Comparing Development Finance Institutions
Literature Review

20 January 2011

Christian Kingombe, Isabella Massa and Dirk Willem te Velde

* Disclaimer: The views presented in this paper are those of the authors and do not necessarily represent the views of DFID, ODI or the organisations interviewed.

Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD
UK

Tel: +44 (0)20 7922 0300 Fax: +44 (0)20 7922 0399
www.odi.org.uk

Contents

Contents ... ii
List of tables and figures ... iii
List of acronyms ... iv
Executive summary ... vi
Analysing the distribution of DFI portfolios ... ix
1. Introduction ... 1
2. Objectives of DFIs ... 2
3. DFIs' ownership and governance structures ... 3
3.1 Ownership ... 3
3.2 The setting of DFI strategies and policies ... 5
3.3 Selection of Board and management ... 6
4. Broad activities undertaken by DFIs ... 7
4.1 Technical assistance and advisory services ... 7
4.2 Promotion of ESG standards ... 9
4.3 New commitments to the private sector ... 10
5. Sectoral distribution of DFIs ... 11
6. Financial instruments of DFIs ... 13
7. Distribution of DFIs' operations and instruments across countries and regions ... 14
8. Comparison of transparency and disclosure policies across DFIs ... 15
9. Scoring and reporting of activities for the purposes of ODA under the OECD DAC ... 17
10. Notable gaps or areas of under-provision ... 19
10.1 Analytical arguments on analysing gaps ... 19
10.1.1 Sector gaps ... 19
10.1.2 Instrument gaps ... 19
10.1.3 Country gaps ... 20
10.1.4 Overall volumes ... 20
10.2 DFI practice ... 20
10.2.1 Sector ... 20
10.2.2 Instruments ... 20
10.2.3 Countries ... 20
10.2.4 Volumes ... 20
11. Areas of duplication or over-provision ... 22
12. DFIs' measurement of financial additionality ... 23
13. DFI's measurement of its catalytic effect ... 24
14. DFIs' measurement of the direct economic impact of their operations ... 26
15. DFIs' measurement of the wider economic impact of investments on the regional or national economy ... 30
16. Conclusions ... 32
References ... 33

Annex 1: Persons interviewed 41
Annex 2: Objectives, ownership and main activities 42
Annex 3: Sectors, financial or other instruments employed and amounts offered................ 54
Annex 4: Operations and instruments, transparency and disclosure policies....................... 58
Annex 5: Catalytic effects, direct impact and wider economic impacts................................. 62
Annex 6: DFIs' ownership and governance structure.. 66
Annex 7: Total annual commitments, 2009-2006 73

List of tables and figures

Table 1: Ownership of DFIs 3
Table 2: Examples of use of technical assistance funds by DFIs 8
Table 3: Sectoral distribution of DFIs' 2009 portfolio 11
Table 4: Distribution of DFI's portfolio by financial instrument (2009).. 13
Table 5: Geographical distribution of 2009 portfolio 14
Table 6: Geographical distribution of 2009 portfolio 14
Table 7: DAC 1 18
Table 8: FDI and DFI portfolio and changes by region 21
Table 9: Assessment frameworks comparison for selected DFIs 28
Table 10: Assessing growth effects – an illustrative example of international capital flows and growth 30

Figure 1: DFI investments, 2009 ($ millions) 10
Figure 2: EDFIs' approach to promoting private sector development.. 23

List of acronyms

ACP	African, Caribbean and Pacific
ADA	Austrian Development Agency
ADB	Asian Development Bank
ADF	African Development Fund (AfDB)
AFD	Agence Française de Développement (French Development Agency)
AfDB	African Development Bank
aws	Austria Wirtschaftsservice Gesellschaft m.b.H. (Austrian Federal Development and Financing Bank)
BIO	Belgian Investment Company for Developing Countries
BIS	Bank for International Settlements
BMZ	Bundesministerium Für Wirtschaftliche Zusammenarbeit (Federal Ministry for Economic Cooperation and Development)
CDC	CDC Group plc (UK)
CD	Capacity Development
CIS	Commonwealth of Independent States
COFIDES	Compania Española de Financiación del Desarrollo S.A. (Spanish Development Funding Company)
DAC	Development Assistance Committee (OECD)
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH (German Investment Corporation)
DIAF	Development Impact Assessment Framework (EIB)
DFI	Development Finance Institution
DFID	UK Department for International Development
DOTS	Development Outcome Tracking System (IFC)
DSRD	DAC Statistical Reporting Directives
EAIF	Emerging Africa Infrastructure Fund (PIDG)
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECG	Evaluation Cooperation Group
EDF	European Development Fund
EDFI	European DFI
EDIS	Economic Development Impact Score (FMO)
EFP	European Financing Partners S.A.
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
ESG	Environmental, Social and Governance
ESRS	Environmental and Social Review Summary (IFC)
ETC	Early Transition Countries (EBRD)
EU	European Union
FDI	Foreign Direct Investment
FEMIP	Facility for Euro-Mediterranean Investment and Partnership (EIB)
FI	Financial Intermediary
Finnfund	Teollisen yhteistyön rahasto Oy (Finnish Development Finance Company)
FMO	Nederlandse Financierings Maatschappij voor Ontwikkelingslanden n.v. (Netherlands Development Finance Company)
GDP	Gross Domestic Product
GNI	Gross National Income
GPR	Corporate Policy Project Rating (DEG)
GPS	Good Practice Standard
GRI	Global Reporting Initiative
GSDRC	Governance and Social Development Resource Centre

IADB	Inter-American Development Bank
ICF-DP	Infrastructure Crisis Facility – Debt Pool
ICT	Information and Communication Technology
IDC	Industrial Development Corporation (South Africa)
IEG	Independent Evaluation Group (IFC)
IF	Investment Facility (EIB)
IFC	International Finance Corporation
IFI	International Financial Institution
IFU/IØ/IFV	Danish International Investment Funds
ILO	International Labour Organization
ILPA	Institutional Limited Partners Association
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
MFI	Microfinance Institution
MIGA	Multilateral Investment Guarantee Agency
NAO	National Audit Office
NIF	Neighbourhood Investment Facility (EIB)
Norfund	Norwegian Investment Fund for Developing Countries
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OeEB	Oesterreichische Entwicklungsbank AG (Austrian Development Bank)
OOF	Other Official Flow
OPIC	Overseas Private Investment Corporation (US)
Proparco	Société de Promotion et de Participation pour la Coopération Economique (Investment and Promotion Company for Economic Cooperation, France)
PIDG	Private Infrastructure Development Group
PIP	Public Information Policy (EBRD)
PPP	Public–Private Partnership
PSD	Private Sector Development
RMC	Regional Member Countries
SBI	Société Belge d'Investissement International (Belgian Corporation for International Investment)
SECO	State Secretariat for Economic Affairs (Switzerland)
Sida	Swedish International Development Cooperation Agency
SIFEM	Swiss Investment Fund for Emerging Markets
SIMEST	Società Italiana per le Imprese all'Estero SpA (Italian Development Finance Institution)
SME	Small and Medium-Sized Enterprise
SOFID	Sociedade para o Financiamento do Desenvolvimento, Instituição Financeira de Crédito, SA (Portuguese Development Finance Institution)
SwedFund	Swedfund International AB (Sweden)
TA	Technical Assistance
TAAS	Technical Assistance and Advisory Services
TC	Technical Cooperation
TIMS	Transition Impact Monitoring System (EBRD)
UA	Unit of Account
UK	United Kingdom
UN	United Nations
UNCTAD	UN Conference on Trade and Development
US	United State

Executive summary

CDC is the UK's development finance institution (DFI). It invests in viable private businesses in poorer developing countries to contribute to economic growth that benefits the poor. CDC is the oldest in a set of bilateral, regional and multilateral DFIs, known as the wider 'DFI architecture.' The UK government is its sole shareholder and is one of several in a number of other multilateral and regional DFIs.

The UK Secretary of State for International Development recently announced a consultation period to consider possible reforms to CDC. This briefing looks at the current position of CDC in the wider DFI architecture in order to inform this consultation. It compares DFIs on their aims and objectives; ownership; general activities; distribution over sectors; countries and instruments; financial additionality; type of impact assessments; and gaps and overlaps. It concludes by summarising the key points discussed.

Aims and objectives of DFIs

DFIs' objectives are often multiple, and may include investing in sustainable private sector projects; maximising impacts on development; remaining financially viable in the long term; and mobilising private sector capital. For example, DEG and FMO have to invest in enterprises that contribute to developing country economies. CDC is different in key objectives, although not from all DFIs (e.g. EIB IF), because it invests in the creation and growth of viable private businesses in poorer developing countries to contribute to economic growth that benefits the poor *and* mobilises private investment in these markets, both directly and by demonstrating profitable investments.

Ownership of DFIs

Many DFIs are owned by the public sector only (CDC, DEG, SwedFund, Norfund, IDC, OPIC). Proparco, FMO, COFIDES and SIMEST have a mixed public and private ownership structure. SIFEM is privately owned. The multilateral and regional DFIs have multiple shareholders from various countries.

DFIs often have Supervisory and Management Boards that make decisions within an agreed investment policy. The composition of the Supervisory Board varies. For example, in FMO and CDC, the Supervisory Board does not include direct representatives of government ministries, whereas the ministry is represented in DEG.

Activities: Providing financial resources, providing technical assistance and promoting standards

DFIs' core business is to invest financial resources, but they also provide project-specific and general technical assistance and promote standards in the funds or companies in which they invest.

Providing financial resources is the core activity. Estimates based on the annual accounts of the main DFIs show around $33 billion worth of new DFI investments in the private sector in 2009 (in the form of loans, guarantees and equity positions). Figure 1 ranks new investments in 2009. IFC and EBRD are the largest DFIs. CDC ranks fourth among bilateral DFIs, ahead of many smaller bilateral DFIs but behind the larger multilateral and regional DFIs. In terms of its outstanding portfolio of investment and commitments (based on EDFI data), CDC was the third largest bilateral DFI after DEG and FMO. CDC was ranked the second bilateral when measured in terms of number of new projects.

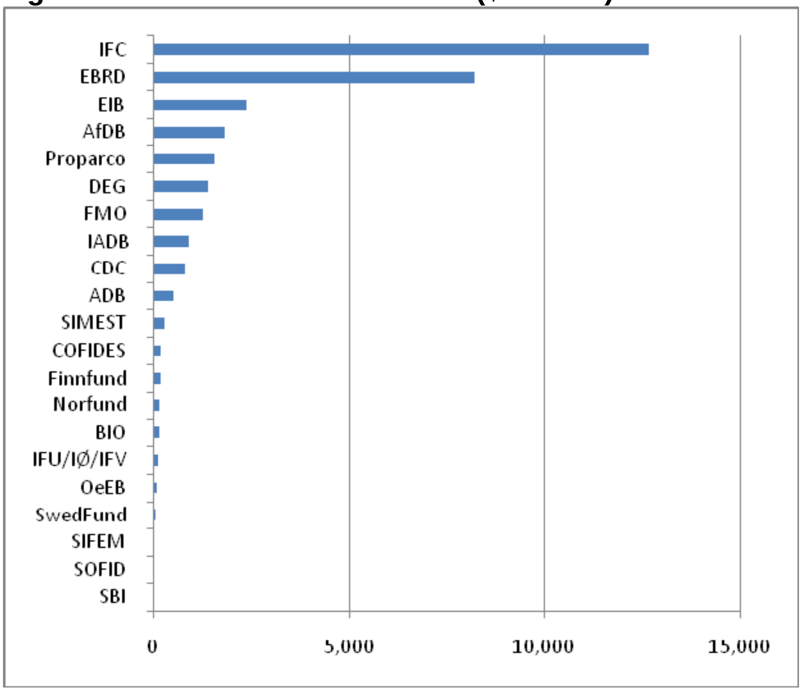
In terms of technical assistance, IFC's total expenditure on advisory services was $268 million in 2009 alone. Meanwhile, by 2009, EBRD had administered 184 technical cooperation fund agreements, amounting to an aggregate €1.3 billion. In addition, it had administered 90 project-specific technical cooperation agreements, totalling €59 million. EIB IF provided €11.5 million worth of technical assistance (in addition to interest rate subsidies) in 2009.

DEG received €12.2 million to carry out its programme for development partnerships with the private sector (public–private partnership, PPP), run by BMZ. DEG also created a €5 million technical assistance fund in 2007 from its own resources. COFIDES manages two Spanish government trust funds established to support Spanish investments abroad (FIEX and FONPYME). FMO invests own resources in and manages the following government funds: financing of Dutch small and medium-sized enterprises (SMEs) that invest in developing countries (FOM); a local currency fund reaching out to SMEs via financial institutions (MASSIF); earmarked funds for infrastructure projects in low-income countries (IDF); a fund financing energy projects (AEF); and CD, which enables targeted access to know-how, bundled to meet a company's full organisational needs, and which is financed by the Dutch Minister for Development Cooperation and stimulates technical cooperation between developing country companies and enterprises in industrialised nations.

Finally, some DFIs (including CDC) also provide advice on implementing standards in the funds and companies in which they invest.

All the above activities require a significant amount of staff. DEG has some 350 staff, FMO 250 and Proparco 130; CDC has fewer than 50. IFC has 3,400 staff.

Figure 1: DFI investments in 2009 ($ million)



Notes: To private sector only and EBRD and EIB investment to public sector excluded, IFC: year to March 2010, excludes syndications. Portfolio data might be more appropriate for some: e.g. annual commitments to funds are less meaningful. Non-European bilateral DFIs such as OPIC excluded.
Source: Literature survey, EDFIs, annual DFI accounts, own calculations.

Distribution of DFI portfolios across sectors

DFIs' distribution of their portfolio of invested and committed capital is normally discussed under three dimensions: sectors, instruments and countries.

DFIs invest in a wide variety of sectors, from the financial sector to infrastructure and agribusiness. If we look at the final beneficiary, CDC in 2009 spent 23% in the financial sector (a share substantially less than Proparco, FMO and DEG); 34% on infrastructure, including telecommunications, power, water, roads and hotels (substantially more than DEG and FMO and the same as Proparco); and 6% on agribusiness (around the EDFI average, the same as IFC and well above the EIB IF share). CDC's own distribution suggests 8% is spent on narrow infrastructure and 10% on energy and utilities.

We cannot say whether CDC is overly present in one particular sector. By contrast, EIB's portfolio is concentrated in infrastructure (61% goes to energy, water and transport in NIF and 34% to transport, water, telecommunications and energy in IF) and industry (23% in IF and 24% in NIF). IFC invests most in the financial sector.

Distribution of DFI portfolios across instruments

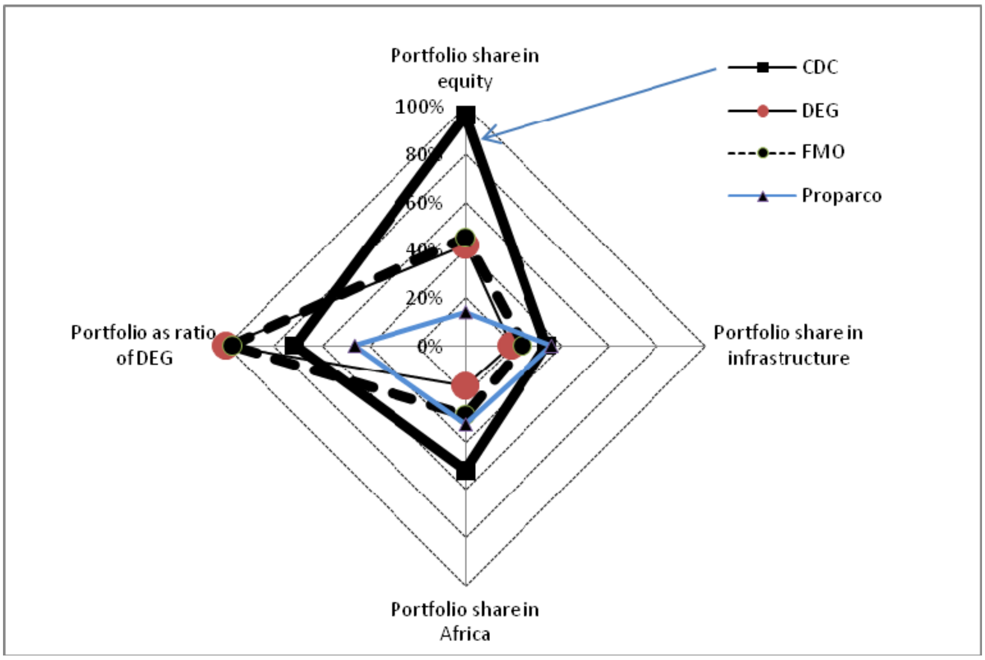
The DFIs use different investment instruments. Most do very little in guarantees. Some specialise almost entirely in equity (CDC, COFIDES, SIMEST, SIFEM, Norfund), although often not exclusively. For example, CDC also has a legacy of loans in some activities, and recently worked with EFP in providing more loans. The majority of the committed portfolio of others (e.g. BIO, DEG, Finnfund, FMO, Proparco, SOFID) is through loans. Many have stated a desire to invest more in equity funds (FMO), but CDC leads the field globally on this. IFC and EIB private equity fund investment is still comparatively small.

Distribution of DFI portfolios across countries

CDC's portfolio is much more geared towards poorer countries than the other bilateral DFIs (and multilaterals excluding AfDB and EIB IF). In absolute terms, CDC has the highest exposure in the African, Caribbean and Pacific (ACP) countries and South Africa, followed by FMO and Proparco. It also leads in South (East) Asia and China, followed by DEG and FMO. In 2009, some 52% of CDC's portfolio was invested in Africa (45% in Sub-Saharan Africa) (DEG's was 17%, FMO's 29%). IFC invested 13% in Sub-Saharan Africa (June 2010), meaning that total exposure of CDC and IFC in this region is at the same level.

Figure 2 compares the four largest bilateral DFIs (in 2009) and shows that, although CDC is not the largest, its portfolio has a larger share than others in Africa and in infrastructure broadly defined, and a much larger share in the form of equity.

Figure 2: Comparing the four largest bilateral DFIs



Sources: EDFIs, literature review, own calculations.

Analysing the distribution of DFI portfolios

DFIs provide a number of reasons and are set a number of targets to guide portfolio distribution over countries, sectors and instruments. These include:

- Shareholder targets or regulations with respect to countries or instruments;
- Interest of home county firms;
- Comparative advantage of the DFI in sectors, countries or instruments;
- Economic (and social) impact of the sector invested in;
- Lack of capital/market failure in specific sectors.

Several, especially smaller, DFIs (not including CDC, FMO, DEG, Proparco) are tied to the interest of home country firms. For example, Finnfund chooses sectors on the basis of its perceived comparative advantage at home: forestry, energy efficiency (bio-power) and telecommunications. SIMEST is dedicated to supporting and promoting the activities of Italian companies abroad. DEG is close to German companies for historical reasons, although not tied legally.

CDC has country targets (75% in low-income countries), sticks to one instrument (fund of funds) and allocates capital to whatever sectors need capital. It feels its comparative advantage lies in selecting good fund managers and hence in using the equity instrument. Norfund does fund management but also specialises in hydropower. DEG feels it is relatively good at investing in agriculture.

