20Measure%20DCD-DAC-2014-3-ENG.pdf

15 IFC (2011) *International Finance Institutions and Development through the Private Sector, A joint report of 31 multilateral and bilateral development finance institutions. Washington,* http://www.miga.org/documents/IFI_report_09-13-11.pdf

16 World Bank Group (2014) *Optimizing World Bank Group Resources and Supporting Infrastructure Financing.* See https://www.g20.org/sites/default/files/g20_resources/library/Optimizing%20World%20Bank%20Group%20Resources%20and%20Supporting%20Infrastructure%20Financing.pdf

17 EDFI. (2013). Annual Report 2012.

18 Ibid.

19 International Finance Corporation website. See http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+syndications/overview_benefits_structure/syndications/preferred+creditor+status/preferredcreditorstatusdefaultcontent

20 Standard and Poors Ratings Services (2014) Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. McGraw Hill Financial. See http://www.fmo.nl/l/library/download/urn:uuid:4f8c826f-5eed-4b75-bbb7-6227670ffd5c/fmo+sp+rating+february+2014.pdf?format=save_to_disk&ext=.pdf

21 ADB's non-sovereign operations refer to direct financial and technical support to entities that are majority owned by the private sector as well as to sub sovereign entities majority owned by the public sector that can contract and obtain financing independently. Committed portfolio includes non-disbursed amounts as of year-end.

22 International Finance Corporation. See http://www.ifc.org/wps/wcm/connect/245e688046d87eebaaebae5198539f7e/IFC-Directors-VotingPower-2009.pdf?MOD=AJPERES

23 Asian Development Bank. See http://www.adb.org/site/investors/credit-fundamentals/shareholders

24 Detail for DEG financing from ODA/trust funds: €68.8 million from BMZ; €4.2 million for loans to private sector in Afghanistan (Existenzgründungsdarlehn); €2.3 million from USAID; €1 million from German Ministry of Environment, BMU. Above includes portfolio and consultancy, €66 million is portfolio only, but no detail on how much of the above figures by sources are portfolio and consultancy fees. See https://www.deginvest.de/DEG-deutsche-Dokumente/PDFs-Download-Center/DEG_Annual_Report_2012.pdf

25 Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG). See https://www.deginvest.de/International-financing/DEG/Die-DEG/Was-wir-tun/

26 Development Finance, Deutsche Investitions- und Entwicklungsgesellschaft mbH. See https://www.kfw.de/KfW-Group/About-KfW/Auftrag/Entwicklungsfinanzierung/

27 According to Proparco, for instance, AFD equity provided to Proparco must be remunerated on the same terms as that provided by private shareholders.

28 Te Velde, D.W. & Warner, M. (2007) *Use of subsidies by Development Finance Institutions in the infrastructure sector, ODI Project Briefing.* See http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/604.pdf

29 Ibid.

30 FMO (2012) Annual Report.

31 Kingombe, Massa and Te Velde, W. (2011) *Comparing Development Finance Institutions. Literature review.* ODI. States that while DEG reports equity as ODA it does not report loans. CDC reports net equity flows as ODA. According to Proparco, its activities are currently not reported as ODA.

32 Colin, S. (2013) *A matter of high interest. Assessing how loans are reported as development aid.* Eurodad. See http://www.eurodad.org/files/pdf/52dfd0d16a841.pdf

33 Parliamentary debates on the operations of DFIs have surged in countries such as the UK. See http://www.parliament.uk/business/committees/committees-a-z/commons-select/international-development-committee/inquiries/the-future-of-cdc/) and Belgium (http://eurodad.org/1545936/). These debates have centred around the development impact of DFI investments and ensuring responsible financing principles, including the issue of structuring investments through offshore financial centres.