FMO has a less stringent target (40% in low-income countries). It provides the full range of financial services, but specialises (more than 75%) in three sectors: housing, energy and finance (more than 50% of the total), arguing that investments in these sectors make a real impact. FMO aims to select projects with the highest development impact – not just economic but also social and environmental. For EIB, infrastructure is a key development priority, because it delivers essential services such as clean water and access to power and plays an essential role in supporting trade, productivity and growth. Bilateral DFIs tend to select smaller firms, whereas multilaterals prefer larger projects with larger firms. For example, SwedFund feels its advantage lies in providing capital to SMEs.

Financial Additionality

One of the rationales for a DFI's involvement stems from its aim to *act as a catalyst*, helping companies implement investment plans and providing risk mitigation that enables them to proceed with plans they might otherwise abandon, given perceptions of risk that are particularly high in sectors with large sunk costs. DFIs provide two types of evidence on their catalytic effects: descriptions of where their presence may have been catalytic and leverage ratios (i.e. how much the private sector or other DFI input has invested alongside). No DFI provides macroeconomic evidence of additionality in a dynamic sense, although the geographical spread of DFIs may suggest this in a static way.

It is essential for fund managers (or indeed individual projects) to secure investors early on, as a stamp of approval to attract other capital. CDC has committed to the Sierra Investment Fund, the first ever private equity fund in Sierra Leone, and to Rabo Equity Advisor's India Agribusiness Fund, the first private equity fund in India focused solely on this sector. It is also expected to finalise a $10 million commitment to Frontier Fund Private Equity, the first fund of its kind in Bangladesh.

Based on CDC's development review, we estimate that every dollar of CDC investment coincides with $5 of other investment. Since 2004, CDC has committed more than $5 billion to 65 fund managers. Alongside this, other investors have committed a total of $24.3 billion. Capital from other DFIs accounts for only $2.3 billion of this figure. Using CDC's new methodology for measuring third party capital mobilisation, third party capital attributable to CDC is $4,187 million.

IFC argues that every dollar of its investment leverages about $3 from others. For EBRD, it is around $1: it suggests that, alongside €7.9 billion investment in 2009, it attracted additional co-financing worth €5.1 billion. Of this, €2.3 billion came from private and €2.8 billion from public co-financiers, of which €2.7 billion came from the international financial institutions (IFIs) (2008: €0.4 billion).

Not all DFIs were able to play the countercyclical (and additional) role during the global financial crisis. Commitments and investment fell in a number of DFIs in 2008-2009, including CDC, DEG and IFC. Nonetheless, overall *portfolios* increased by 14% in the case of EDFIs (12% in 2008 and 21% in 2007), with no growth in the case of IFC (in euro terms).

Impact assessment

DFIs use three different types of assessment tools: IFC's Development Outcome Tracking System (DOTS), DEG's Corporate Policy Project Rating (GPR) and EBRD's Transition Impact Monitoring System (TIMS). CDC has also developed an assessment of its fund in fund business and has published two development reviews; others, such as EIB and FMO, have developed their own variants. DFIs typically examine the *direct* effects of operations on financial returns, employment, taxes paid and access by populations to basic services (e.g. phone lines). Despite a growing literature assessing the effects of individual companies, DFI projects and international capital flows, there are gaps in the research on the macro impact of DFI investments.

Some DFIs carry out *ex-ante* assessments at approval and throughout the lifecycle of a project as well as *ex-post* evaluations; others carry out *ex-ante* evaluations only. For example, IFC's DOTS tracks the development impact of all investments at approval and throughout their lifecycle, but is complemented by the *ex-post* evaluation framework developed by IFC's Independent Evaluation Group, which applies to a random sample of projects. In a similar way, EBRD's TIMS assesses the potential transition impact of its projects throughout their lifecycle, but also makes use of performance indicators to measure its overall operations *ex-post*. FMO and DEG rely on approval scoring supplemented by post-evaluation. Meanwhile, OPIC reviews projects only *ex-ante* (at approval). CDC carries out evaluations at the mid-point and at the end of a fund's life (five to 10 years).

Approaches to monitoring and post-evaluation are heterogeneous across DFIs. There are significant differences between approaches that multilateral DFIs use and those that some bilateral DFIs use. For example, IFC, EBRD, EIB, ADB and AfDB are part of the Evaluation Cooperation Group, which has set good practice standards for tracking development results of private sector operations and therefore has tended to harmonise its members' post-evaluation practices and their *ex-ante* assessments at approval and throughout project lifecycles. However, harmonisation challenges remain.

One general similarity in the systems measuring the economic impact of DFI operations lies in the dimensions addressed. Most DFIs look at four key dimensions: financial performance; economic performance; environmental and social performance; and private sector development.

Where is DFI support most needed? Where are the gaps and overlaps?

In general terms, DFI support is most needed in activities where there is a lack of capital but where the private sector can be leveraged in; where market failures are greatest; where the effects of DFI interventions are greatest (compared with other instruments such as grant aid and based on the comparative advantage of the DFI); in sectors that matter most for development, using the instruments that are most appropriate; and in countries (or states in a country) that need support the most. In short, DFIs are needed most in frontier markets using appropriate instruments (e.g. equity funds may not work in some of the poorest and least secure countries).

In practice, DFIs are engaged in a wide variety of countries, sectors and instruments, with each specialising in certain areas (e.g. fund of funds and equity investments for CDC, support to African banking for FMO, etc.). There does not seem to be one overall best practice model, although consolidation could be considered to exploit economies of scale. In fact, there seems to be a case for several DFIs exploiting their comparative advantage and specialisation in countries, products and services, instruments and sectors. This can lead to useful competition and diversity: a number of bilateral DFIs have promoted innovation and choice for client companies. The large bilaterals in particular have gained significant expertise (products, countries, sectors), into which multilaterals are tapping. Meanwhile, the multilaterals are leading on more general private sector development advisory services. In some cases, DFIs compete; in many other cases, their operations are complementary (spreading risks, presence in completely different niches).

There are also reasons why DFIs may actually want to overlap. First, some large projects can be financed only by a range of DFIs, in order to spread the risks. In 2009, at least 295 projects had the involvement of more than one EDFI. Second, DFIs can work together to smooth legal procedures so the client has to deal with fewer DFIs (this occurs in the European Financing Partners (EFP), which aims to strengthen cooperation between eligible European DFIs and EIB). Finally, smaller DFIs require big DFIs to lead on project evaluation, especially when it comes to risky projects with potentially large social and environmental consequences.

Conclusions

It is clear we do not yet understand fully what constitutes an optimal DFI model. Instead, it seems useful to have a number of different DFIs which bring innovative ideas. How should CDC develop, given its current niche in the market? Here, we summarise some key points based on this literature survey:

- CDC's objective is more geared towards mobilising private sector capital than seems to be the case for most other DFIs.
- CDC has no direct day-to-day oversight from shareholders (e.g. via the Board), although this does not seem unique to it.
- CDC does not implement additional government programmes (unlike several other bilaterals) or technical assistance (unlike all multilaterals and some bilaterals). It has relatively few staff.
- CDC specialises almost entirely in equity, which is unique among the bigger DFIs.
- CDC has no sectoral niche, but is more present in low-income countries than other DFIs. CDC (and FMO) has specific targets for investments in low-income countries.
- Bilateral DFIs such as CDC bring new ideas and models to DFI practices. CDC's business is centred on its knowledge of local fund managers.
- Measuring financial additionality is difficult, but CDC seems to have relatively more co-invested finance alongside it compared with IFC and EBRD.
- Impact assessments are now held at all major DFIs. The fund of fund approach introduces further stages into the rather long measure-to-beneficiary chain, compared with the approach of a direct investment in a specific firm. It will thus be relatively difficult to prove CDC's impact.
- The reasons and incentive structures in DFIs' financing of different sectors and countries with different instruments are complex. Even within CDC there are complementary approaches: investing in a regional fund, or a general country fund, or a specifically targeted Africa Sustainable Forestry Fund initiated by CDC on the basis of a perceived lack of capital in the sector.

The future path for CDC could take these points as a basis.

1. Introduction

Stimulating growth and wealth creation is a key driver in poverty reduction. The Department for International Development (DFID) wants CDC to be at the forefront of these efforts.[1] This report compares and examines the role of a sample of 16 bilateral, regional and multilateral development finance institutions (DFIs) to help inform a review of the position of CDC among DFIs according to a number of dimensions. For instance, it examines whether CDC complements and adds value to, rather than duplicates and competes with, what other DFIs and Multilateral Development Banks (MDBs) already offer.

In general terms, DFIs provide finance (e.g. loans, guarantees, equity positions) to the public sector (most parts of the multilateral development financial institutions (such as the MDBs), e.g. the African Development Bank (AfDB)) or the private sector (e.g. International Finance Corporation (IFC); CDC; DEG (German Investment Corporation); most of the European Bank for Reconstruction and Development (EBRD)). The *shareholders* (donor countries, e.g. the UK represented by DFID or, in some cases, the private sector) provide callable capital/endowments to DFIs, which they use to provide loans and equity positions. These can leverage in other sources of finance, including private finance.

This study reviews and summarises publicly available information, mainly from DFIs' annual reports and their websites, as well as other relevant literature. It also looks at the private sector operations of the main international DFIs, in particular as regards objectives (Section 2); ownership and governance structures (Section 3); what activities they undertake (Section 4); what sectors they choose for operations (Section 5); what financial or other instruments they employ (Section 6), and in what proportions; how their operations and instruments are distributed across countries and regions (Section 7); how transparency and disclosure policies compare across DFIs (Section 8); how their activities score and are reported for the purposes of official development assistance (ODA) under the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) (Section 9); whether there are notable gaps or areas of under-provision (Section 10); and whether there are areas of duplication or over-provision (Section 11). Sections 12 to 15 discuss measurement issues in terms of financial additionality, catalytic effects, direct economic impacts and wider economic impacts. Section 16 concludes.

The emphasis of the review is on analysing existing materials, annual reports of DFIs and MDBs and a number of telephone enquiries and face-to-face interviews relating to these issues. However, it should be highlighted that, given the limited time available to compile this report, it was not possible to cover the full range of DFIs in detail. Consequently, our analysis relies mostly on a review of the most recent annual reports from 16 DFIs covered, coupled with some independent analyses, particularly in the more substantial sections of the report.

[1] The UK government through DFID has a 100% ownership of CDC Group plc (CDC), a bilateral DFI created to invest in the creation and growth of viable private businesses in poorer developing countries to contribute to economic growth to benefit the poor; and to mobilise private investment in these markets, both directly and by demonstrating profitable investments in the more difficult investment environments of developing countries.

2. Objectives of DFIs

DFIs' objectives are often multiple, and may include investing in sustainable private sector projects; maximising impacts on development; remaining financially viable in the long term; and mobilising private sector capital. For example, DEG and the Netherlands Development Finance Company (FMO) have to invest in enterprises that contribute to developing country economies. CDC is different in key objectives, although not from all DFIs, because it invests in the creation and growth of viable private businesses in poorer developing countries to contribute to economic growth that benefits the poor *and* mobilises private investment in these markets, both directly and by demonstrating profitable investments. We summarise mission statements and objectives in Annex 2.

For some DFIs, project investments need to meet *environmental standards* and comply with *social principles* (DEG; the French Investment and Promotion Company for Economic Cooperation (Proparco); South Africa's Industrial Development Corporation (IDC); the US Overseas Private Investment Corporation (OPIC); the UK Private Infrastructure Development Group (PIDG); AfDB). Others emphasise that their role is to promote the development of home country *enterprises* in their investment host countries (Spanish Development Funding Company (COFIDES); Italian Development Finance Institution (SIMEST); OPIC. DEG is considering the same approach). COFIDES supports private direct investment projects where there is a home country interest. SIMEST underwrites up to 25% of the capital of foreign firms that partner with home country firms operating in non-European Union (EU) countries. SIMEST also provides medium- and long-term export credit as well as advisory and consultancy services to Italian firms wishing to invest abroad.

Although development impact is the key focus for all European DFIs (EDFIs), they have varying approaches to delivering on the demand to be financially viable. Some interpret it as a requirement to at least break even. For example, the remuneration of the fund, managed by SIMEST, is in the dividends of the company's profits and any gain ensuring from the sale. Others (FMO; IDC; Swiss Investment Fund for Emerging Markets (SIFEM); SwedFund) set specific positive return targets, for example that the average return on equity before tax exceeds the average interest rate on central government debt of one-year maturity. Our discussions further revealed that CDC is not set a specific rate of return on its portfolio in the Investment Policy, but its business plan includes more specific targets requiring relatively high hurdle rates. DEG is also set annual targets for specific instruments and regions.

IDC, the only bilateral DFI in the sample that is based in Africa, is also mandated to contribute to equitable economic growth and empowerment of citizens. OPIC takes into account countries' observance of and respect for human rights.

IFC seeks to stimulate and help create conditions conducive to the flow of private capital. Moreover, as part of their mandate, the multilateral DFIs seek to promote the establishment, improvement and expansion of private activity (IFC; EBRD; the European Investment Bank (EIB) African, Caribbean and Pacific (ACP) Investment Facility), while also seeking to contribute to the social progress and regional cooperation of its regional members (AfDB; Inter-American Development Bank (IADB)); Asian Development Bank (ADB)).

The DFIs operate in different circumstances and have built different business models to fit their context. The areas in which they differ most are: 1) governance structure and funding (Section 3); 2) investment strategy, that is, their choice of financial instrument and geographic and sector focus; and 3) whether they take on additional activities, which we illustrate and discuss in the following sections.

3. DFIs' ownership and governance structures[2]

Governance involves the establishment of structures and processes with appropriate checks and balances to enable directors to discharge their legal responsibilities and oversee compliance with legislation. Thus, this section covers DFIs' ownership and governance structures, in particular how the various DFIs are directed by their shareholders.

3.1 Ownership

A number of DFIs are owned by the public sector, but there are also a number of DFIs with mixed public and private ownership. In our sample, six of the DFIs covered are owned fully by governments: CDC (DFID); DEG (Development Bank of the Federal Republic and Federal States of Germany (KfW)); SwedFund (Swedish Ministry for Foreign Affairs); the Norwegian Investment Fund for Developing Countries (Norfund) (Norwegian Ministry of Foreign Affairs); IDC (South African Ministry of Economic Development, previously the Ministry of Trade and Industry); and OPIC (US government agency). Four DFIs have a mixed ownership structure with both private and public sector owners: Proparco; FMO; COFIDES; and SIMEST. One is fully privately owned: SIFEM (Table 1).

Mixed ownership structures may help DFIs align themselves with the interests of key stakeholders by having both public and private sector representatives as owners. Mixed ownership also has the potential to provide additional sources of funding (Dalberg, 2010). It could also ensure additionality of DFI activity as has sometimes been argued for Proparco (Te Velde and Warner, 2007).

Table 1: Ownership of DFIs

DFI (subsidiary)	Shareholder ownership (shares)	Supervisory Board	Management Board (Board of Directors)
DEG	KfW Bankengruppe (100%)	15 members including 4 government ministries, AFD, KfW, etc.	4 members
Proparco	AFD (59%); French Financial Institute (26%); IFIs (11%); French companies (3%); funds & ethical foundations (1%)	30 members including AFD, BNP Paribas, SG, Bank of Africa, DEG, etc.	
FMO	Dutch government (51%); Dutch banks (42%); private companies, trade unions & individuals (7%)	7 members including Employers Association, Social Economic Council, Rabobank, Federation Dutch Trade Union, senators, etc.	3 members: CEO; CIO; and chief risk & CFO
COFIDES	Spanish Foreign Trade Institute, Official Credit Institute and ENISA (61%); BBVA; Santander; Sabadell	15 members including ICEX, ICO, Riesgos Santander Central Hispano, S.A., Financiación de Equipamiento Finanzia Banco de Crédito, S.A., Ministry of Trade and Investment, etc.	
SIMEST	Ministry for Economic Development (76%); IMI; UniCredito; Banco Popolare di Vicenza; Banca Popolare di Sondrio; Banca Intesa	CEO, person responsible for Milan office, person responsible for investment and financing evaluation, marketing and promotions manager	
SIFEM	Privately held management company	Independent Investment Committee of 4 members. All decisions forwarded to SECO	1 managing director, 1 deputy Managing director
SwedFund	Swedish state (100%)	A six-member team of senior advisors. Reports to the Swedish Ministry for Foreign Affairs	8 people including Ministry of Finance, director of Ministry for Foreign Affairs

[2] This section is based on DFI annual reports supplemented by discussions.

DFI (subsidiary)	Shareholder ownership (shares)	Supervisory Board	Management Board (Board of Directors)
Norfund	Norwegian government (100%)	Owned by the Norwegian government through the Ministry for Foreign Affairs. Board leader, deputy leader and 5 members	
IDC	South African government (100%)	15 members including chair (non-executive); deputy chair (non-executive); CEO (executive); CFO (alternate); and 11 other non-executive members	
OPIC	Agency of the US government (100%)	15 members including 8 from the private sector and 7 from the federal government	
IFC	Member countries: US (24%), Japan (6%), Germany (5%), France (5%), UK (5%), Canada (3%), India (3%), Italy (3%), Russia (3%), Netherlands (2%), 172 other members (38%)	Board of Governors: 182 member countries; each appoints one governor and one alternate. Voting power is weighted according to the share capital each director represents	Board of Directors includes IFC executive vice-president and CEO. Most powers delegated to a board of 24 directors
EBRD	Member countries (regional and non-regional)	All the powers of the EBRD are vested in the Board of Governors, which consists of 62 governors and 62 alternate governors including EU, EIB, US, etc.	The Board of Governors has delegated many of its powers to the Board of 23 Directors and 23 alternate directors
EIB	EU Member States	Board of Governors is composed of the 27 EU economy and finance ministers. A new qualified majority voting threshold (18 votes, representing 68% of the subscribed capital) has replaced the unanimity rule	28 members of the Board of Directors with one director nominated by each Member State and one by the EC
PIDG	DFID (49%), SECO (10%), Dutch Ministry of Foreign Affairs (17%), Sida (11%); IFC (6%); ADA (3%); Irish Aid (15%); KfW (3%)	A number of PIDG facilities are private limited companies (or liability partnerships) with an independent board of non-executive directors who are predominately private-sector individuals	The daily management of EAIF, GuarantCo, InfraCo Africa, InfraCo Asia and the ICF-DP has been contracted to specialist management companies
AfDB	Member countries (53 regional and 24 non-regional)	The Board of Governors is the highest policymaking organ, made up of one representative from each member country	An 18-member Board of Directors to which power is delegated. 12 directors are elected from RMCs and 6 from non-RMCs
ADB	Member countries (regional and non-regional)	The Board of Governors has 67 members and 67 alternate governors	12 executive directors and 12 alternate directors
CDC	100% owned by UK government (DFID)	The government has no involvement in CDC's day-to-day decision making which is carried out by the CDC Board consisting of executive chair, chief executive and former chair as well as 5 non-executive directors	

Notes: ADA = Austrian Development Agency; AFD = French Development Agency; EC = European Commission; IFI = international financial institutions; RMC = regional member country; SECO = Swiss State Secretariat for Economic Affairs; Sida = Swedish International Development. Cooperation Agency. Note that not all DFIs have a separate Supervisory Board or Board of Directors
Sources: DFI annual reports.

The multilateral DFIs (PIDG, IFC, EBRD, EIB, AFDB, ADB) are all owned by their shareholders, or member governments. Therefore, national governments tend to own or be shareholders in several DFIs at the same time. For example, DFID is a shareholder in CDC, PIDG, EIB, EBRD, IFC, AfDB and ADB.

3.2 The setting of DFI strategies and policies

DFID sets CDC's investment policy targets of 75% of new investments in low-income countries and more than 50% of new investments in Sub-Saharan Africa but does not get involved in CDC's day-to-day operational decision making, which is carried out by the CDC Board of Executive and Non-Executive Directors based in London. SIFEM also has a specific percentage policy target and operates under SECO's mandate. At least 60% of SIFEM's investment volume in any year must be allocated to a list of priority developing and transition economies whose gross national income (GNI) per capita is below $6,000. Norfund also has a *company strategy* that the portfolio should be increasingly focused on Sub-Saharan Africa. In fact Norfund operations are limited to four regions: Southern Africa, East Africa, South East Asia and Central America. FMO needs to invest 40% in low-income countries, as mentioned in the 2009 annual report.

There is no similarity between the two non-European bilateral DFIs OPIC and IDC. OPIC's Board of Directors provides policy guidance to the corporation and approves all major insurance, project finance and investment fund projects. At IDC, both the Board and executive management have the responsibility for defining the strategic direction and ensuring it is managed in a manner consistent with *strategy*.

The biggest EDFI member, DEG, has a Supervisory Board, which *inter alia* pays close attention to the company's *planning and strategy*. As part of the Board of Management's *overall strategic policy*, the Supervisory Board discussed *business strategy* for 2010, *risk strategy* including annual planning for 2010 and the medium-term business outlook for 2011-2014. Further discussions with DEG suggested that the Supervisory Board includes a number of representatives of the governing ministry, who need to approve DEG's certain investments (related to size or, e.g., newness in terms of countries).

FMO's Management Board is also charged with developing and implementing strategy. Shareholders from the government do not sit on the Advisory Board. To mitigate the risk of making the wrong choices, FMO used input from clients and market research when formulating its new strategy, which will guide its activities until 2012. The approach is similar to that chosen by IDC, where the clients remain central to the operating strategy.

SIMEST is headed by the Ministry of Economic Development, along with private sector shareholders, which include major Italian banks and industrial business organisations. On the other hand, Proparco is a DFI with a governance structure that sets it apart from other EDFIs. It gathers 30 private and public like-minded shareholders from both the North and South, with AFD as its main shareholder (59%).

PIDG has a Governing Council, which comprises representatives of the 8 PIDG member countries. The Council is the decision-making body and provides overall *strategic direction*. However, the Council provides sufficient flexibility to its facilities, which are private limited companies (or in the ICF-DP (Infrastructure Crisis Facility – Debt Pool) case, a limited liability partnership) with an independent Board of Non-Executive Directors, who are predominately private sector individuals. The day-to-day management of the Emerging Africa Infrastructure Fund (EAIF), GuarantCo, InfraCo Africa, InfraCo Asia and the ICF-DP has been contracted to specialist management companies following competitive international tenders.

IFC with its 182 member countries (October 2010) guides IFC's programmes and activities. The directors meet regularly at World Bank Group headquarters in Washington, DC, where they review and decide on investments and provide *overall strategic guidance* to IFC management (IFC, 2006). Similarly, the powers of EBRD, AfDB, and ADB are vested in the respective Board of Governors. The Board of Directors is also responsible for the direction of the general operations of *these regional DFIs* in conformity with the general directions of the Board of Governors as the representative of the shareholders.

According to the Lisbon Treaty, EIB's Board of Governors takes normal decisions by a majority of members representing at least 50% of its subscribed capital. However, a new qualified majority voting threshold (18 votes, representing 68% of the subscribed capital) has been introduced in place of the unanimity rule that used to apply to EIB lending operations outside the EU. A new clause delegates power to EIB's day-to-day management to take all emergency measures when a financing operation needs to be restructured to safeguard its interests (EIU, 2009).

3.3 Selection of Board and management

CDC is owned 100% by the government, but the latter has no direct (i.e. official) representation on the Board, although discussions suggested it has a say in two Board members. As mentioned above, Proparco enjoys public–private governance that includes investors from both the North and South. Norfund has used external resource persons for some Board positions. This is also the case for PIDG, where Board members are not typically from donor organisations but rather are infrastructure and finance professionals with deep understanding and experience of the operations of the underlying vehicles. The PIDG governance structure comprises a Governing Council, the PIDG Trust and the PIDG Programme Management Unit. The PIDG Trust invests in, owns and manages PIDG facilities. The Programme Management Unit, which functions as the Secretariat for PIDG and is its central point of contact, coordinates activities between the Governing Council and individual facilities. PIDG companies and facilities fall under the overall governance of PIDG.

FMO has a two-tier board structure: the Management Board and the Supervisory Board. The Management Board consists of three statutory members. The Annual General Meeting of Shareholders has core powers, including appointing members of the Supervisory Board. FMO's Supervisory Board currently comprises seven independent members with very specific expertise in areas relevant to FMO activities. The Works' Council has right of recommendation to nominate a third of members. The Supervisory Board in turn appoints members of the Management Board.

The two bilateral non-EDFIs have the following distractive features. The relationship between IDC and its shareholder are regulated by an Act and its Regulations. IDC has a unitary Board structure, comprising one executive and 13 non-executives. The size of the Board is dictated by the IDC Act, which permits a minimum of five and a maximum of 15 directors appointed by the shareholder. The positions of chair and chief executive officer are held separately. OPIC's Board of Directors also consists of 15 members: eight from the private sector and seven from the federal government. At least two of the private sector directors must be experienced in small business, one must represent organised labour and another must have experience in cooperatives.

Concerning the multilateral DFIs IFC is accountable for the use and management of its resources in a manner consistent with its mandate and has an obligation to be responsive to the questions and concerns of its shareholders. Each of the 182 member countries of IFC appoints one governor and one alternate. Corporate powers are vested in the Board of Governors, which delegates most powers to a board of 24 directors. Voting power on issues brought before them is weighted according to the share capital each director represents. The selection of board and management is the same for the regional MDBs. For example, the Board of Governors is the highest policymaking organ of AfDB, ADB and EBRD, comprising representatives of member countries.

Annex 6 includes a further discussion on:

- Assessment of management by the shareholders;
- Handling of funding or recapitalisation;
- Controlling of political or reputational risk.

4. Broad activities undertaken by DFIs

This section provides a brief overview of some of the activities of the main DFIs' across all sectors of operations in 2009-2010 in parallel with their investments. We also address why some DFIs include these side activities and others do not and the proportions of financial and staff resources absorbed by them. The DFIs have a long track record of investing in private sector projects in developing countries. For example, the 15 EDFIs have built up huge experience from decades of investment activity. Overall, the DFIs all have different areas of specialisation and expertise, often reflecting the comparative advantages of partners in their home country (Dalberg, 2010; Te Velde and Warner, 2007).

Since its restructuring in 2004, CDC has operated primarily as a private equity fund of funds. CDC commits capital to fund managers, who invest it in private companies in developing countries. Such investments are generally held for about five to 10 years. When the fund manager sells the investment, the capital is returned to CDC with any net profit.

The DFIs finance activities within many different areas. A non-exhaustive list of examples includes: Growth and Employment (DEG; Proparco; EIB); Sustainable Development (Proparco); Reaching the Millennium Development Goals (MDGs) (Proparco; IDC); Financing of Infrastructure (Proparco; FMO; PIDG); Promoting Access to Credit (DEG; Proparco; FMO; SIFEM) and Microfinance Lending Support (FMO; SIFEM; OPIC); Combating Climate Change and Renewable Energy (DEG; Proparco; Norfund); Business Development Services (Proparco; FMO; IDC); and Trade in Services and Small and Medium-Sized Enterprise (SME) Funds (Norfund).

DFIs' core business is to invest financial resources (Section 4.3), but they also provide project-specific and general technical assistance (Section 4.1) and promote standards in the funds or companies in which they invest (Section 4.2).

4.1 Technical assistance and advisory services

IFC's contributions to technical assistance and advisory services (TAAS) activities are made publicly available in an annual report to the donor community. IFC provides TAAS to private entities and governments, either directly or through donor-supported facilities, in support of private sector development. In terms of technical assistance (TA), IFC's total expenditure on advisory services was $268 million in FY 2009 alone (annual report), which is far larger than the new investments by many of the smaller bilateral DFIs.

The AfDB Group achieves its overarching objective in part by providing policy advice and technical assistance to support development efforts and to institutional support projects and programmes. In 2009, under the AfDB's grant financial instrument, the number of *AfDB's* technical assistance activities was 11 and the number of the African Development Fund's (*ADF's*) technical assistance activities was 14, of which seven were project cycle activities and the other seven were categorised as institutional support (AfDB, 2009) .

Capacity development (CD) of FMO enables targeted access to know-how, bundled to meet a company's organisational needs. The Dutch government financed the CD programme, as the successor to the Investment Promotion and Technical Assistance programme. This stimulates technical cooperation between companies in developing countries and enterprises in industrialised nations and is executed by FMO under a fixed remuneration (on a cost-sharing basis).

DEG also provides TA, which is focused on public–private partnerships. As mentioned in its annual reports, DEG received €12.2 million to carry out its programme for development partnerships with the private sector (public–private partnership, PPP), run by the Federal Ministry for Economic Cooperation and Development (BMZ). DEG also created a €5 million TA fund in 2007 from its own resources. TA measures are designed to enhance the developmental impacts of existing DEG finance projects and to facilitate new ones. They include, in particular: project-related training and qualification measures; complementary environmental and social measures; pre-investment studies; specific consultancy measures; and the assignment of external experts.

Te Velde and Warner (2007) summarise the extent of TA around 2007 (Table 2).

Table 2: Examples of use of technical assistance funds by DFIs

	TA – specific				**TA – general (within DFI)**	**TA – not under direct control of DFI**
	Fund	**Size**	**Access/aims**	**Funding**		
IFC	TAAS	$55 million (2006)		Earmarked from IFC's retained earnings		The performance-based grants initiative (PBGI) establishes a pool of resources for funding performance-based grants to individual private-sector projects in developing markets.
EIB	FEMIP – Support Fund ACP Investment Fund – plans for TA	€105 million (70% allocated to public sector infrastructure projects so far) €40 million	To support project identification, preparation and implementation To support project identification, preparation and implementation	EC aid EDF	FEMIP Donor Trust Fund - €33.5 million for upstream projects	EIB often co-finances with donor agencies such as AFD and KfW (for public investments)
EBRD	TC funds	In 2005, €78 million spent, €90 million committed (90% for specific projects)	To help preparation and implementation of EBRD investments	Multi-donor and EIB, e.g.	ETC, multi-donor pledges €37.1 million by 2005; commitments €18.2 million in 2005. €2.1 million for infrastructure projects	Links with other institutions, including aid, up to €770 million with half for infrastructure
DEG	TA Fund TA Fund	€5 million €1.5 million (2007)	Bankable projects/ developmental effects Bankable projects/ development effects	DEG – from profits BMZ		Can access PPP-Programme €9.0 million (2007) Investment-tied and investment-preparing projects, funds from BMZ Study facility (€1.4 million), funds from BMZ, to prepare infrastructure projects
FMO	CD	€5-7 million annually	Institution building, specific knowledge	Dutch state, 50-50 cost sharing		

Notes: EDF = European Development Fund; ETC = Early Transition Countries; FEMIP = Facility for Euro-Mediterranean Investment and Partnership; PPP = Public–Private Partnership; TC = Technical Cooperation.
Source: Te Velde and Warner (2007).

4.2 Promotion of ESG standards

DFIs promote standards in the companies and funds in which they invest. It starts by an assessment of potential risks. For example, for each proposed investment with some expected social and environmental impacts, and investments in financial intermediary (FI) projects), **IFC** issues a brief summary of its Environmental and Social Review Summary (ESRS). The ESRS includes the rationale for IFC's categorisation of a project; a description of the *main social and environmental risks* and impacts of the project; and the key measures identified to mitigate those risks and impacts (IFC, 2006).

In ESG terms, FMO has implemented a strategic focus on monitoring existing clients and has created a risk policy for new clients that present high risks and high potential for development impact. FMO's aim is to focus on the two or three main ESG risks and/or opportunities for each client and to proactively assist in monitoring and following up on these. Scorecards are used to categorise projects on environmental and social risks, and FMO seeks alignment with *IFC corporate governance tools* when categorising governance risks. FMO's environmental and social specialists now also focus on projects with the highest risk, Category A, clients; its investment officers receive further training to deal with lower risk Categories B and C clients.[3]

Moreover, for private equity funds, FMO is currently fine-tuning the ESG approach together with other members of the EDFI group. To help their fund managers assess and manage environmental and social risks, CDC and FMO offer them specialised training and a tailor-made toolkit. COFIDES, like the other EDFIs, conducts a thorough environmental and social analysis of all the projects it supports. COFIDES has adhered to the IFIs' Corporate Governance Approach Statement as well as to the Ten Principles of the UN Global Compact. In the area of corporate social responsibility, one of the highlights in 2009 was the execution of a declaration on Principles on Responsible Financing by EDFI members. The declaration aims to harmonise policies on respect for human rights and environmental sustainability within the international development finance community.

A prerequisite for involvement by DEG is that an investment must be not only convincing in business and development terms but also environmentally and socially acceptable. Evaluation of environmental and social risks is part of a general risk assessment. In addition to national regulations, DEG above all applies international standards when financing a project. In 2009, IFC performance standards were included as environmental and social standards in the contractual agreements of all the projects DEG financed. Furthermore, all the enterprises DEG co-financed made a binding commitment to abide by the core labour standards set up by the International Labour Organization (ILO) (DEG annual report 2009).

SIFEM invests only in companies that fulfil the environmental guidelines of the World Bank. SIFEM adheres to an exclusion list (as do other DFIs) and environmental sustainability guidelines that are compliant with those of the World Bank. In exceptional cases where the World Bank's guidelines are not adhered to, SIFEM works closely with investees to implement World Bank compliance measures prior to investment. SIFEM encourages high standards of corporate governance, social responsibility, occupational health and safety and respect for human rights developed from the agreements of ILO, OECD and the UN.

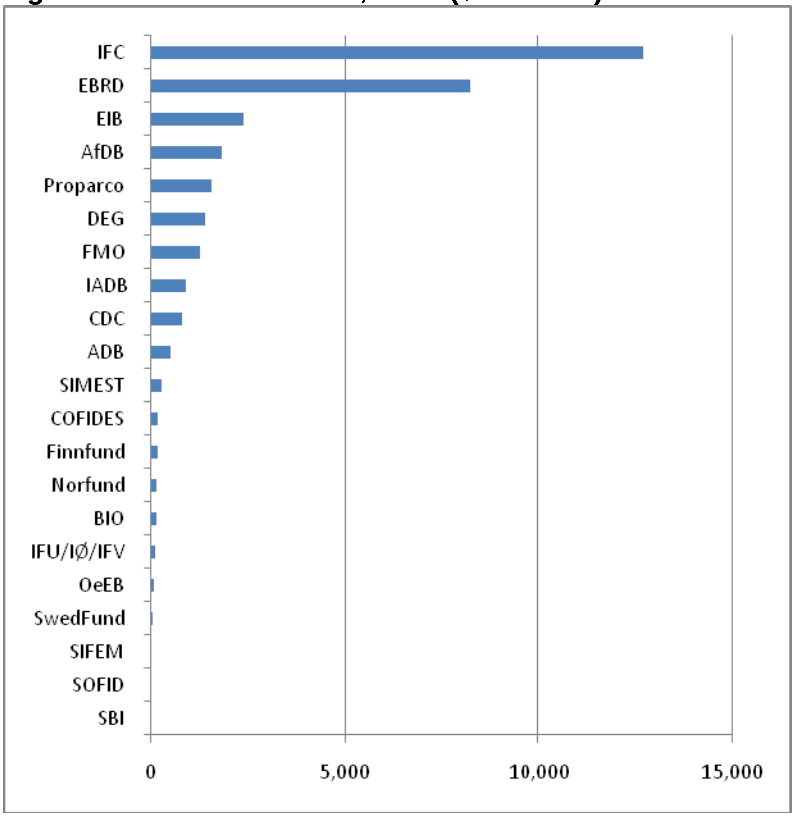
[3] The World Bank's environmental and social risk categorisation divides all clients and potential new projects into three categories: Category A: potential adverse environmental or social impacts are significant and likely to be irreversible (e.g. mining); Category B: potential adverse environmental or social impacts are real but site-specific and reversible and can be mitigated (e.g. extension of existing industrial plants, telecoms networks, etc.); Category C: potential adverse environmental or social impacts are negligible (e.g. software company).

4.3 New commitments to the private sector

The EDFIs combined investment portfolio now amounts to approximately €18.5 billion invested across low- and middle-income countries. Every year, EDFI funding for new projects in the form of loans and equity investment is around €4 billion. Based on the annual accounts of the largest DFIs, there was around $33 billion worth of new investments to the private sector (in the form of loans, guarantees and equity positions) in 2009 (this excludes 25% of EBRD commitments, which goes to public sector, IFC syndications and part of EIB investment).

The DFIs have grown their portfolios over the past decade, although in recent years some have declined as a result of the global financial crisis (e.g. through valuation effects). The growth in the portfolio can in principle come from capital injections from public or private shareholders, from loans and from accumulated profits. For example, **CDC** has not had any capital injection since 1995, nor have **DEG** and most of the other DFIs. The reason for this is that the EDFIs provide long-term development finance for private sector enterprises in developing countries and emerging economies. Investment activities aim at achieving high-level economic performance. EDFI members operate commercially, have a self-sustaining capital base and anticipate a return on their investments (EDFI, 2007, in Busse, 2010).

Figure 1: DFI investments, 2009 ($ millions)



Notes: BIO = Finnfund = Finnish Development Finance Company; **IFU/IØ/IFV =** Danish International Investment Funds; OeEB (Austrian Development Bank); SOFID = Portuguese Development Finance Institution; SBI = Belgian Corporation for International Investment. To private sector only and EBRD and EIB investment to public sector excluded, IFC: year to March 2010, excludes syndications. Portfolio data may be more appropriate for some: e.g. annual commitments to funds are less meaningful. Non-European bilateral DFIs such as OPIC excluded.
Source: Literature survey, EDFIs, annual DFI accounts, own calculations.

5. Sectoral distribution of DFIs

DFIs invest in a wide variety of sectors, ranging from the financial sector to infrastructure and agribusiness (Table 3). As a rule, DFIs invest most often in financial services and infrastructure projects, but individual institutions have developed specific areas of expertise. For example, the European Association of DFIs reports that industry and manufacturing is the second-largest area of activity for its members (15 European bilateral DFIs), although IFC finds manufacturing a relatively poorly performing area in terms of development outcomes (GSDRC, 2010).