34 Griffiths, J. et. al. (2014), op. cit.

35 ActionAid, Bretton Woods Project, Campagna per la riforma della Banca Mondiale, Christian Aid, Eurodad and Third World Network (2010) *Bottom lines, better lives? Rethinking multilateral financing to the private sector in developing countries.* See http://www.brettonwoodsproject.org/2010/04/art-566197/

36 Eurodad (2010) *Development diverted: How the International Finance Corporation fails to reach the poor.* See http://www.eurodad.org/Entries/view/4304

37 Counter Balance (2010) *Hit and run development.* See http://www.counter-balance.org/new-counter-balance-report-hit-and-run-development-2/

38 Bretton Woods Project (2010) *Out of sight, out of mind?* See http://www.brettonwoodsproject.org/2010/11/art-567190/

39 Bracking, S. (2011) *Investing in private sector developmentL what are the returns?* Norwegian Church Aid. See http://www.kirkensnodhjelp.no/PageFiles/1891/NCA_report_investing_in_private_sector_development.pdf

40 Oxfam (2012) *Risky business.* See http://www.oxfam.org/en/grow/policy/risky-business

41 Bretton Woods Project (2012) *Leveraging private sector finance: how does it work and what are the risks?* See http://www.brettonwoodsproject.org/wp-content/uploads/2013/10/leveraging.pdf

42 Eurodad (2012) *Cashing in on climate change.* See http://www.eurodad.org/files/pdf/520a339c76626.pdf

43 Eurodad (2012) *Private profit for public good.* See http://eurodad.org/Entries/view/1543000/2012/05/29/Private-profit-for-public-good-Can-investing-in-private-companies-deliver-for-the-poor

44 Van de Poel, J. (2012) *Doing business to fight poverty. An evaluation of the Belgian Investment Company for Developing Countries.* 11.11.11. See http://www.eurodad.org/files/pdf/520a375cc0bb6.pdf

45 Bretton Woods Project (2014) *Follow the money. World Bank Group and the use of financial intermediaries.* See http://www.brettonwoodsproject.org/2014/04/follow-the-money/

46 OECD-DAC (2013) DAC Working Party on Development Finance Statistics. Possible update to classification by type of finance: revised proposal, OECD, Paris; IMF (2009) Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual. See http://www.imf.org/external/pubs/ft/bop/2007/pdf/chap5.pdf

47 IFC, Partnering with IFC syndications. See http://www.ifc.org/wps/wcm/connect/3c285c004cb885b88de5cdf81ee631cc/Syndications+Brochure+-+Oct+2013.pdf?MOD=AJPERES

48 DEG (2010) *Providing mezzanine capital for international green energy investment.* Presentation for BMU-KfW Conference, Berlin. See https://www.kfw-entwicklungsbank.de/migration/Entwicklungsbank-Startseite/Entwicklungsfinanzierung/Umwelt-und-Klima/Zahlen-Daten-Studien/Studien-und-Publikationen/BMU-Overbeck.pdf

49 EDFI (2012) Annual Report. See http://www.edfi.be/news/news/30-2012-annual-report.html

50 According to the OECD-DAC, the 'amount mobilised' by a guarantee is the full nominal value of a loan or equity stake to which the guarantee relates, regardless of the share of this value covered by the guarantee.

51 Mirabile, M., Benn, J. & Sangaré, C. (2013) *Guarantees for Development, OECD Development Co-operation Working Papers no. 11*, OECD Publishing, http://dx.doi.org/10.1787/5k407lx5b8f8-en

52 Bretton Woods Project. (2012). *Leveraging private sector finance. How does it work and what are the risks?* See http://www.brettonwoodsproject.org/2010/11/art-567190/

53 MIGA (2011) FY12-14 *Strategy: achieving value-driven volume.* See http://www.miga.org/documents/MIGA_FY12-14_Strategy.pdf

54 MIGA (2014) Annual Report 2013. See http://www.miga.org/documents/Annual_Report13.pdf

55 World Bank Group (2014) *World Bank President Sees $100 Billion Increase in Lending Ability to Help End Poverty*, Press Release, 1 April 2014. See http://www.worldbank.org/en/news/press-release/2014/04/01/world-president-100-billion-increase-lending-poverty