Table 3: Sectoral distribution of DFIs' 2009 portfolio

	Financial sector	**Infrastructure**	**Agribusiness**	**Industry/ manufacturing**	**Other**	**No. of projects**
	Bilaterals					
BIO	45%	20%	5%	30%	N/A	93
CDC	23%	34%	6%	18%	19% (i)	794
COFIDES	1%	45%	5%	47%	3%	117
DEG	35%	19%	13%	27%	6%	670
Finnfund	19%	28%	1%	44%	7%	129
FMO	42%	24%	3%	30%	2%	904
IFU/IØ/IFV	5%	10%	15%	63%	8%	307
Norfund	23%	55%	5%	11%	5%	83
OeEB	100%	N/A	N/A	N/A	N/A	14
Proparco	45%	36%	4%	12%	2%	354
SBI	21%	13%	18%	47%	0%	24
SIFEM	18%	3%	N/A	79%	N/A	63
SIMEST	2%	8%	8%	78%	4%	341
SOFID	N/A	N/A	N/A	100%	N/A	3
SwedFund	8%	22%	1%	64%	5%	72
OPIC	57%	27%				
	Multilaterals (commitments in 2009)					
PIDG		100%**				
AfDB (ii)	10.8%	52.1%		7%	29.1%*	
ADB (iii)	3.9%	39.9%	3.4%	0.8%	52%	
EBRD	36%	37%	8%	18%	N/A	327
EIB	2%	65%	10%	23%	N/A	N/A
IFC	48%	25%	2%	25%	N/A	567

Notes: Others e.g. include: Global Financial Markets; Global Manufacturing & Services; Health & Education; Oil, Gas, Mining & Chemicals; Sub-National Finance; Information and Communication Technology (ICT); etc. (i) In the case of CDC, the underlying portfolio 'other' sector category e.g. includes: Health Care 8%; Mining 6%; Others 6%. (ii) Loan and grants approval by sector in 2009. (iii) Loans. (*) Multi-sector. (**) PIDG is focused solely on infrastructure development, which sets it apart from many other donor-funded initiatives.
Sources: EDFI, DFI, IFC, EBRD and EIB (external operations) annual reports.

Multilaterals are involved more in agribusiness than their bilateral counterparts. Those countries where the development needs are deepest accounted for nearly half of **IFC**'s infrastructure and agribusiness investments. In all countries, IFC invested $5.3 billion in micro, small and medium enterprises in FY2010. It invested $1.5 billion in infrastructure projects and $536 million in agribusinesses around the world. Agribusiness is a strategic priority for IFC because it thinks the sector has a broad development impact (IFC, 2010 annual reports). Financial markets account for almost half of IFC's new investments each year. IFC is also the world's largest multilateral investor in private health care and education in emerging markets. IFC helps increase access to power, transport and water by financing infrastructure projects and advising client governments on PPPs. It has increased its activities in the manufacturing and services sectors. Moreover, it provides financing and advice to private clients in the oil, gas, mining and chemicals sector and channels investments towards private companies that build and develop ICTs.

According the EBRD annual report, EBRD’s sector composition (portfolio) was 36% in the financial sector, 22% in the infrastructure sector, 20% in the corporate sector, 19% in the energy sector and 14% in financing micro and small enterprises. EIB’s portfolio is concentrated in infrastructure (61% goes to energy, water and transport in the Neighbourhood Investment Facility – NIF – and 34% to transport, water, telecommunications and energy in the Investment Facility (IF)) and industry (23% in IF and 24% in NIF). For EIB, infrastructure is a key development priority, because it delivers essential services such as clean water and access to power, and plays an essential role in supporting trade, productivity and growth.

At the end of 2009, the main focus of support from PIDG companies and facilities was in the telecommunications, energy and industrial infrastructure sectors. PIDG is focused solely on infrastructure development, which sets it apart from many other donor-funded initiatives.

AfDB is implementing its Medium-Term Strategy (2008-2012), which in sectoral terms targets the private sector, governance, higher education, science and technology. By 2012, it is aimed that 80% of AfDB lending will be in five core operational areas, identified as its comparative strengths: infrastructure, including transport and communications, energy, water supply and sanitation and urban development; environment; regional cooperation and integration; financial sector development; and education. AfDB continues to operate in health, agriculture and disaster and emergency assistance, but on a more selective basis.

In the case of DEG, the choice of sectoral distribution tends to be market-driven (interviews with DEG), although from time to time there can be a strategic sector discussion, for example when it came to investing in the palm oil industry. Our discussions suggested that DEG is relatively more exposed in infrastructure and agribusiness, and it sees these sectors as part of its comparative advantages.

Several DFIs have *a focused strategy* within specific sectors and geographies, as well as within financial instruments and products. Proparco’s sectoral strategy is tailored to the productive sector, financial systems and infrastructure. FMO focuses on the financial and energy sectors, and also the housing sector. COFIDES does not support projects in housing and construction. It backs only enterprises in all productive industries, as long as they are marketing Spanish goods and services. SIMEST excludes no sectors, although it goes where Italian companies operate. SIFEM also has no sectoral preference. This also applies to SwedFund. Norfund specifically list all the sectors it invests in and is well-positioned in hydropower. Finnfund chooses sectors on the basis of its perceived comparative advantage at home: forestry, energy efficiency (bio-power) and telecommunications. OPIC is narrower in its sectoral strategy, investing mainly in microfinance institutions (MFIs), renewable energy and housing.

6. Financial instruments of DFIs

The DFIs employ diverse investment strategies using different investment instruments (loans, guarantees, equity). Table 4 provides a breakdown of DFI activities by type of instrument. Most DFIs do comparatively little in guarantees. Some DFIs specialise almost entirely in equity (CDC, COFIDES, SIMEST, SIFEM, Norfund), though often not exclusively. The majority of the committed portfolio of others (BIO, DEG, Finnfund, FMO, Proparco, SOFID) is in loans. Many have stated a desire to invest more in equity funds (FMO annual report), but CDC leads the field globally on this. IFC and EIB private equity fund investment is still comparatively small.

Concerning the choice of instruments, DEG decides in conversation with its clients in accordance with their needs. DEG has gradually expanded its range of instruments, from a start in purely private equity investments to using its own funds to provide long-term loans, guarantees and venture capital in the form of equity and mezzanine finance at market-oriented terms. FMO aims to provide the full range of instruments for a narrow set of sectors (finance, housing and energy).

Table 4: Distribution of DFI's portfolio by financial instrument (2009)

	Equity and quasi-equity	**Loans**	**Guarantees**
	Bilaterals		
BIO	38%	62%	0%
CDC	96%	4%	0%
COFIDES	94%	6%	0%
DEG	42%	57%	2%
Finnfund	45%	53%	2%
FMO	45%	51%	3%
IFU/IØ/IFV	53%	44%	3%
Norfund	85%	15%	0%
OeEB	47%	42%	11%
Proparco	14%	84%	2%
SBI	57%	43%	0%
SIFEM	88%	12%	0%
SIMEST	100%	0%	0%
SOFID	0%	83%	17%
SwedFund	64%	36%	0%
	Multilaterals (commitments)		
EBRD	15%	85%	0%
IFC	18%	55%	27%*

Sources: EDFI and own calculations for EBRD and IFC based on annual reports.
Notes: (*) The Global Trade Finance Programme is included. Moreover, a new agreement will allow IFC to market the products of the Multilateral Investment Guarantee Agency (MIGA), a deal which will give businesses added comfort as they move into riskier markets. In 2010, the percentages had increased to 31%, whereas loans had fallen to 45% and equity (including equity-type, quasi-equity products) had increased to 23% (IFC 2010 Annual Report).

7. Distribution of DFIs' operations and instruments across countries and regions

The EDFIs operate in various countries, using different investment instruments. In 2009, eight EDFIs held more than 30% in one region. The DFIs diversify their portfolio to varying degrees, including by country and region. Some have geographical targets, such as CDC and FMO.

EDFIs invest primarily in countries included in the OECD DAC definition of developing countries, although there have been investments in the past in countries such as Russia. Within this, there is a priority for poorer countries, though to varying degrees. At aggregate level, Asia is the region with the highest share of the EDFI portfolio, with 30% of its total investments, followed by Africa, with 28%, Central and South America (17%) and Russia and Commonwealth of Independent States (CIS) countries (14%). However, with regard to new commitments made in 2009, the focus on Africa has increased significantly, up to 34%, or €1.6 billion, of all new investments, while 27% went to Asia (including 6% to China), 15% to Central and South America and 7% to Russia and the CIS (Dalberg, 2010).

CDC's portfolio is geared more towards poorer countries compared with the other bilateral DFIs (and multilaterals excluding AfDB and EIB IF). In absolute terms, CDC has the highest exposure in ACP countries and South Africa, followed by FMO and Proparco. It also leads in South (East) Asia and China, followed by DEG and FMO. Based on our own analysis of the DFI annual reports for 2009, some 52% of CDC's portfolio was invested in Africa (45% in Sub-Saharan Africa) (DEG's was 17%, FMO's 29%). IFC invested only 13% in Sub-Saharan Africa (June 2010), meaning that total exposure of CDC and IFC in this region is at the same level.

Table 5: Geographical distribution of 2009 portfolio

	ACP*	South Africa	Mediterranean countries	Middle East	South America	Central America	South East Asia	South Asia	China	New EU Member States	Central and Eastern Europe	CIS	Russia	Other
BIO	25%	N/A	4%	N/A	10%	7%	4%	12%	1%	N/A	N/A	N/A	N/A	37%
CDC	36%	5%	4%	0%	5%	2%	7%	28%	12%	N/A	0%	1%	0%	N/A
COFIDES	5%	0%	1%	1%	27%	34%	0%	6%	6%	10%	3%	0%	5%	1%
DEG	15%	3%	5%	0%	14%	7%	10%	11%	8%	1%	9%	10%	6%	1%
Finnfund	33%	3%	0%	N/A	12%	3%	8%	14%	5%	N/A	2%	5%	9%	6%
FMO	25%	3%	2%	N/A	15%	7%	9%	11%	5%	0%	2%	9%	4%	6%
IFU/IØ/IFV	20%	1%	6%	N/A	2%	1%	9%	8%	11%	4%	10%	12%	14%	1%
Norfund	29%	6%	N/A	N/A	27%	9%	19%	8%	1%	N/A	0%	N/A	N/A	1%
OeEB	14%	N/A	N/A	N/A	9%	10%	N/A	N/A	N/A	N/A	33%	16%	5%	13%
Proparco	35%	4%	25%	N/A	3%	0%	8%	8%	3%	N/A	N/A	N/A	N/A	12%
SBI	7%	N/A	N/A	N/A	6%	N/A	11%	6%	11%	12%	N/A	N/A	N/A	49%
SIFEM	18%	6%	4%	N/A	9%	4%	6%	12%	16%	N/A	14%	8%	N/A	3%
SIMEST	2%	1%	14%	4%	8%	4%	1%	5%	24%	2%	13%	0%	9%	12%
SOFID	100%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SwedFund	44%	1%	1%	1%	5%	1%	3%	21%	7%	4%	0%	2%	6%	4%

Note: (*) The EDFI database does not allow Africa to be separated from the Caribbean and the Pacific.
Source: EDFI.

Table 6: Geographical distribution of 2009 portfolio

	East Asia and Pacific	Europe and Central Asia	Latin America and Caribbean	Middle East and North Africa	South Asia	Sub-Saharan Africa
EBRD	0.3%	99.7%	0.0%	0.0%	0.0%	0.0%
EIB (external)	7.4%	0.0%	23.7%	42.6%	5.5%	20.8%
IFC	10.9%	22.2%	27.1%	7.5%	16.8%	15.6%

Source: DFI annual reports.

8. Comparison of transparency and disclosure policies across DFIs

Many bilateral DFIs do not have an explicit transparency and disclosure policy. Unlike the aid system, which has become more transparent, there is a lack of transparency in DFI operations generally. Te Velde and Warner (2007) argue there are four areas where increased transparency would benefit the DFI sector and its direct beneficiaries:

1. Technical assistance used by DFIs (because it is not easy to compile a full list of TA by DFIs);
2. Interface between DFIs and ODA generally;
3. Terms of deals (e.g. CDC does not reveal this because of commercial confidentiality);
4. Overall size and importance of DFIs (this is beginning to be addressed, but we do not have a simple list of all country by sector investments by all DFIs).

The annual reports revealed very little on transparency disclosure policies. CDC argues that it discloses as much as publicly listed companies.

OPIC has announced new transparency measures and recently completed an agency-wide series of improvements, in order to make more information available to the public about the projects the agency supports and to encourage a new level of public involvement in their development. These concern OPIC operations in four areas:

- Public disclosure of detailed information on all projects to be considered by the OPIC Board of Directors and on all the projects OPIC supports;
- Coordination of project development with concerned stakeholders, particularly locally affected communities in host countries;
- Due diligence screening of project sponsors and potential impacts; and
    - OPIC compliance with protocols, e.g. the Extractive Industries Transparency Initiative (EITI) and OPIC‘s own Anti-Corruption Handbook.

According to its annual report, OPIC aims to significantly expand the volume and breadth of information it discloses to the public. In particular, OPIC aims to enhance the opportunity for public comment on environmentally sensitive projects the agency plans to support.

FMO follows the Global Reporting Initiative (GRI) sustainability reporting guidelines and recently subscribed to the Dutch transparency benchmark. For ease of reference, FMO has indexed the content of this report in a GRI matrix and a transparency benchmark matrix. FMO believes these methods of assessing transparency are suitable for its organisation.

When FMO acquired bank status in March 2008, it formalised steps to further professionalise internal policies and reporting processes in line with Dutch Central Bank guidelines and requirements.

IFC has a clear *Policy on Disclosure of Information*. According to its general principles, IFC makes available information concerning its activities that would enable its clients, partners and stakeholders (including affected communities), and other interested members of the public, to understand better, and to engage in informed discussions about, IFC’s business activities, the overall development and other impacts of its activities and its contribution to development. Thus, the information IFC makes available in accordance with these principles can be categorised as:

1. *Institutional information* about IFC; and
2. *Information regarding activities* supported by IFC (IFC, 2006).

According to its latest annual report, IFC is committed to expanding disclosure of information on its development impact and project performance. IFC believes transparency and accountability are fundamental to fulfilling its development mandate and to strengthening public trust in IFC and its clients. In addition to its financial reporting, IFC reports on its development effectiveness at least annually. This reporting includes information regarding the focus of IFC's investments and TAAS activities, the results of these activities and the steps IFC is taking to enhance its development contribution (IFC, 2006). IFC is also making a concerted effort to engage with civil society in the context of the review of its Policy and Performance Standards on Social and Environmental Sustainability and its Policy on Disclosure of Information.

EBRD's process of self-review and dialogue concerns the main three policies that guide its disclosure and transparency: the Public Information Policy (PIP), the Environmental and Social Policy and the Project Complaint Mechanism. The Public Information Policy is the main policy governing disclosure to the public. It sets out how EBRD discloses information and consults with stakeholders to promote better awareness and understanding of its strategies, policies and operations. At the same time, the PIP establishes clear lines of demarcation to distinguish information made publicly available (either on a routine basis or on EBRD's request) from that which may not be disclosed on the grounds of being confidential. This is to ensure mutual trust is maintained between EBRD, its business clients and other partners. Information on EBRD's activities is made available to the public unless there is a compelling reason for confidentiality.[4]

Public disclosure is an important benchmark for EIB's commitment to transparency. This is why it is continuously improving the quality of the information it provides on its activities (EIB 2009 report).

PIDG is reviewing its transparency and disclosure as part of DFID's review of its involvement in all multilateral DFIs. There is no specific transparency policy yet; it is general and evolving. PIDG is working on a code of conduct to address this transparency deficiency (PIDG 2009 report).

During 2009, AfDB continued to pursue institutional reforms to strengthen internal capacity and business processes to maximise the development effectiveness of its operations. Of initial project information documents for public and private sector projects under preparation, 97% were disclosed on the website (63% in 2006). Disclosure has become timelier each year since the policy's approval in 2005. Policy and strategy papers, agendas and minutes of meetings of the AfDB Board of Directors and summaries of Board discussions on strategy, policies and regional and country partnership were made public, as were documents required for public disclosure during project design and implementation, including environmental assessments (AfDB, 2009).

Overall, there seems to be a difference between the bilateral DFIs and the multilateral DFIs when it comes to disclosure and transparency policies. IFC and EBRD have a disclosure and transparency policy, whereas DEG prefers to refer to the German Banking Secrecy Law, which it is legally bound to uphold. Consequently, DEG does not expect to put in place disclosure policy in the near future (interviews with DEG).

[4] www.ebrd.com/pages/about/principles/disclosure.shtml.

9. Scoring and reporting of activities for the purposes of ODA under the OECD DAC

Activities of aid agencies and DFIs are interlinked in two ways. The first aspect relates to how DFI finance and aid are regarded by recipients, but a second and main aspect of this section relates to whether DFI activities are recorded as ODA.

Te Velde and Warner (2007) address the interface between DFIs and ODA generally. They suggest that, given the need for finance in frontier markets where the returns are lower or riskier, coupled with the fact that DFIs need to price at commercial rates of return, there might be a case for combining aid and DFI finance. There is, however, a lack of transparency in how DFIs manage grants for infrastructure co-financing, particularly in terms of their involvement in simultaneously determining the level of subsidy and participating as a financier in the non-subsidy portion of the investment. They argue that, as **DFI and ODA resources are increasingly pooled and blended**, it is important to draw up *transparent operational guidelines on how they work together* and to emphasise the comparative advantages of each.

However, there is also a technical aspect to ODA and DFI activities. How are DFIs supposed to report their activities as ODA and other official flows (OOFs) and what do they do in practice? This is a complex issue, one which has not yet been settled by the literature. Hence, this part of the review is relatively thin.

The **OECD DAC Statistical Reporting Directives (DSRD)** (OECD 2007a, para. 35) specify that ODA is **flows**:

- to countries and territories on the DAC List of ODA Recipients; and
- to multilateral development institutions.

which are provided:

- by **official agencies**, including state and local governments; or
- by their **executive agencies**;

and **each transaction** of which:

- is administered with the *promotion of the economic development and welfare* of developing countries as its **main objective**;
- is *concessional* in character; and
- conveys *a grant element* of at least 25% (calculated at **a rate of discount of 10%**.

Our discussions found differing interpretations in practice. For example, DEG reports equity as ODA but not loans. Net equity flows by CDC are recorded as ODA.

Currently, there seems to be no agreement between EDFIs and the OECD concerning ODA reporting of bilateral and multilateral DFIs. The reporting differs in terms of the method of what counts as ODA and the timing of reporting, according to a study by Busse (2010) commissioned by one EDFI member.

The study by Busse (2010) criticises the DSRD, which determine that all ODA be reported as flows, and that these ‘flows are as a rule measured on a cash basis, represented by disbursements’ (OECD, 2007a, para. 19). Furthermore, ODA data are recorded as net flows and net transfers, of which the former ‘equal total new flows (gross disbursements) minus amounts received (e.g. repayments of principal, offsetting entries for debt relief, repatriation of capital, and occasionally recoveries on grants or grant-like flows)' and of which the latter 'equal net flows minus returns on capital […] Data on profits and dividends are not collected' (OECD, 2007a, para. 31). Interest payments and return flows of investment income, namely, profits and dividends, are also excluded (OECD, 2007a, para. 29, in Busse, 2010).

Based on the definitions given above and the ODA counting rules (see Table DAC 1), EDFIs need to report all initial investments as ODA *Amounts Extended*, i.e. positive cash flows, and actual principal repayments as *Amounts Received* against their development lending, that is, as negative cash flows. Table DAC 1 displays gross (code 112), repayment (code 113) and net (code 114) bilateral and multilateral ODA counting, which includes disbursements, other resources and commitments (code 115) by the reporting country (Busse, 2010).

Table 7: DAC 1

112	113	114	115
Disbursements			Commitments
Amounts Extended	Amounts Received (-)	Net Amounts	Amounts Agreed

Source: OECD (2007a), in Busse (2010).

Evidently, if *Amounts Received* exceed *Amounts Extended* in a time period, the corresponding net ODA entry is negative. Usually, development agencies report positive net flows because flows back from developing countries to donors are rather exceptional. This is not the case for EDFIs. These differ from other ODA donors as the repatriation of funds for them is part of the standard procedure when investing in projects. The more projects that are successful for EDFI purposes, the higher will be the negative impact of ODA counting in sum. The paradox, according to Busse (2010), is that a negative *net ODA amount* reduces the ODA contribution of the EDFI home country in the long term although the repayments actually substantiate the success of EDFI projects.

Discussions with the OECD suggested that there is no 'ODA reporting by multilateral agencies.' According to the OECD, DAC data collection from multilateral agencies is limited to their outflows to developing countries. Bilateral and multilateral DFIs are both requested to report on their operations in developing countries (and not on the contributions they have received from governments for this purpose). Bilateral and multilateral DFIs' flows are 'measured on a cash basis, represented by disbursements' (OECD interview, 2011).

According to the DSRD, the amount to be reported as ODA should reflect the transfer of funds from the donor country (in this case the DFI) to the developing country, and not the inter-governmental transfer (e.g. from the government to the DFI).

In order to overcome the many confusions regarding scoring and reporting of activities for the purposes of ODA, the OECD Development Co-operation Directorate is planning during 2011 to enhance its work in this field to assess, in collaboration with DAC members, the policy relevance of the OECD's current classifications on non-ODA flows and possibly also to examine financing schemes not presently covered in DAC statistics.

10. Notable gaps or areas of under-provision

There is no universally accepted method to establish gaps or areas of under-provision in the operations of DFIs. This is because there is no single easily identifiable sector, instrument or country that is more deserving of DFI finance than others in such general terms.

10.1 Analytical arguments on analysing gaps

In general terms, DFI support is most needed in activities where the private sector is not already available, but where the private sector could be leveraged in, where market failures are greatest, where the effects of DFI interventions are largest (compared with other instruments such as grant aid), in sectors that matter most for development, using the instruments that matter most and in countries (or states in a country) that need support the most. In short, DFIs need to invest in frontier markets using appropriate instruments.

DFIs focus their investments on developing countries and on underdeveloped sectors and segments considered too high risk for most investors, which is a key added value of the DFIs. These markets are underserved and development impact potential is high. The public owners of the DFIs have a long-term approach to investments. This means they are under less pressure to deliver short-term results and are therefore better positioned to invest in countries that have high traditional risk ratings but where a long-term approach reduces the risk (Dalberg, 2010).

10.1.1 Sector gaps

Which sectors are best for development, in which sectors are interventions more effective and what are the comparative advantages of DFIs to undertake such interventions?

Some argue agriculture is a key sector for interventions, because a great many poor people are directly associated with it. The World Bank World Development Report (2008) also suggests that a unit of output of agriculture has a greater poverty impact than a unit of output of another sector. However, in practice one cannot simply say one sector is always preferred, because it depends on the binding constraint to growth. The World Bank's 2008 Uganda Country Economic Memorandum, for example, suggested the binding constraints (impediments) to growth were more investments in roads, railways and access to electricity (which may help agriculture and other sectors). Because growth is crucial to poverty reduction, infrastructure may have been preferred at that time.

But even if agriculture is the most important for poverty reduction, are public interventions most effective in this sector? This depends on the type of micro-level interventions (can they address market failures?) but also on macro-level questions such as whether certain sectors have a comparative advantage in a country, as it is best to support those sectors with potential.

An important consideration is whether sector activity is associated with market failures, as the potential to be additional to private capital is greater when market failures are greater. For example, agriculture and green power are often associated with information-related market failures (e.g. access to credit) and externalities (environmental benefits), so warrant public support (but not necessarily public provision). It is often suggested that climate change is associated with large market failures, so areas such as green power should be important targets for pubic intervention.

10.1.2 Instrument gaps

Which instruments are in greatest unmet demand, and what is the comparative advantage in providing these instruments? Investment deals need debt and equity, and both types of instruments have advantages and disadvantages. The first mover aspect is valued in DFI participations, and this can be using equity stakes or senior debt. The fact that DFIs often sit on investee boards in the case of equity (which is generally not the case with loans), which provides them with a lever to improve outcomes, suggests equity is better than debt.

10.1.3 Country gaps

Should poorer countries receive more DFI finance, or rather less DFI finance? On the one hand, they should receive more because poverty is the focus of development agencies; on the other, poorer countries already receive aid and need instruments to leverage in the private sector. Should DFI finance in middle-income countries go to poorer states?

10.1.4 Overall volumes

Public-backed organisations should be able to play the countercyclical role during crises when private sector finance is in scarce supply. This implies that DFIs need to provide additional capital during crises and less capital during boom times

10.2 DFI practice

10.2.1 Sector

The majority of DFI finance is the financial sector and infrastructure. There is much less in agriculture and industry, presumably because private sector finance is less constrained in these sectors or it provides too low a return. There seem to be gaps in specific sectors such as green infrastructure (although Norfund is into green energy). There are also differences: for example, EDFIs are engaged in SME finance (including directly), whereas IFC tends to be financing the bigger projects. FMO understands African banking. PIDG is focused solely on infrastructure development, which sets it apart from many other donor-funded initiatives. It attaches particular importance to the provision of adequate and affordable services in the poorest countries and permits investment only in eligible infrastructure sectors.

10.2.2 Instruments

It is notable that the bilateral DFIs have more equity investments than loan investments compared with the multilaterals. There have been few loans in local currencies. CDC is well-known for its fund of fund approach: it invests in 134 funds with 65 fund managers.

10.2.3 Countries

The geographical distribution of DFIs differs. Some DFIs invest in relatively well-off countries. For example, Proparco invests a large percentage in Mediterranean countries, COFIDES and Norfund in Latin America; others are present more in low-income such as CDC in South Asia and Africa and IFC in Eastern Europe, Central Asia and Latin America. But overall the spread over the regions is remarkable: many countries are covered. CDC's strategy is to make 75% of its investments in low-income countries, that is, those with annual gross domestic product (GDP) per capita below $905 (per World Bank 2006 definition). A total of 50% of its investment must be in Sub-Saharan Africa. In addition, CDC may commit up to £125 million in five years to SME funds in middle-income countries (defined as countries with an annual GNI per capita below $11,115 in 2006). When DFIs invest in richer countries, it is not clear whether or not this goes to frontier states and frontier sectors.

10.2.4 Volumes

The period 2003-2008 saw a considerable increase in the availability of project finance in developing countries, driven by strong liquidity in international financial markets. Most of this increase was focused on emerging markets; however, this trend also made the international debt market more amenable to projects in regions such as Sub-Saharan Africa and South Asia, traditionally perceived as riskier markets (as private banks withdrew capital from poorer countries).

Interviews conducted by Te Velde and Warner(2007) prior to the global financial crisis suggested that one of the biggest hurdles to DFIs undertaking a greater number of investments in poorer countries was a lack of sufficiently bankable projects – and, if there are no bankable projects, the role of DFIs is questionable, at least their core tasks while other activities such as TA become more important. However, during the global financial crisis, international commercial banks pulled away from the perceived risks of long-term debt finance in the region, and in some cases DFIs filled the space. For example, IFC's Infrastructure Crisis Facility initiative ensured the availability of long-term debt to support private infrastructure projects affected by capital shortages because of the global crisis. It was launched in December 2009 with a financial commitment from KfW and pledges from DEG, Proparco and EIB worth about $4 billion.

However, not all DFIs were able to play the countercyclical role during the global financial crisis. Commitments fell in a number of DFIs in 2008-2009. Overall, portfolios increased by only 14% in the case of EDFI (12% in 2008 and 21% in 2007), with no growth in the case of IFC (in euros). A large share of the EDFI and IFC portfolio is in ACP and South Asian countries, whereas only a small share of the stock of foreign direct investment (FDI) is in the poorest countries (Table 8). On the other hand, very little of EDFI funds goes to the new EU Member States, whereas a significant share of FDI goes there. Using the broad data in Table 8, it seems there is a poverty focus to DFI investment, at least that of the EDFIs (CDC in particular) but much less so IFC, additional to where FDI goes (if additionality is defined by where DFI investment is going). On the other hand, although the stock of FDI in the poorest economies increased most in 2008-2009, DFI investment changed comparatively little over that period. So DFI investment has not been exceptionally countercyclical for the poorest countries. It is noticeable that a significant amount of IFC investment goes to Mediterranean countries and other middle-income countries.

Table 8: FDI and DFI portfolio and changes by region

	Portfolio			**% changes 2008-2009**		
	EDFI	**IFC**	**FDI stock**	**Changes in EDFI (%)**	**Changes in IFC (%)**	**Change in FDI stock (%)**
ACP & RSA	28%	11%	11%	19%	3%	38%
South Asia	13%	14%	4%	16%	6%	27%
South America	11%	17%	16%	24%	-(5%)	25%
New EU Member States	1%	3%	10%	-(35%)	-(12%)	17%
South East Asia	8%	7%	14%	32%	-(4%)	6%
Central America	6%	6%	7%	5%	17%	5%
China	8%	6%	10%	15%	-(7%)	25%
Russia	4%	7%	5%	7%	-(19%)	18%
CIS	6%	5%	8%	-(0%)	35%	17%
Other	15%	25%	13%			2%
Total	100%	100%	100%	14%	0%	16%

Source: EDFI, UNCTAD, own calculations.

11. Areas of duplication or over-provision

Prior to the global financial crisis, Te Velde and Warner (2007) identified a number of areas of over-provision and duplication. At the time, DFIs such as IFC suggested there were challenges in setting out their capital owing to the excess liquidity. IFC argued in 2007 there were probably more (private equity) funds in Sub-Saharan Africa than there were viable deals, and the absorption rate was a problem. But EDFI suggested the demand for DFI services increased during the global financial crisis, so it we probably cannot say the same things now. Anecdotal evidence from commercial investment banks (as reported by Dutch officials) on whether or not DFIs are crowding them out is inconclusive. There are some examples of direct competition between DFIs (e.g. EIB) and commercial institutions.

Project-specific technical advisory (in particular project development) services by DFIs are increasingly charged at market rates. As payment of fees may take place only when a deal is closed, the potential for competition with consultancy firms (PwC, KPMG, etc.) offering a similar service is marginal. For example, IFC does not bid against project development consultancy firms or private banks if these services are put out to tender. So there is no obvious duplication in TA.

But there at least three reasons why DFIs could work together and hence aim for ‘duplication.’ First, a single DFI can have only maximum exposure by country and/or sector, so some large projects can be financed only by a range of DFIs in order to spread the risks. In 2009, there were at least 295 projects where more than one EDFI was involved. Second, DFIs can work together to smooth out legal procedure so the client has to deal with fewer DFIs. DFI members and EIB signed a Master Investment Agreement for European Financing Partners S.A. (EFP). The EFP initiative was created in 2003 with the aim of promoting sustainable development of the private sector in ACP states and strengthening cooperation between eligible EDFIs and the EIB. Finally, smaller DFIs require big DFIs to lead on project evaluation, especially when it comes to Category A projects, which are defined as projects with potentially large social and environmental effects.

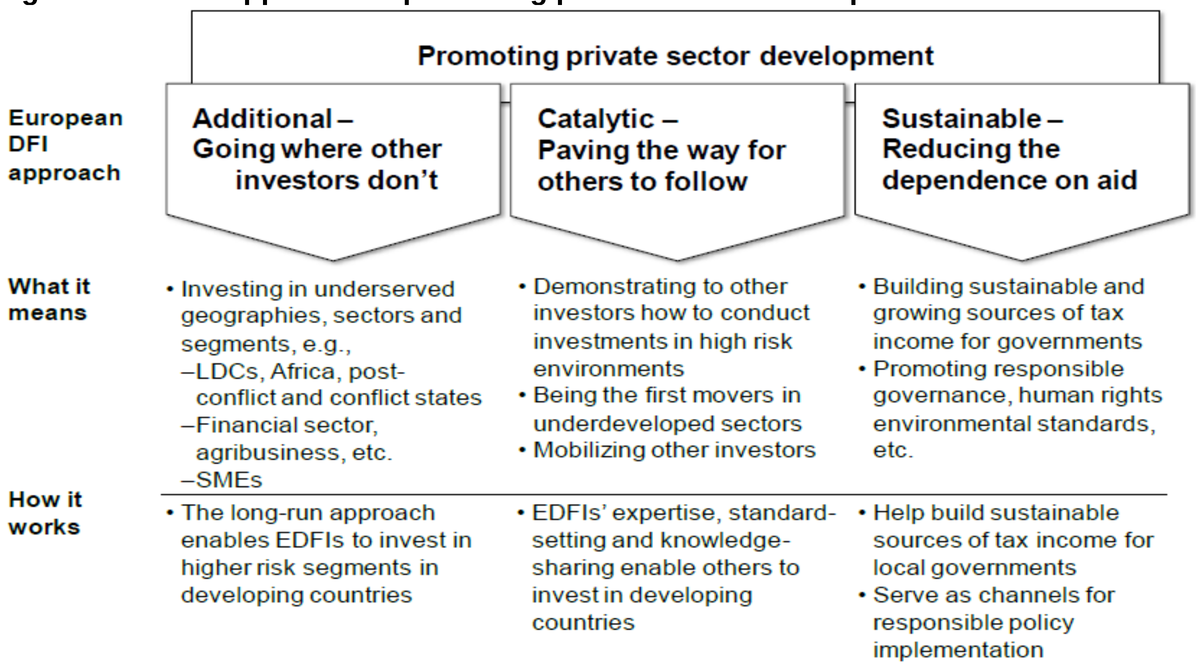
12. DFIs' measurement of financial additionality

Financial additionality is an important concept. The intended effects of DFIs are to provide additional finance and to improve the development impact of finance. But the concept of additionality is always difficult to measure. There are at least three ways to do so.

- It is easiest to understand additionality at the static macro level. DFIs supposedly focus their investments on those countries and sectors and segments considered too high risk for most investors. The value added of DFIs is to target such markets that are underserved and whose development impact potential is high. By investing in high risk sectors and locations, DFIs can be financially additional: a typical DFI portfolio is much riskier than a private sector equivalent and is concentrated more in poorer countries and sectors with greater market failures (Figure 2). This is an argument often used by DFIs.
- A second way to measure additionality is when DFI investments are additional if without them there would be less investment in the longer run. However, as we discuss in the next few sections, DFIs do not provide this type of analysis.
- Finally, evidence at the micro level (for specific cases) can be used to test for additionality. Many ex-ante assessments ask questions as to whether DFI investment is additional. We provide some examples in the next few sections.

Dalberg (2010) suggests that the approach of DFIs to delivery on their objectives consists of three key elements, as Figure 2 illustrates. DFIs invest in private sector projects that not only have development impact but also are financially viable (see Section 2). In making investments, they are guided by three principles: the need to be additional (going where other investors do not), catalytic (paving the way for others to follow, see next section) and sustainable (making sure investments have long-term viability). This investment approach allows the DFIs to provide access to finance for the private sector in countries where this is a prerequisite for economic development and poverty alleviation.

Figure 2: EDFIs' approach to promoting private sector development



Source: Dalberg (2010).

13. DFI's measurement of its catalytic effect

Te Velde and Warner (2007) suggest that one of the rationales for DFI involvement stems from their endeavour to *act as catalysts*, helping companies implement investment plans and providing risk mitigation that enables investors to proceed with plans they might otherwise abandon, given their perceptions of risk, which are particularly high in sectors with large sunk costs.

A key question surrounding the role of DFIs in catalysing private sector-led economic growth in poorer countries is whether each DFI is operating at its optimum level of exposure. This optimum lies in an investment portfolio that balances the cost of managing greater levels of investment risk (i.e. loss provisions on loans and guarantees, equity impairment revaluations and retained earnings designated to TA and grants) with the need to maintain levels of liquidity sufficient to ensure stable and high institutional credit ratings (or to satisfy tax payers' demands), thus ensuring access to lower costs of borrowing as well as confidence in the credibility of the institution.

Dalberg (2010) suggests that most DFIs have demonstrated their ability to catalyse private investment in developing countries. DEG has developed a methodology to capture this. In order to improve measurability of the overall quality of its projects, it introduced an integrated assessment tool in September 2000: the Corporate Policy Project Rating (GPR). One of the four benchmarks of the GPR is the *special role of the DEG*. This is to assess the degree to which DEG fulfils its role as a development finance and consultancy institution in the respective project. It evaluates whether DEG acts in compliance with the principle of *additionality*, whether it actively mobilises additional funds from third parties for a project company (e.g. arranging parallel financing as part of a finance package) and whether DEG also acts as a consultant for the project company (project development, financing engineering) (DEG, 2010).

DFIs manage to catalyse significant amounts of investment from private investors that may not otherwise have invested in developing countries. They act as catalysts of participation by other investors both directly and indirectly – directly through the mobilisation of other investor capital and indirectly by helping local markets build strong foundations for commercial activity, making them attractive to other investors by showing that profitable investments are possible in these markets. According to Te Velde and Warner (2007), there are disadvantages to DFIs using interest rate subsidies in the private sector. One is that, by not using commercial rates, it is more difficult to leverage additional private sector capital. It is better to use output-based aid models.

The financing that DFIs bring to relatively high risk projects could potentially help mobilise private capital, bringing in commercial banks, investment funds or private businesses and companies. In addition, the DFIs act in cooperation with governments and other organisations in providing funds for TA, feasibility studies and management consultancy.

The catalytic principle is enshrined in the mission of some DFIs. For example, Proparco's mission is to be a catalyst for private investment in developing countries. By taking on a significant portion of the risk itself, FMO encourages other investors to join it. The same is the case for Norfund. IDC's core strategies are: serving as a catalyst for balanced, sustainable development; identifying and supporting opportunities not addressed by the market; and providing risk capital in partnership with the private sector.

DFIs provide two types of *evidence on catalytic effects*. The first is a set of examples and the second is a set of numbers. Both are useful, but not without their challenges. Examples include:

- DFIs invest in commercially underdeveloped areas to help build the markets. SwedFund's partnership with Engro Energy Limited is an example of where DFI financing has been instrumental, in this case in helping achieve the goal of setting up *a greenfield* power plant in Pakistan. Such projects are usually viewed as especially risky by traditional investors, so *the catalytic role of DFIs* like SwedFund is especially significant in building confidence. SwedFund's financing provided the starting point from which Engro Energy set off on its way to becoming a major player in the power sector in Pakistan (Dalberg, 2010).

- DEG's role as a co-founder of the Kyrgyz Investment and Credit Bank at a time when no banks in Kyrgyzstan provided long-term finance to private companies also illustrates the catalytic role of DFIs (Dalberg, 2010).
- CDC committed to the Sierra Investment Fund, the first ever private equity fund in Sierra Leone. CDC also committed capital to Rabo Equity Advisor's India Agribusiness Fund, the first private equity fund in India focused solely on this sector. And it expected to finalise a $10 million commitment to Frontier Fund Private Equity, the first fund of its kind in Bangladesh.
- In addition to the enhanced role of the PIDG companies and facilities described above, PIDG supported the establishment of the ICF-DP, which is designed for projects that face the prospect of delay or cancellation owing to the financial crisis. Its direct impact will be its catalysing effect on investors and strong signalling effect to international and regional markets.
- In addition to the measurable, direct results of PIDG's activities, an important benefit and added value of PIDG has been its 'crowding-in' of other providers of finance for infrastructure projects, both private sector and DFIs and IFIs. By supporting innovative projects with private participation in markets where there has been no or limited PPP activity, PIDG could be considered to have an important role to play through its demonstration effect (PIDG 2009 report).