56 IEG (2013) *Assessing the monitoring and evaluation system of IFC and MIGA.* Biennial report in operations evaluation, World Bank Group. See https://ieg.worldbankgroup.org/Data/reports/gtfp_eval_0.pdf

57 IEG (2013) *Evaluation of the International Finance Corporation's Global Trade Finance Program, 2006-2012.* World Bank Group. See http://elibrary.worldbank.org/doi/abs/10.1596/978-0-8213-9980-4

58 Lyidvig, A. (2014). *50-year footprint.* See https://www.deginvest.de/DEG-Documents-in-English/Download-Center/Africa-AM_50-years-DEG-Footprint_Weinfurtner_201401.pdf

59 IDA-eligible country commitment numbers reported in the 'Scorecard' section of each IFC annual report.

60 Sumner, Andy (2012) *Where do the world's poor live?* A new update. IDS Working Paper 393, June 2012. See http://www.ids.ac.uk/files/dmfile/Wp393.pdf.

61 Assessing International Finance Corporation's (IFC) Poverty Focus and Results, Independent Evaluation Group, World Bank, April 2011. See http://ieg.worldbankgroup.org/evaluations/assessing-international-finance-corporations-ifc-poverty-focus-and-results

62 Country income level breakdowns are not provided by the IFC, so these were constructed using the IFC project database for all projects that had projected board dates between 1 July 2008 and 30 June.

63 Bretton Woods Project (2014) *Follow the money. World Bank Group and the use of financial intermediaries.* See http://www.brettonwoodsproject.org/2014/04/follow-the-money/

64 Demirguc-Kunt, Asli, Feyen, E and Levine, R (2011) *Optimal Financial Structures and Development: The evolving importance of banks and markets.* World Bank: Washington.

65 Beck, T (2013) *Future research directions,* in: te Velde, D.W. & Griffith-Jones, S. *Sustainable growth and structural transformation in Africa: how can a stable and efficient financial sector help?*, DEGRP Policy Essays.

66 IEG (2014) *The Big Business of Small Enterprises. Evaluation of the World Bank Group Experience with targeted support to small and medium-size enterprises, 2006-12.* World Bank Group. See https://ieg.worldbankgroup.org/Data/reports/chapters/sme_eval1.pdf

67 CAFOD website. *Thinking small.* See http://www.cafod.org.uk/Media/Files/Resources/Policy/Thinking-small

68 Bracking, S. (2009) *Money and Power. Great predators in the political economy of development.* London/New York.

69 Te Velde, D.W. (2011). *The role of Development Finance Institutions in tackling global challenges.* ODI. See http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7310.pdf

70 Eurodad (2011) *Exporting goods or exporting debts? Export Credit Agencies and the roots of developing country debt.* See http://eurodad.org/Entries/view/4735/2011/12/06/Exporting-goods-or-exporting-debts-Export-Credit-Agencies-and-the-roots-of-developing-country-debt

71 Eurodad (2013) *A dangerous blend? The EU's agenda to 'blend' public development finance with private finance.* See http://www.eurodad.org/Entries/view/1546054/2013/11/07/A-dangerous-blend-The-EU-s-agenda-to-blend-public-development-finance-with-private-finance

72 IEG World Bank (XXX) Assessing IFC's Poverty Focus and Results. See https://ieg.worldbankgroup.org/evaluations/assessing-international-finance-corporations-ifc-poverty-focus-and-results

73 "The EDIS [Economic and Economic Development Impact Score] was supposed to be used for steering projects (ex-ante), and whilst there were some who said the development impact did steer their investments (using group targets), others disputed this: rather, the projects were determined by FMO investment criteria (as evidenced by lack of long pipelines of projects). The use of SHIFT indicators may change this." ODI and Carnegie Consult (2014) *Evaluation Nederlandse Financieringsmaatschappij voor Ontwikkelingslanden (FMO-A)*, p.9. See http://www.rijksoverheid.nl/bestanden/documenten-en-publicaties/rapporten/2014/04/25/evaluation-nederlandse-financieringsmaatschappij-voor-ontwikkelingslanden/evaluation-nederlandse-financieringsmaatschappij-voor-ontwikkelingslanden.pdf