Some DFIs provide a leverage ratio. Third party funds mobilised alongside CDC's capital invested are measured as follows. Investments in fund closings prior to the one in which CDC participates are not counted. Investments by others in funds when CDC has made a legal commitment plus all capital committed at subsequent closings are counted as mobilisation once subjected to a 'tapering' factor. The tapering factor applied to a fund's mobilisation value will depend on whether it is a first, second or subsequent fund, as follows: first-time funds have no tapering; fund 2s are tapered by 25%; fund 3s are tapered by 50%; and funds 4 onwards are tapered by 75%, so that only 25% of investment by others counts as mobilisation. In 2009, mobilisation amounted to $1,200 million (2008: $2,170 million). However, the ratio of capital mobilised rose from 328% in 2008 to 452% in 2009.

CDC measures its mobilisation efforts using a ratio. A CDC report states that during 2004-2008 it committed €4.8 ($7.1) billion to its fund managers, with *an additional sum* of more than €13.4 billion ($19.7billion) *mobilised from commercial investors*. This means that, for every dollar invested by CDC, almost three additional dollars were mobilised from private investors.

Based on CDC's development review, we estimate that every dollar of CDC investment coincides with $5 of other investment. Since 2004, CDC has committed more than $5 billion to 65 fund managers. Alongside this, other investors have committed a total of $24.3 billion. Capital from other DFIs accounts for only $2.3 billion of this figure. Using CDC's new methodology for measuring third party capital mobilisation, third party capital attributable to CDC is $4,187 million.

IFC's annual report argues that every dollar of its investment leverages about $3 from others. For EBRD, it is around $1. EBRD suggests that, alongside €7.9 billion of investment in 2009, it attracted additional co-financing worth €5.1 billion. Of this, €2.3 billion came from private and €2.8 billion from public co-financiers, of which €2.7 billion came from the IFIs.

ADB applied its co-financing instruments to mobilise co-financing with several partners, catalysing $220 million of direct new money for developing member countries for two projects with an aggregate cost of $2.2 billion.

14. DFIs' measurement of the direct economic impact of their operations

DFIs have developed different systems for assessing the impact of their operations, which makes it difficult to *compare the 'development impact'* on the basis of their own data (Grettve, 2007). Even a comparison of a simple measure such as the percentage of successful projects is meaningless if the success criteria on which this is based vary by DFI. But another challenge is that, while some indicators are more or less comparable, e.g. number of jobs created and supported, the number on its own may not be indicative of a good or bad development outcome, as it will depend on the counterfactual, which is a dynamic process affected by host country institutions and policies (ODI, 2008).

Aggregated data on impacts are not available; however, below we provide examples of assessment tools used by DFIs, focusing on their similarities and differences.

DFIs use basically three different types of assessment tools: IFC's Development Outcome Tracking System (DOTS), EBRD's Transition Impact Monitoring System (TIMS) and DEG's Corporate Policy Project Rating (GPR). The DOTS, introduced in 2005, tracks the development results of IFC's investments. According to this system, prior to approval, a number of quantitative and qualitative indicators[5] mapping into four key performance areas (i.e. financial performance, economic performance, environmental and social performance, private sector development) are identified to compute the project's expected development impact. Then, each year starting from once projects reach their early maturity until when they close, the achievement of each indicator is assessed and the four performance components are rated. On the basis of these scores, a synthesis rating is assigned to the overall development outcome according to a six-point scale: highly successful, successful, mostly successful, mostly unsuccessful, unsuccessful, highly unsuccessful.[6]

EBRD's TIMS, established in 2003, is used to assess the potential transition impact of signed and under implementation projects and the risks involved. The transition impact is defined as the impacts of a project on businesses, markets or institutions which contribute to the transition towards the realisation of a full market economy. The TIMS builds on seven indicators, all qualitative in essence, with a focus on private sector development and with no fixed weights.[7]

DEG's GPR, which was launched in 2000 and has been adopted by 14 other DFIs (including, for example, Proparco and SIFEM), is instead a composite index created for each project by assigning different weights to the following four benchmarks: long-term profitability, development effects/sustainability, strategic role of DEG, DEG's return on equity. On the basis of the value of the total index, each project is then rated according to a six-point scale: very good, good, fully satisfactory, still satisfactory, unsatisfactory, obviously insufficient.[8]

[5] Quantitative indicators include, for example, annual return on equity, number of permanent/temporary jobs, amount of taxes and subsidies received, number of low-income students enrolled and patients treated, amount of CO_2 emissions, etc.; qualitative indicators refer to, e.g., adoption of new technology, receipt of international accreditation, etc. For more details, see www.ifc.org/ifcext/devresultsinvestments.nsf/AttachmentsByTitle/IFC_DE_Indicators_FINAL_.doc/$FILE/IFC_DE_Indicators_FINAL_.doc.

[6] Note that, over time, this system allows IFC to do before and after comparisons by looking at changes in the values of specific indicators for particular years.

[7] These indicators are: 1) greater competition in the project sector; 2) expansion of competitive market interactions in other sectors; 3) more widespread private ownership; 4) institutions, laws and policies that promote market functioning and efficiency; 5) transfer and dispersion of skills; 6) demonstration of new replicable behaviour and activities; 7) setting standards for corporate governance and business conduct. For more details, see www.ebrd.com/pages/research/economics/transition.shtml.

[8] For more details, see DEG (2010).

CDC has also developed an assessment framework of its fund in fund business, based on the IFC's DOTS, and has published two development reviews.[9] Others, such as EIB and FMO, have developed their own variants which are respectively the Development Impact Assessment Framework (DIAF) and the Economic Development Impact Score (EDIS).[10]

Comparing the evaluation frameworks used by the DFIs reviewed (based on annual reports and reports explaining their approaches), it emerges that approaches to measuring the development impact of investment operations are heterogeneous across DFIs, in particular between multilateral DFIs and some of the bilateral DFIs. Indeed, IFC, EBRD, EIB, ADB and AfDB take part in the Evaluation Cooperation Group (ECG), which has set good practice standards (GPS) for development results tracking of private sector operations. Therefore, they tend to have *harmonised* post-evaluation practices and *ex-ante* assessments, even though, as suggested by Grettve (2007), harmonisation challenges remain.[11] On the other hand, some bilateral institutions, such as DEG, use arithmetic scoring and standard weights, which are excluded by the ECG standards, to assess the impacts of their operations.

Moreover, some DFIs carry out *ex-ante* assessments at approval and throughout the project's lifecycle, as well as *ex-post* evaluations, whereas others carry out *ex-ante* evaluations only. For example, IFC uses the DOTS to track the development impact of all its investments at approval and throughout their cycle, but this system is complemented by the *ex-post* evaluation framework developed by IFC's Independent Evaluation Group (IEG), which applies to a random sample of projects. In a similar way, EBRD relies on the TIMS to assess the potential transition impact of its projects throughout their lifecycle, but it also makes use of evaluation performance indicators to measure *ex-post* the overall performance of its operations. DEG and FMO also use approval scoring supplemented by post-evaluation. On the other hand, OPIC and Proparco review projects only *ex-ante*, at approvals, and during monitoring. CDC carries out evaluations at the mid-point and at the end of a fund's life (five to 10 years).

Another difference across the assessment frameworks of the reviewed DFIs is that some of them use both qualitative and quantitative indicators (e.g. IFC's DOTS, EIB's DIAF, DEG's GPR, CDC's and PIDG's evaluations), whereas others use qualitative indicators only (e.g. EBRD's TIMS). The quantitative indicators typically used to examine the *direct* effects of DFIs' operations are:

- Financial returns (e.g. return on equity, return on investment, etc.);
- Employment (e.g. number of jobs created, expenditure on training, wage, etc.);
- Taxes paid; and
- Access by populations to basic services (e.g. phone lines).

The following are a few examples of quantitative effects as measured by DFIs.

- Overall, the investments co-financed by DEG in 2009 created around 196,000 jobs. Through their tax payments, the project enterprises additionally contribute more than €568 million annually to government revenues and earn around €1.7 billion in net foreign exchange income per annum (DEG 2009 report).
- In 2010, IDC helped create more than 30,000 jobs in Africa and helped out over 2,000 SMEs (IDC 2010 report).
- OPIC has supported $188 billion in investments that have helped generate 830,000 jobs in HDCs (OPIC, 2009 report).

[9] See, for example, CDC (2009).
[10] For a detailed description of EIB's DIAF, see EIB (2005); for a description of FMO's EDIS, see FMO (2010).
[11] For example, not all ECG members consider that all GPS apply to their mandates. 'EBRD […] considered for example that the ECG-GPS for financial and economic rates of return would not apply to its operations, as its mandate is to foster economic transition rather than development and poverty reduction' (Grettve 2007).

- In 2009, IFC's investment clients provided 2.2 million jobs, including more than 711,000 through investments in private equity and investment funds, nearly 514,000 in manufacturing and services, more than 300,000 in agribusiness and about 128,000 in oil, gas, mining and chemicals. Moreover, in 2009, IFC's investment clients contributed more than $20 billion to government revenues. This includes $7.3 billion from oil, gas, mining and chemicals; $2.5 billion from manufacturing and services; and $7.5 billion from infrastructure (IFC 2010 report).
- According to the 2009 annual report, PIDG-supported projects are expected to provide 62 million people with new or improved infrastructure (26 million people with access to new infrastructure services and 36 million people with improved quality of service), to have a significant fiscal impact through around $2.4 billion of upfront fees received by governments and $400 million of avoided government subsidies, and to have created almost 8,000 short-term jobs and more than 170,000 long-term jobs, across closed and completed EAIF, GuarantCo and InfraCo Africa projects since PIDG was established.

Besides these quantitative effects, some DFIs record qualitative effects relating to competition (e.g. EIB, EBRD), technology and know-how transfer (e.g. DEG, IFC, EBRD, EIB, Proparco, Norfund), investment climate (e.g. IFC, EBRD, CDC), corporate governance (e.g. EIB, IFC, EBRD, SIFEM), gender effects (e.g. DEG, IFC, EIB), compliance with social and environmental standards (e.g. CDC, IFC, SIFEM, DEG, EIB), social effects (e.g. IFC, DEG, EIB), relating to how projects fit in with the national development plans (e.g. PIDG), etc. As suggested by Dalberg (2010), these effects '[…] are hard to measure and aggregate and rarely captured.'

One general similarity in the systems measuring the economic impact of DFI operations lies in the dimensions addressed. Indeed, most DFIs look at four key dimensions:

- Financial performance;
- Economic performance;
- Environmental and social performance;
- Private sector development.

This is the case, for example, for assessment frameworks used by multilateral DFIs such as IFC's DOTS and EIB's DIAF, but also for those implemented by bilateral DFIs, such as DEG's GPR and FMO's EDIS.

Table 9 summarises differences and similarities in assessment frameworks across a selected sample of multilateral and bilateral DFIs.

Table 9: Assessment frameworks comparison for selected DFIs

	Types of evaluation framework		**Types of indicators used**		**Dimensions addressed**			
	Ex-ante	*Ex-post*	*Quantitative*	*Qualitative*	*Financial*	*Economic*	*Env. & Soc.*	*PSD*
IFC	*x*	*x*	*x*	*x*	*x*	*x*	*x*	*x*
EBRD	*x*	*x*		*x*	*x*	*x*	*x*	*x*
EIB	*x*	*x*	*x*	*x*	*x*	*x*	*x*	*x*
DEG	*x*	*x*	*x*	*x*	*x*	*x*	*x*	*x*
FMO	*x*	*x*	*x*	*x*	*x*	*x*	*x*	*x*
CDC	*x*		*x*	*x*	*x*	*x*	*x*	*x*
Proparco	*x*		*x*	*x*	*x*	*x*	*x*	*x*

Notes: [a] at approval and throughout projects' lifecycle; [b] PSD = private sector development.
Source: Authors' elaboration on different sources.

Evaluations conducted by different DFIs themselves claim that DFIDs are able to generate both positive development impact and good financial returns in a majority of their projects:

- According to an evaluation conducted by IFC's IEG in 2009 (IFC, 2009), over the period 2006-2008, 72% of IFC's projects achieved high outcomes. Moreover, in a monitoring exercise, IFC (2007) finds a strong correlation between its projects' financial performance and development outcomes. Indeed, the analysis conducted over a sample of 469 investment projects in the period 1998-2003 shows that 97% of the projects with satisfactory or excellent financial performance lead to a high development impact.

- EBRD's Annual Evaluation Overview Report for 2009 (EBRD, 2009) reports that 58% of evaluated projects over the period 1996-2008 were successful or highly successful. AfDB (2009) in its Annual Portfolio Performance Review reports that 91% of supervised investment operations achieved their development objectives in 2008.
- According to FMO's Annual Evaluation Review 2009/10 (FMO, 2010), 81% of projects financed for FMO's own account and evaluated over the past three years were developmentally successful, and 92% produced satisfactory or better financial results for FMO.
- In 2008, CDC conducted development impact evaluations of 12 investment funds. Nine were rated as overall successful in terms of development outcome, with only one rated as below expectations (CDC, 2008). A similar exercise conducted in 2009 over 20 funds rated 85% of the assessed funds as satisfactory or better in terms of development outcomes (CDC, 2009). A report commissioned in 2010 by the Association of the European Financial Institutions (Dalberg,, 2010) reports that a positive correlation between financial performance and development outcomes has been found in 64% of FMO projects, 55% of DEG projects and 42% of Proparco projects.

Nevertheless, it is worth highlighting that these evaluations focus on the outcome (microeconomic effects) of DFI investments but do not shed light on their macroeconomic effects (e.g. impact on economic growth). Therefore, there is still a gap in the literature on the macroeconomic impact of DFI investments. This gap is being addressed by Massa (2011), who investigates the relationship between multilateral DFIs' investments and economic growth and finds that DFIs play a significant role in fostering economic growth in recipient countries, especially in lower-income countries through investments in the agribusiness and infrastructure sectors. One other study (Te Velde, 2007b) examines the relationship between FDI and home country measures and finds that aid *flows* are positively correlated with *changes* in UK FDI stocks over the period 1997-2001 and that the *stock* of Export Credits Guarantee Department insurance and the stock of CDC investment are positively correlated only with the *level* of UK FDI stocks.

15. DFIs' measurement of the wider economic impact of investments on the regional or national economy

There is a rapidly growing literature assessing the effects of individual companies, DFI projects and international capital flows. There are gaps in the literature, such as on the macro impact of DFI investments (Table 10) and micro-level impacts of aid projects.

Evidence on the development impacts of DFIs is limited. DFIs carry out evaluations of their investments, but these are generally limited to examining direct outputs and economic impacts; comprehensive evaluation of impacts is complicated and is very rarely undertaken. DFIs argue that financial performance and development outcomes go hand-in-hand, as financially successful projects contribute to economic growth, which in turn naturally results in improved development outcomes. DFIs generally prefer larger investments over smaller ones, and report better financial returns and better development impacts for larger projects (GSDRC, 2010). Moreover, an IFC (2007) study calculates financial rates of return (to investors) and economic rates of return (to society, including external and qualitative benefits) and argues that economic returns to society as a whole exceed financial returns on investment in 91% of cases.

According to AfDB's 2008 Annual Portfolio Performance Review, it is increasing the size of its operations in order to 'leverage its limited resources more effectively, and earn a position of leadership at the country level.' AfDB reports high success rates for its projects, with 91% of projects considered to have achieved their development objectives. Sectoral success rates are 82% for governance/multi-sectoral projects, and other sectors are rated between 90% and 93% successful (AfDB, 2009).

Table 10: Assessing growth effects – an illustrative example of international capital flows and growth

	***Ex-ante* screening**	**Micro-level impacts**	**Evaluations**	**Macro studies**	**Studies set within country-specific institutional context**
FDI	√ (e.g. in investment promotion agencies)	√√√ (econometric spillover and cost benefit studies)	X	√√√ (proliferation of spillover studies over past decade)	√ (studies suggest which policies and institutions matter for impact of FDI)
Aid (grants and concessional loans)	√ (needs assessments)	X	√√√	√√	√√ (policies needed for aid to work)
DFIs(loans and equity)	√√ (DFIs use assessment criteria)	√ (DFIs have begun to use micro-level statistics)	√√ (DFIs have evaluation departments of various quality)	X	X

DFIs could also potentially help improve standards in the areas of responsible governance, compliance with environmental regulations and good business practices in relation to staff and the wider community, e.g. by guarding human rights, including gender equality, and also protecting vulnerable members of society such as children. Local communities are thereby further equipped to grow sustainably and the governments' dependence on foreign aid is decreased (Dalberg, 2010).

As part of the economic impact, IFC's DOTS system includes impacts on stakeholders affected by the project beyond the project company itself (e.g., consumers, suppliers, workers, government and host communities). IFC's policies, processes and performance standards are considered able to support its clients enhance their positive impact on local communities while avoiding or mitigating negative effects. In 2009, IFC's clients in oil, gas, mining and chemicals spent $268 million on community development programmes.

An independent evaluation of IFC's Development Results 2008 by the IEG concludes that 63% of the IFC's programmes that were examined met or exceeded market, financial, economic, environmental and social performance benchmarks and standards. It also finds that, in 85% of projects, development results were strongly correlated with financial returns. IFC achieves its best development outcomes in Latin America, the Caribbean, Europe, Central Asia and Asia, and in the infrastructure and finance sectors. It also experiences better outcomes for large projects than for small ones, with success rates of 78% for projects worth more than $15 million but only 48% for projects under $5 million (GSDRC, 2010; IFC, 2008).

A recent report by Dalberg Global Development Advisors (2010) acknowledges the need for evidence of contribution to development outcomes. It cites several studies suggesting a positive correlation between financial performance and development outcomes in most cases: 64% of FMO projects showed both good development outcome and good investment outcome; 55% of DEG projects but only 42% of Proparco projects (GSDRC, 2010).

With the maturing of PIDG's portfolio, it will become possible to measure the broader indirect impacts more rigorously and systematically. PIDG has therefore designed a Systematic Review, commissioned in the autumn of 2010. This is a desk-based study drawing on existing literature methodologically to map out, critically appraise and synthesise the available evidence on the impact of DFI support (including PIDG support) for PPP, on economic growth and poverty reduction. Draft results are expected by spring 2011. One of the purposes of PIDG's systematic literature review exercise of its PPP projects will be to inform a possible extension of PIDG's monitoring and evaluation system in future to measure the broader development impact of PIDG activities, such as its additionality to, and its demonstration effect on, all other current and would-be market participants.

Critics charge that DFIs are driven by financial returns and tend to lose sight of their development mandates, investing in locations and sectors with the greatest potential for profit rather than the greatest need for development capital. They also accuse DFIs of failing to carry out adequate evaluations of development outcomes, and in some cases engaging in tax avoidance rather than contributing to national tax revenues (GSDRC, 2010).

A report by Benton (2010) on behalf of the Jubilee Debt Campaign argues that CDC has lost sight of its development objectives, and is instead concerned primarily with financial returns. It criticises CDC for investing too often in sectors with high profitability but low development impacts, such as the financial, consumer products and industrial sectors rather than agriculture, and investing too often in larger, established, profitable companies rather than smaller businesses. It also charges that CDC 'causes developing countries to lose substantial resources through the use of tax avoidance structures' and argues that it has a 'social responsibility to contribute fully to the tax revenues of developing countries.'

The Commons Public Accounts Committee reviewed CDC performance in 2009. Its report shows that CDC invests 60% of its portfolio in low-income countries, which is a greater proportion than other DFIs.

Finally, DEG does not measure the wider economic effects of DFIs. However, it appears that, from January 2011, DEG intends on a pilot basis to measure outreach indicators (interview with DEG). This exercise will be in addition to the measurement of employment, corporate income tax etc. It is DEG's aim to measure more concrete impacts of its interventions through an addendum to the above-mentioned GPR, such as number of roads build, number of people who access electricity, etc.