74 Ibid. p.72.

75 Ibid. p.9.

76 For more details, see Bretton Woods (2011) *IFC updated performance standards* at http://www.brettonwoodsproject.org/2011/09/art-568878/

77 http://www.amnesty.org/en/library/asset/IOR80/006/2011/en/190a4b80-d11a-417b-a63f-50b441b31e86/ior800062011en.pdf

78 Bretton Woods (2011) *IFC updated performance standards.* See http://www.brettonwoodsproject.org/2011/09/art-568878/

79 Aprodev (2013) The role of European Development Finance Institutions in land grabs. See http://aprodev.eu/files/Trade/aprodev_policy_brief_dfi_and_land-grabs_final_may2013.pdf

80 EIB (2012) *Operations Evaluation. Ex post evaluation of the use of Framework Loans to finance EIB investments in the EU, 2000-2011. Synthesis Report.* European Investment Bank, Luxembourg, p. 51; CAO (2012) *CAO Audit of a Sample of IFC Investments in Third-Party Financial Intermediaries.* Office of the Compliance Advisor-Ombudsman, World Bank Group.

81 OECD-DAC (2014) *The New Development Finance Landscape: emerging and preliminary perspectives from the cases of Ghana, Senegal and Timor-Leste.* See http://search.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2014)12&docLanguage=En

82 See FMO website: http://www.fmo.nl/page/1115

83 KfW/DEG. Independent Complaints Mechanism DEG. See https://www.deginvest.de/DEG-Documents-in-English/About-DEG/Responsibility/DEG_Complaints-Mechanism_2014_05.pdf

84 See Both Ends website (Filing a complaint with the FMO) http://www.bothends.org/en/news/laatste-nieuws/newsitem/335/filing-a-complaint-with-the-FMO

85 Gössinger, A. & Raza, W (2011) *Bilateral Development Finance institutions in Europe.* Austrian Research Foundation for International Development.

86 Counter Balance website. See http://www.counterbalance-eib.org/?p=711

87 EIB (2013). *EIB reinforces transparency by joining the International Aid Transparency Initiative (IATI).* Press Release. See http://www.eib.org/infocentre/press/news/all/eib-reinforces-transparency-by-joining-the-iati.htm

88 For more information, see “Fact sheet on FMO”

89 IFC Corporate Development Framework Structure. See http://www.ifc.org/wps/wcm/connect/d5dda4004aef1c418419b-5b94e6f4d75/CG+Development+Framework+Document+with+Signatures.pdf?MOD=AJPERES

90 De Luna-Martinez, J. & Vicente, C.L. (2012) *Global Survey of Development Banks, Policy Research Working Paper 5969*, The World Bank.

91 See for example the case of the Brazilian BNDES and its Chinese counterpart: http://www.bothends.org/uploaded_files/document/1Both_ENDS_Policy_Note_BNDES.pdf and http://www.theguardian.com/environment/andes-to-the-amazon/2014/may/16/what-good-chinas-green-policies-banks-dont-listen

92 Report from the Government Commission on Capital Flight from Poor Countries. Norwegian Ministry of Foreign Affairs (2009). See http://www.regjeringen.no/en/dep/ud/documents/nou-er/2009/nou-2009-19-2/8.html?id=572224; Eurodad et. al. (2009) *Is the International Finance Corporation Supporting Tax-Evading Companies?* See http://www.eurodad.org/uploadedfiles/whats_new/news/is%20the%20international%20finance%20corporation%20supporting%20tax-evasion.pdf; Murphy, R. (2010) *Investments for Development: Derailed to Tax Havens,* Eurodad. See http://eurodad.org/uploaded-files/whats_new/reports/investment%20for%20development.pdf; Bracking, S. (2010) *Future directions for Norwegian development finance.* University of Manchester. See http://www.osisa.org/sites/default/files/schools/bracking_on_development_finance.pdf; Van de Poel, J. (2012) *Doing business to fight poverty. An evaluation of the Belgian Investment Company for Developing Countries.* 11.11.11. See http://www.eurodad.org/files/pdf/520a375cc0bb6.pdf