16. Conclusions

We do not yet understand fully what constitutes an optimal DFI model. Instead, it seems useful to have a number of different DFIs bringing innovative ideas. How should CDC develop, given its current niche in the market? Here, we summarise a number of key points based on a comparison of a dozen bilateral, regional and multilateral DFIs, placing CDC among the range of DFIs:
:

- CDC's objective is geared more towards mobilising private sector capital than seems to be the case for some other DFIs.
- CDC has no direct day-to-day oversight from shareholders (e.g. via the Board), although this does not seem unique to it.
- CDC does not implement additional government programmes (unlike several other bilaterals) or TA (unlike all multilaterals and some bilaterals). It has relatively few staff.
- CDC specialises almost entirely in equity, which is unique among the bigger DFIs.
- CDC has no specific sectoral niche,
- CDC is relatively more present in low-income countries than other DFIs. CDC has specific targets for investments in low-income countries.
- Bilateral DFIs such as CDC bring new ideas and models to DFI practices. CDC's comparative advantage is centred on its knowledge of local fund managers.
- Measuring financial additionality is difficult, but CDC seems to have relatively more co-invested finance alongside it compared with IFC and EBRD.
- Impact assessments are now held at all major DFIs. The fund of fund approach introduces further stages into the rather long measure-to-beneficiary chain, compared with the approach of direct investment in a specific firm. It will thus be relatively difficult to prove CDC's impact.
- The reasons and incentive structures in DFIs' financing of different sectors and countries with different instruments are complex. Even within CDC there are complementary approaches: investing in a regional fund, or a general country fund, or a specifically targeted Africa Sustainable Forestry Fund initiated by CDC on the basis of a perceived lack of capital in the sector.

The future path for CDC could take these points into consideration.

References

Benton, N. (2010) ‘CDC Group: a Case Study in Blinkered Development.’ openEconomy, 19 August.
www.opendemocracy.net/openeconomy/nic-benton/cdc-group-case-study-in-blinkered-development.

Bank for International Settlements (BIS) (2010a) ‘Main Design Elements: Annex.’ Basel: Committee on Banking Supervision, BIS. www.bis.org/press/p100726/annex.pdf.

Bank for International Settlements (BIS) (2010b) ‘Operational Risk – Supervisory Guidelines for the Advanced Measurement Approaches.’ Consultative Document. Basel: BIS. www.bis.org/publ/bcbs184.htm.

Bank for International Settlements (BIS) (2004) ‘Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework.’ Basel: BIS. www.bis.org/publ/bcbs107.htm.

Busse, M. (2010) ‘OECD Counting Rules of ODA for Bilateral and Multilateral Development Finance Institutions (DFIs).’ Consultancy Report Commissioned by DEG.

Dalberg Global Development Advisors (2010) *The Growing Role of the Development Finance Institutions in International Development Policy*. Copenhagen: Dalberg Global Development Advisors.

Dellacha, G. and Te Velde, D.W. (2007) ‘Analysis of Development Finance Institutions Financial Accounts.’ 31 March.

European DFI Group (2009) ‘2009 Comparative Analysis of EDFI members.’

European DFI Group (2008) ‘2008 Comparative Analysis of EDFI members.’

European DFI Group (2007) ‘2007 Comparative Analysis of EDFI members.’

European DFI Group (2006) ‘2006 Comparative Analysis of EDFI members.’

European DFI Group (2005) ‘2005 Comparative Analysis of EDFI members.’

European DFI Group (2004) ‘2004 Comparative Analysis of EDFI members.’

European DFI Group (2003) ‘2003 Comparative Analysis of EDFI members.’

Francisco, M., Mascaró, Y., Mendoza, J.C. and Yaron, J. (2008) ‘Measuring the Performance and Achievement of Social Objectives of Development Finance Institutions.’ Policy Research Working Paper 4506. Washington, DC: World Bank.

Governance and Social Development Resource Centre (GSDRC) (2010) ‘Development Finance Institutions and Development Outcomes.’ Helpdesk Research Report, 23 November. www.gsdrc.org/docs/open/HD727.pdf

Grettve, A. (2007) ‘Review of Development Effectiveness Measuring and Reporting in IFC and Its Comparator Organizations.’ June
www.ifc.org/ifcext/devresultsinvestments.nsf/AttachmentsByTitle/Review+of+Development+Results/$FILE/Review_of_Development_Results_FINAL.pdf.

Institutional Limited Partners Association (ILPA) (2010) ‘Private Equity Principles Endorsements.’ Updated 2 December.

International Development Committee (IDC) (2010) ‘DFID's Performance in 2008-09 and the 2009 White Paper.’ London: House of Commons, The Stationery Office Limited.
www.publications.parliament.uk/pa/cm200910/cmselect/cmintdev/48/48i.pdf.

International Monetary Fund (IMF) (2008) ‘Balance of Payments and International Investment Position Manual.’ Sixth edition, BPM6. Washington, DC: IMF.

Massa, I. (2011) ‘The Impact of Multilateral Development Finance Institutions on Economic Growth.’ Paper prepared for the UK DFID.

National Audit Office (NAO) (2008) ‘Investing for Development: The Department for International Development’s Oversight of CDC Group plc.’ London: House of Commons, The Stationery Office Limited.
www.nao.org.uk/publications/0809/investing_for_development.aspx.

Overseas Development Institute (ODI) (2008) ‘The strengths and weaknesses of bilateral development finance institutions’, 28 March. London: ODI.

Organisation for Economic Co-operation and Development (OECD) (2007a) 'DAC Statistical Reporting Directives, DCD/DAD(2007).' Paris: OECD.

Organisation for Economic Co-operation and Development (OECD) (2007b) 'Grant Element and Concessionality Level of ODA Loans.' Secretariat Note COM/DCD/TAD(2007). Paris: OECD.

Public Accounts Committee (2009) 'Investing for Development: The Department for International Development's oversight of CDC Group plc.' London: House of Commons, The Stationery Office Limited. www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/94/9402.htm.

Schreiner, M. and Yaron, J. (2001) 'Development Finance Institutions: Measuring Their Subsidy.' Washington, DC: World Bank.

Te Velde, D.W (2007a) 'The Role of Bilateral Vs. Multilateral Development Finance Institutions.' Short Note, November.

Te Velde, D.W. (2007b) 'Understanding Developed Country Efforts to Promote Foreign Direct Investment to Developing Countries: The Example of the United Kingdom.' *Transnational Corporations* 16(3): 83-104.

Te Velde, D.W and Warner, M. (2007) 'The Use of Subsidies by Development Finance Institutions in the Infrastructure Sector.' Working Paper 283. London: ODI.

World Bank (2008) *World Development Report 2008.* Washington, DC: World Bank.

Yaron, J. (2005) 'State-Owned Development Finance Institutions (SDFI): Background, Political Economy and Performance Assessment.' Rural Finance Research Conference. Rome, 19-21 March. www.iadb.org/res/publications/pubfiles/pubS-492.pdf.

ADB

Annual reports:

1997 www.adb.org/Documents/Reports/Annual_Report/1997/default.asp
1998 www.adb.org/Documents/Reports/Annual_Report/1998/default.asp
1999 www.adb.org/Documents/Reports/Annual_Report/1999/default.asp
2000 www.adb.org/Documents/Reports/Annual_Report/2000/default.asp
2001 www.adb.org/Documents/Reports/Annual_Report/2001/default.asp
2002 www.adb.org/Documents/Reports/Annual_Report/2002/default.asp
2003 www.adb.org/Documents/Reports/Annual_Report/2003/default.asp
2004 www.adb.org/Documents/Reports/Annual_Report/2004/default.asp
2005 www.adb.org/Documents/Reports/Annual_Report/2005/default.asp
2006 www.adb.org/Documents/Reports/Annual_Report/2006/default.asp
2007 www.adb.org/Documents/Reports/Annual_Report/2007/default.asp
2008 www.adb.org/Documents/Reports/Annual_Report/2008/default.asp
2009 www.adb.org/Documents/Reports/Annual_Report/2009/default.asp

AfDB

(2009) 2008 Annual Portfolio Performance Review www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/APPR%202008%20FINAL%20EN%20%28CODE%2024%20November%202009%29.pdf

Annual reports:

2007 www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/30726073-EN-ENGLISH-ANNUAL-REPORT-2007-WITH-COVER.PDF

2008 www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African%20Development%20Bank%20Group%20Annual%20Report%202008%20-%2000.%20Full%20Report.pdf

2009 www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Annual%20Report%202009%20EN%20-%20Web.pdf

CDC

(2008) Development Impact Report

(2009) Development Review 2009
(2010) Toolkit for ESG for Fund Managers. Adding Value through Effective Environmental, Social and Governance (ESG) Management
www.cdcgroup.com/uploads/toolkitonesgforfundmanagers-mainreport.pdf

COFIDES

Annual reports:
2003 www.cofides.es/english/..%5Cpdf/COFIDES_2003.pdf
2004 www.cofides.es/english/..%5Cpdf/COFIDES_2004.pdf
2005 www.cofides.es/english/..%5Cpdf/COFIDES_2005.pdf
2006 www.cofides.es/english/..%5Cpdf/COFIDES_2006.pdf
2007 www.cofides.es/english/..%5Cpdf/COFIDES%20INFORME%202007web.pdf
2008 www.cofides.es/english/..%5Cpdf/090609_COFIDES%202008%20ANNUAL%20REPORT_final.pdf
2009 www.cofides.es/english/..%5Cpdf/annualreport2009%20lr.pdf

DEG
(2010) Corporate Policy Project Rating (GPR). Executive Summary

Annual report:
2009 www.deginvest.de/EN_Home/Service/Online_library/PDFs_Online-Library/DEG_Annual_Report_2009.pdf

EBRD
(2009) Annual Evaluation Overview Report for 2009

Annual reports (annual review and financial report):
2000 www.ebrd.com/downloads/research/annual/ar00.pdf
2001 www.ebrd.com/downloads/research/annual/ar01.pdf
2002 www.ebrd.com/downloads/research/annual/ar02.pdf
2003 www.ebrd.com/downloads/research/annual/ar03.pdf
2004 www.ebrd.com/downloads/research/annual/ar04.pdf
2005 www.ebrd.com/downloads/research/annual/ar05a.pdf

Annual reports (annual review only):
2006 www.ebrd.com/downloads/research/annual/ar06a.pdf
2007 www.ebrd.com/downloads/research/annual/ar07a.pdf
2008 www.ebrd.com/downloads/research/annual/ar08e.pdf
2009 www.ebrd.com/downloads/research/annual/ar09e.pdf

Financial reports only:
2006 www.ebrd.com/downloads/research/annual/fr06.pdf
2007 www.ebrd.com/downloads/research/annual/fr07.pdf
2008 www.ebrd.com/downloads/research/annual/fs08e.pdf
2009 www.ebrd.com/downloads/research/annual/fr09e.pdf
www.ebrd.com/downloads/research/annual/invest09.pdf

EIB
(2005) Development Impact Assessment Framework of Investment Facility Projects www.eib.org/attachments/thematic/eib_diaf_en.pdf

Annual reports (statistical + financial + activity reports):
1999 www.eib.org/attachments/general/reports/ar1999en.pdf
2000 (Statistical Report) www.eib.org/attachments/general/reports/st2000en.pdf

2000 (Financial Report) www.eib.org/attachments/general/reports/fr2000en.pdf
2000 (Activity Report) www.eib.org/attachments/general/reports/ar2000en.pdf
2001 (Statistical Report) www.eib.org/attachments/general/reports/st2001en.pdf
2001 (Financial Report) www.eib.org/attachments/general/reports/fr2001en.pdf
2001 (Activity Report) www.eib.org/attachments/general/reports/ar2001en.pdf
2002 (Statistical Report) www.eib.org/attachments/general/reports/st2002en.pdf
2002 (Financial Report) www.eib.org/attachments/general/reports/fr2002en.pdf
2002 (Activity Report) www.eib.org/attachments/general/reports/ar2002en.pdf
2003 (Statistical Report) www.eib.org/attachments/general/reports/st2003en.pdf
2003 (Financial Report) www.eib.org/attachments/general/reports/fr2003en.pdf
2003 (Activity Report) www.eib.org/attachments/general/reports/ar2003en.pdf
2004 (Statistical Report) www.eib.org/attachments/general/reports/st2004en.pdf
2004 (Financial Report) www.eib.org/attachments/general/reports/fr2004en.pdf
2004 (Activity Report) www.eib.org/attachments/general/reports/ar2004en.pdf
2005 (Statistical Report) www.eib.org/attachments/general/reports/st2005en.pdf
2005 (Financial Report) www.eib.org/attachments/general/reports/fr2005en.pdf
2005 (Activity Report) www.eib.org/attachments/general/reports/ar2005en.pdf
2006 (Statistical Report) www.eib.org/attachments/general/reports/st2006en.pdf
2006 (Financial Report) www.eib.org/attachments/general/reports/fr2006en.pdf
2006 (Activity Report) www.eib.org/attachments/general/reports/ar2006en.pdf
2007 (Statistical Report) www.eib.org/attachments/general/reports/st2007en.pdf
2007 (Financial Report) www.eib.org/attachments/general/reports/fr2007en.pdf
2007 (Activity Report) www.eib.org/attachments/general/reports/ar2007en.pdf
2008 (Statistical Report) www.eib.org/attachments/general/reports/st2008en.pdf
2008 (Financial Report) www.eib.org/attachments/general/reports/fr2008en.pdf
2008 (Activity Report) www.eib.org/attachments/general/reports/ar2008en.pdf
2009 (Statistical Report) www.eib.org/attachments/general/reports/st2009en.pdf
2009 (Financial Report) www.eib.org/attachments/general/reports/fr2009en.pdf
2009 (Activity Report) www.eib.org/attachments/general/reports/ar2009en.pdf

EIB IF

Annual reports:

2003 www.eib.org/attachments/country/if_annual_report_2003_en.pdf
2004 www.eib.org/attachments/country/if_annual_report_2004_en.pdf
2005 www.eib.org/attachments/country/if_annual_report_2005_en.pdf
2006 www.eib.org/attachments/country/if_annual_report_2006_en.pdf
2007 www.eib.org/attachments/country/if_annual_report_2007_en.pdf
2008 www.eib.org/attachments/country/if_annual_report_2008_en.pdf
2009 www.eib.org/attachments/country/if_annual_report_2009_en.pdf

EIB FEMIP

Annual reports:

2004 www.eib.org/attachments/country/FEMIP_annual_report_2004_en.pdf
2005 www.eib.org/attachments/country/FEMIP_annual_report_2005_en.pdf
2006 www.eib.org/attachments/country/femip_annual_report_2006_en.pdf
2007 www.eib.org/attachments/country/femip_annual_report_2007_en.pdf
2008 www.eib.org/attachments/country/femip_annual_report_2008_en.pdf
2009 www.eib.org/attachments/country/femip_annual_report_2009_en.pdf

FMO

(2010) FMO Annual Evaluation Review 2009/10. Dealing with Changing Conditions in FMO's Markets

Annual reports:
2003 www.fmo.nl/FMO/documents/AR/annual-report-2003.pdf
2004 www.fmo.nl/FMO/documents/AR/annual-report-2004.pdf
2005 www.fmo.nl/FMO/documents/AR/annual-report-2005.pdf
2006 www.fmo.nl/FMO/documents/AR/annual-report-2006.pdf
2009 http://annualreport.fmo.nl/media/1338/compleet_fmo_ar_2009.pdf

Annual accounts:
2003 www.fmo.nl/FMO/documents/AR/annual-accounts-2003.pdf
2004 www.fmo.nl/FMO/documents/AR/annual-accounts-2004.pdf
2005 www.fmo.nl/FMO/documents/AR/annual-accounts-2005.pdf
2006 www.fmo.nl/FMO/documents/AR/annual-accounts-2006.pdf
2009 http://annualreport.fmo.nl/media/1349/annual_acounts_2009.pdf

Annual reports and accounts:
2007 www.fmo.nl/FMO/documents/AR/FMOAR07.pdf
2008 www.fmo.nl/FMO/documents/AR/FMOAR08.pdf

IDC

Annual reports:
2006 www.idc.co.za/Annual%20Reports%202006.asp
2007 www.idc.co.za/Annual%20Reports%202007.asp
2008 www.idc.co.za/Annual%20Reports%202008.asp
2009 www.idc.co.za/Annual%20Reports/2009/pdfs/Full%20IDC%20Annual%20Report.pdf
2010 www.idc.co.za/Annual%20Reports/2010/IDC_Annual_Report_2010/ar2010/downloads/idc_annual_report_2010.pdf

Financial results:
2006/7 (CEO Presentation) www.idc.co.za/Annual%20Reports/2007/IDC%20Annual%20Performance.pdf
2006/7 (CFO Presentation) www.idc.co.za/Annual%20Reports/2007/Financial%20Results%202007.pdf
2007 www.idc.co.za/Annual%20Reports/2007/2007%20Financial%20Results.pdf
2008 www.idc.co.za/Annual%20Reports/2008/IDC%20Financial%20Results%202008.pdf
2009 www.idc.co.za/Annual%20Reports/2009/2008-09%20Results%20IDC.pdf
2010 (Presentation) www.idc.co.za/Annual%20Reports/2010/PERFORMANCE%20AND%20FINANCIAL%20RESULTS%202010.pdf

IFC
(2006) Policy on Disclosure of Information www.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/pol_Disclosure2006/$FILE/Disclosure2006.pdf
(2007) Are Profits Made at the Expense of Development Impact? Monitor for Investments
(2008) IEG Independent Evaluation of IFC's Development Results 2008
(2009) IEG Independent Evaluation of IFC's Development Results 2009

Annual reports:
1995-2000 Not available online, contact IFC
2001 (Vol. 1) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2001_English_Vol1/$FILE/AR2001_English_Vol1.pdf
2001 (Vol. 2) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2001_English_Vol2/$FILE/AR2001_English_Vol2.pdf
2002 (Vol. 1) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2002_English_vol1/$FILE/AR2002_English_vol1.pdf

2002 (Vol. 2) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2002_English_vol2/$FILE/AR2002_English_vol2.pdf
2003 (Vol. 1) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2003_English_vol1/$FILE/AR2003_English_vol1.pdf
2003 (Vol. 2) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2003_English_vol2/$FILE/AR2003_English_vol2.pdf
2004 (Vol. 1) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2004_English_V1/$FILE/AR2004_English_V1.pdf
2004 (Vol. 2) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2004_English_V2/$FILE/AR2004_English_V2.pdf
2005 (Vol. 1) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2005_English_vol1/$FILE/AR2005_English_vol1.pdf
2005 (Vol. 2) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2005_English_vol2/$FILE/AR2005_English_vol2.pdf
2006 (Vol. 1) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2006_Volume1/$FILE/AR2006_Volume1.pdf
2006 (Vol. 2) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2006_Volume2/$FILE/AR2006_Volume2.pdf
2007 www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2007_English/$FILE/AR2007_English.pdf
2008 www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2008_English/$FILE/AR2008_English.pdf
2009 (Vol. 1) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2009_English/$FILE/AR2009_English.pdf
2009 (Vol. 2) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2009_Volume2/$FILE/AR2009_Volume2.pdf
2010 (Vol. 1) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2010_English/$FILE/AR2010_English.pdf
2010 (Vol. 2) www.ifc.org/ifcext/annualreport.nsf/AttachmentsByTitle/AR2010_Volume2/$FILE/AR2010_Volume2.pdf