93 IFC. *Policy on the Use of Offshore Financial Centers in World Bank Group Private Sector Operations.* See http://www.ifc.org/wps/wcm/connect/a6aebd8048023f-be9556fd86f8f2f9d6/IFC_OFC_Policy.docx?MOD=AJPERES; http://www.eib.org/attachments/strategies/ncj_policy_en.pdf

94 Counter Balance (2010) *Hit and run development.* See http://www.counter-balance.org/counterbalance-eib.org/wp-content/uploads/2011/01/Hit-run-development_WEB.pdf

95 Aprodev (2013) *The role of European Development Finance Institutions in land grabs.* See http://aprodev.eu/files/Trade/aprodev_policy_brief_dfi_and_land-grabs_final_may2013.pdf

96 AFD (2013) *AFD and PROPARCO General Policy on Combating Corruption, Fraud, Anti-Competitive Practices, Money Laundering and Terrorist Financing.* See http://www.afd.fr/webdav/site/afd/shared/L_AFD/L_AFD_s_engage/documents/Politique_AFD_lutte_contre_corruption_VA.pdf

97 For AFD policy (in French), see http://www.afd.fr/webdav/site/afd/shared/L_AFD/L_AFD_s_engage/documents/Politique-groupe-AFD-dans-JNC.pdf

98 *Shift the Subsidies database.* See http://www.shiftthesubsidies.org/institution_groups/2#graph

99 The World Bank managed 12 funds and facilities that have bought carbon credits in 57 countries, for 16 governments and 66 companies. The IFC manages different facilities and offers a carbon delivery guarantee and advance payments for future reductions to eliminate the risk for buyers of non-delivery of carbon credits. The IFC works with financial intermediaries and municipalities to aggregate carbon credits. The Bank's Multilateral Investment Guarantee Agency (MIGA) also offers guarantees to cover political risks to investments in carbon projects. EIB is also managing carbon funds. Other bilateral DFIs are engaged in sustainable forestry, REDD-projects.

100 De Luna-Martinez, J. & Vicente, C.L. (2012) op. cit.

101 Bateman, M. (2013) *Financing local economic development: in search of the optimal local financial system,* in: ÖFSE, Private sector development. Ein neuer Businessplan für Entwicklung?, Vienna, Südwind Verlag.

102 Spratt, S. (2013) *How does financial regulation in low-income countries affect growth and financial stability?*, in: te Velde, D.W. & Griffith-Jones, S. (eds.) *Sustaining growth and structural transformation in Africa: How can a stable and efficient financial sector help?*, DEGRP Policy Essay.

103 Mold, A. (2008) *The Fallout from the Financial Crisis (4): Implications for FDO to developing countries.* OECD, Policy Insights, no. 86.

Eurodad

The European Network on Debt and Development is a specialist network analysing and advocating on official development finance policies. It has 48 member groups in 19 countries. Its roles are to:

- research complex development finance policy issues
- synthesise and exchange NGO and official information and intelligence
- facilitate meetings and processes which improve concerted advocacy action by NGOs across Europe and in the South.

Eurodad pushes for policies that support pro-poor and democratically-defined sustainable development strategies. We support the empowerment of Southern people to chart their own path towards development and ending poverty. We seek appropriate development financing, a lasting and sustainable solution to the debt crisis and a stable international financial system conducive to development.

www.eurodad.org

Contact

Eurodad

Rue d'Edimbourg 18-26
1050 Brussels
Belgium

Tel: +32 (0) 2 894 4640
www.eurodad.org

www.facebook.com/Eurodad
twitter.com/eurodad

european network on
debt and development