Norfund

Reports on operations:
2007 www.norfund.no/images/stories/Report_on_operations_2007.pdf
2008 www.norfund.no/images/stories/final_virksomhetsrapport_eng.pdf
2009 www.norfund.no/images/stories/virksomhetsrapport_ENG.pdf

Contributions to development:
2008 www.norfund.no/images/stories/85926_utviklingsrapport_ENG_web.pdf

Annual reports:
2007 www.norfund.no/images/stories/Aarsrapport_eng.pdf
2008 www.norfund.no/images/stories/final_annual_report.pdf
2009 www.norfund.no/images/stories/aarsrapport_ENG.pdf

Portfolios in numbers and figures:
2009 www.norfund.no/images/stories/norfund_i_tall_eng.pdf

OPIC

Annual reports:
2000 www.opic.gov/sites/default/files/docs/00_AnnualReport.pdf
2001 www.opic.gov/sites/default/files/docs/01_AnnualReport.pdf
2002 www.opic.gov/sites/default/files/docs/02_AnnualReport.pdf

2003 www.opic.gov/sites/default/files/docs/03_AnnualReport.pdf
2004 www.opic.gov/sites/default/files/docs/04_AnnualReport.pdf
2005 www.opic.gov/sites/default/files/docs/05_AnnualReport.pdf
2006 www.opic.gov/sites/default/files/docs/OPIC_AR.pdf
2007 www.opic.gov/sites/default/files/docs/annualreport_2007.pdf
2008 www.opic.gov/sites/default/files/docs/annualreport_2008.pdf
2009 www.opic.gov/sites/default/files/docs/annualreport_2009.pdf

PIDG

Annual reports:
2004/5 www.pidg.org/uploads/public/documents/library/PIDG/PIDG%20Annual%20Reports20and%20Handbook/PIDG%20Annual%20Report%202004-2005.pdf
2005/6 www.pidg.org/uploads/public/documents/library/PIDG/PIDG%20Annual%20Reports%20and%20Handbook/PIDG%20Annual%20Report%202005-2006.pdf
2007 www.pidg.org/uploads/public/documents/library/PIDG/PIDG%20Annual%20Reports%20and%20Handbook/PIDG%20for%20web%20low%20res.pdf
2008 www.pidg.org/uploads/public/documents/library/PIDG/PIDG%20Annual%20Reports%20and%20Handbook/PIDG%20Annual%20Report%202008.pdf
2009 www.pidg.org/uploads/public/documents/library/PIDG/PIDG%20Annual%20Reports%20and%20Handbook/PIDG%20final%20for%20web.pdf

Proparco

Annual reports:
2005 www.proparco.fr/jahia/webdav/site/proparco/users/administrateur/public/Proparco/Rapports-annuels/Rapport-annuel-2005-de-Proparco.pdf
2006 www.proparco.fr/jahia/webdav/site/proparco/users/administrateur/public/Proparco/Rapports-annuels/Rapport-annuel-2006-de-Proparco-EN-FR.pdf
2007 www.proparco.fr/jahia/webdav/site/proparco/users/administrateur/public/Proparco/Rapports-annuels/Rapport-annuel-2007-de-Proparco-EN.pdf
2008 www.proparco.fr/jahia/webdav/site/proparco/users/administrateur/public/Proparco/Rapports-annuels/Rapport-annuel-2008-de-Proparco-EN.pdf
2009 www.proparco.fr/jahia/webdav/site/proparco/users/administrateur/public/PDF/RA%20Proparco%202009%20BD_Eng.pdf

Business plans:
2004 www.proparco.fr/jahia/webdav/site/proparco/users/administrateur/public/Proparco/Rapports-annuels/Rapport-financier-2004-Proparco-EN.pdf
2005 www.proparco.fr/jahia/webdav/site/proparco/users/administrateur/public/Proparco/Rapports-annuels/Rapport-financier-2005-Proparco.pdf
2006 www.proparco.fr/jahia/webdav/site/proparco/users/administrateur/public/Proparco/Rapports-annuels/Rapport-financier-2006-Proparco.pdf
2007 www.proparco.fr/jahia/webdav/site/proparco/users/administrateur/public/Proparco/Rapports-annuels/Rapport-financier-2007-Proparco.pdf
2008 www.proparco.fr/jahia/webdav/site/proparco/users/administrateur/public/Proparco/Rapports-annuels/Rapport-financier-2008-de-Proparco.pdf

Financial reports:
2009 www.proparco.fr/jahia/webdav/site/proparco/users/administrateur/public/PDF/Rapport%20FINANCIER%20PROPARCO%202009.pdf

SIFEM

Reports on developmental effects:

2005/06 www.sifem.ch/new/fileadmin/user_upload/Data/Portfolio/070319_GPR_report_SECO_exante_2005-06_final.pdf

2007 www.sifem.ch/new/fileadmin/user_upload/Data/Portfolio/080319_GPR_report_SECO_exante_2007.pdf

2008 www.sifem.ch/new/fileadmin/user_upload/Data/Portfolio/090303_GPR_report_SECO_exante_2008.pdf

SwedFund

Annual reports:

2007 (Presentation) www.swedfund.se/en/wp-content/uploads/2010/08/annual_report_2007-company_presentation.pdf

2007 (Numbers) www.swedfund.se/en/wp-content/uploads/2010/08/annual_report_2007-numbers.pdf

2008 www.swedfund.se/en/wp-content/uploads/2010/08/swedfund-2008-low.pdf

2009 www.swedfund.se/en/wp-content/uploads/2010/08/Swedfund-Annual-Report-2009_till-webb.pdf

Annex 1: Persons interviewed

CDC [13/01/2011]
Godfrey Davies
Chief Financial Officer
Direct Tel +44 (0)20 7963 4720 Fax +44(0)20 7963 4750
gdavies@cdcgroup.com Mobile +44(0)7810 501 267
Cardinal Place, 80 Victoria Street, London SW1E 5JL, UK

Chonaid Jemmet-Page
Chief Operating Officer
Direct Tel +44(0)20 7963 4749 Fax +44(0)20 7963 4750
sjpage@cdcgroup.com Mobile +44(0)7919 014 713
Cardinal Place, 80 Victoria Street, London SWIE 5JL, UK
www.cdcgroup.com

The Private Infrastructure Development Group [07/12/2010]
Diane Harris, Assistant Programme Manager
+ 44 (0) 20 8710 6736 (t)
+ 44 (0) 208 770 9184 (f)
www.pidg.org
Diane.Harris@calegal.co.uk

Andrew Reicher, Programme Manager [16th of December 2010]
andrew.reicher@btinternet.com or andrew.reicher@pidg.org

DFID [13/01/2011]
Peter Landymore
Global Funds & Development Finance Dept.
DFID
0207 023 0295
landymore@dfid.gov.uk
http://www.dfid.gov.uk.

Sarah Beeching
s-beeching@dfid.gov.uk

DEG -Deutsche Investitions- und Entwicklungsgesellschaft mbH [1801/2011]
Dr. Claudia Müller and Mr.Michael Frenzel
DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH |
The German Investment and Development Corporation |
CORPORATE STRATEGY AND COMMUNICATIONS|
Kämmergasse 22 | 50676 Cologne, GERMANY |
' +49 (0)221 / 4986 - 1157 | 7 +49 (0)221 / 4986 -1292 |
Claudia.Mueller@deginvest.de or www.deginvest.de

OECD,
Julia Benn, Manager
Policy, Analysis & Multilateral Aid Unit,
Statistics and Monitoring Division
Development Co-operation Directorate
Tel. 33 (0) 1 45 24 90 39
Julia.BENN@oecd.org

Annex 2: Objectives, ownership and main activities

DFI	2. Objectives (Mandate)	3. Ownership and governance structure	4. Activities undertaken
DEG (Deutsche Investitions- und Entwicklungs-gesellschaft)	(1) DEG invests in profitable and long-term viable private enterprises that contribute to sustainable development in all sectors of the economy. (2) DEG only takes on commitments in projects that make an effective development policy impact, meet environmental standards and comply with social principles. DEG is particularly committed to its developmental mandate and its guidelines for social and environmental compatibility form the decisive frame of their work. (3) as part of financial sector development, DEG seeks to strengthen local capital markets so they can provide localized finance for investment projects, in particular for small and medium enterprises.	DEG is a subsidiary of KfW Bankengruppe its sole shareholder. Shareholder: KfW Bankengruppe, Frankfurt am Main Supervisory Board Honorary Chairman Walter Scheel Former Federal President Berlin Chairwoman Gudrun Kopp State Secretary Federal Ministry for Economic Cooperation and Development Bonn First Deputy Chairman Dr Norbert Kloppenburg Member of the Board of Managing Directors KfW Bankengruppe Second Deputy Chairman Dr Hans-Jörg Todt Managing Director AKA Ausfuhr-Kreditgesellschaft mbH Management Board • Bruno Wenn (Chairman) • Dr Michael Bornmann • Philipp Kreutz	"Atrium Dialogues" (symposium discussion possibilities, challenges and tools of SME financing). Contribution to the Caribbean Joint Action Plan (CJAP) by financing SMEs and climate protection projects. Offers customers energy-efficiency checks Provided loan refinery for edible oils, which processes palm oil for local consumption in Indonesia. Cooperation Agreement between DEG and the Emerging Africa Infrastructure Fund (EAIF): Energy and ICT.
Proparco (Promotion et Participation pour la Coopération économique)	The core activity of the company is oriented towards Sustainable Development and achieving the MDGs. PROPARCO's operating principles are: To promote projects with a particular focus on sustainable development including those putting emphasis on compliance or having a significant 'social and environmental responsibility' (SER) component, To seek to share risks with other regional/multilateral agencies and/or local banks to harmonise approaches and benefit from experiences in order to minimise exposure on markets or sectors in which the Company currently has less experience, whilst	PROPARCO is a subsidiary of the Agence Française de Développement (AFD holds 67% of capital) dedicated to financing the private sector. A third of its shareholders are French and international financial institutions and private French companies (BNP Paribas holds 1.83%, Societe Generale holds 1.65%, DEG holds 1%).	PROPARCO finances operations which are economically viable, socially equitable, environmentally sustainable and financially profitable. • Growth & Empl. • SD. • Reaching MDGs Finances: • Infrastructure • Promoting access to credit • Combating climate change • Supporting businesses

DFI	2. Objectives (Mandate)	3. Ownership and governance structure	4. Activities undertaken
	prioritising leveraged transactions, To optimise the resources at the Company's disposal by selecting high-leverage transactions,		
FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Company)	FMO shall contribute to the advancement of productive enterprises in developing countries to the benefit of their economic and social development. FMO's objective is to create development impact in its focus sectors and through partnerships. FMO loans funds to enterprises in order to finance their Capacity Development and help them strengthen their managerial and organisational capacities.	The State of The Netherlands contributed to the funding of FMO up until 2005. Today FMO is a public-private partnership with the Dutch Government holding 51 percent and major Dutch banks owning 42 percent of the shares. Private companies, trade unions and individuals hold the remaining 7 percent. Under Article 8 of the agreement, the state is legally required to enable FMO to meet its obligations on time. The State of The Netherlands' long-term commitment and support of FMO is also demonstrated by the sovereign's obligation in most circumstances to safeguard the company's solvency. FMO pays a moderate dividend to shareholders. **FMO Management Board members** comprises three statutory directors – the Chief Executive Officer (CEO), the Chief Investment Officer (CIO) and the Chief Risk & Finance Officer (CRFO). **The Supervisory Board** currently consists of seven members including: member of the Executive Committee of the employers association; Member of the Executive Board at Rabobank Nederland; Chairman of the Board of Quion Groep B.V. and De Hypothekers Associatie B.V., professor at the faculty of Economics and Business Administration at the VU University Amsterdam. The Works' Council recommends the nomination of one third of **the Supervisory Board members** including: the Board of the Federation Dutch Trade Union	FMO provides a range of services to enterprises of any size. However the FMO differs from normal commercial banks as it only offers its services to enterprises which have been refused financing from other financial institutions. FMO specializes in "higher" risk loan provision as it is backed by government funding. FMO has been involved in a number of financing projects including: Financing AEI, Centrans Energy Services and Energia Eolica in Nicaragua for investments in wind energy ($45 million for 15 years, together with the Central American Bank for Economic Integration) Support to the G20 Finance Challenege Winners MFI support in Cote d'Ivoire

DFI	2. Objectives (Mandate)	3. Ownership and governance structure	4. Activities undertaken
		(Federatie Nederlandse Vakbeweging (FNV)); Chairman of National Research Program on Climate Change; Senator for the Christian Democratic Party, Chairman of the Supervisory Board of Koninklijke.	
COFIDES (Compañía Española de Financiación del Desarrollo)	COFIDES provides medium and long term financial support for viable private direct investment projects located in foreign countries. The ultimate aim is to conduct a profitable business that contributes both to host country development and the internationalization of Spanish enterprise and the Spanish economy.	COFIDES' share capital is held by: ▪ Instituto Español de Comercio Exterior - Spanish Foreign Trade Institute - (ICEX) ▪ Instituto de Crédito Oficial - Official Credit Institute- (ICO) ▪ Empresa Nacional de Innovación (ENISA) ▪ Banco Bilbao Vizcaya Argentaria (BBVA) ▪ Banco Santander ▪ Banco de Sabadell The three public institutions that head the list together hold 61% of COFIDES' share capital. Comercio e Inversiones Ministerio de Industria, Turismo y Comercio; Directora de Cooperación para África, Asia y Europa Oriental; Agencia Española de Cooperación Internacional para el Desarrollo – AECID-; Directora de Cooperación para América Latina y El Caribe Agencia Española de Cooperación Internacional para el Desarrollo – AECID- Directora Business Partner; BEC y Canales GRUPO BBVA; Banco de Sabadell, S.A.; BBVA Inservex; Instituto Español de Comercio Exterior-ICEX; Instituto de Crédito Oficial – ICO ; Empresa Nacional de Innovación, S.A. (ENISA)	COFIDES supports private direct investment projects in emerging/developing economies where there is Spanish Interest (joint ventures with Spanish firms or Spanish firm subisidiaries). COFIDES provides long/medium term financing to productive/commercial direct investment projects.
SIMEST (Società Italiana per le Imprese all' Estero)	SIMEST's aim is to promote the development of Italian business abroad. SIMEST is a reference point	SIMEST, is headed by the Ministry for Economic Development (holding 76% of total shares), along with private-sector	For foreign investment, SIMEST underwrites up to 25% of the capital of foreign firms which partner with Italian firms

DFI	2. Objectives (Mandate)	3. Ownership and governance structure	4. Activities undertaken
	for Italian firms for all aspects related to developing business on international markets. For investments in countries outside the European Union SIMEST can acquire shares in companies abroad of up to 49% of their capital stock, either by investing directly or through managing shares in venture capital Funds. SIMEST's participation also provides Italian businesses access to concessions (interest rate support) towards financing their share in foreign companies outside the European Union.	share-holders which include major Italian banks and industrial business organizations such as: • Sanpaolo – IMI • UniCredito Italiano • Banca Popolare di Vicenza • Banca Popolare di Sondrio • Banca Intesa	in non-EU countries Provides financing/loans to the Italian partners in any foreign joint venture Gurantees funds for Venture Capital Provides medium and long term export credit for Italian firms Provides advisory & consultancy services to Italian SMEs wishing to invest abroad and provides financing for any pre-feasability and feasibility studies involved.
SIFEM (Swiss Investment Fund for Emerging Markets)	SIFEM is a specialized investment advisor providing long-term finance to private equity funds and financial institutions in emerging markets. SIFEM's primary focus is on institutions investing in the small and medium enterprise (SME) sector. On a selective basis, SIFEM also invests in microfinance.	SIFEM is a privately held management company, mandated to oversee the investment portfolio of the Swiss State Secreteriat for Economic Affairs (SECO) as well as mandated to represent the Swiss Agency for Development & Cooperation (SDC). SIFEM monitors SECO's existing fund and financial institution investments and advises SECO on new investment opportunities.	Projects must comply with SIFEM's environmental and social guidelines, which are largely inspired by the World Bank's guidelines. SIFEM has developes a portfolio of equity participants in equity funds focussed on SMEs in selected emerging markets. SIFEM also acts as co-investor, underlying portfolio companies in its private equity funds and makes direct investments in financial institutions that focus on SMEs and microfinance lending.
SwedFund	SwedFund is a development corporation that seeks to help Sweden to achieve the objectives of its policy for global development and Swedish development cooperation. Based on the overall development objective, activities must be conducted in a businesslike manner. The Company should strive to ensure that its average return on equity before tax exceeds the average interest rate on Swedish central government debt of one-year maturity.	SwedFund is 100% owned by the Swedish State and reports to the Swedish Ministry For Foreign Affairs	SwedFund is expected to provide financing to companies/projects which are not expected to be achieved solely through commercial financing; however it should avoid competing with commercial financial institutions. In addition SwedFund should strive to work with Swedish companies. SwedFund funded projects include: 60million Swedish Kroner funding for a waste management project in Vietnam

DFI	2. Objectives (Mandate)	3. Ownership and governance structure	4. Activities undertaken
			7,5 million Euro loan to environmentally friendly yarn manufacturers in India 3 million USD loan to Coconut shell based activated carbon producers in India
NorFund (Norwegian Investment Fund for Developing Countries)	NorFund was set up with the objective of alleviating poverty by investing in and providing loans to profitable and sustainable companies, thereby contributing to economic development and growth in private enterprise. It was to operate in countries with limited access to commercial finance owing to the reluctance of ordinary commercial entities to invest because of high risk.	Norfund is a hybrid company with limited liability established and operated under special legislation (the Norfund Act) and owned by the Norwegian Government through the Ministry of Foreign Affairs. Norfund acts as a key instrument of Norwegian development policy, and the Storting (Norwegian parliament) allocates annual capital grants to Norfund in its development assistance budget	Loan to dfcu Bank in Uganda in order to help expand its operations in country Investment in tourism project in Kenya Investment in carbon credits for Green Resources in Tanzania
AWS (Austria Wirtschaftsservice Gesellschaft)	Is Austria's national promotional bank. As a one-stop-shop for business it is set to implement the key objectives of the Austrian government's economic policies. Created in 2002 by the pooling of knowledge of four existing organisations it offers a broad range of company-specific investment promotion programmes and services – from the pre-seed phase up to the expansion stage.		
BIO (The Belgian Investment Company for Developing Countries)	Promotes the creation of a strong private sector in developing and/or emerging countries. Main goal is to gain access to sustainable development.	BIO is a private company whose capital is held by the Belgian State (Ministry for Development Cooperation) and the SBI/BMI (Société Belge d'Investissement International S.A. – Belgian Corporation for International Investment) each holding 50%. Its early stage capital amounts to €5,000,000 and it makes investments using additional equity granted by the Ministry for Development Cooperation. BIO enjoys decisional and operational independence, which provides the autonomy and flexibility it needs when analysing and evaluating the financing applications. Various control levels and processes ensure the efficient and correct use of its investment resources and	

DFI	2. Objectives (Mandate)	3. Ownership and governance structure	4. Activities undertaken
		the smooth implementation of its mission.	
CDC	CDC aims to achieve: A direct economic impact by providing funding for successful companies An indirect impact by demonstrating the benefits of successful investment to other capital providers (financial sector development) All investments are focused to be in companies which are for the immediate or prospective economic benefit of countries which are classified as low and middle income countries by the World Bank and which are within Africa.	CDC is a plc whose sole shareholder is the Department for International Development (DfID). DfID, does not require a dividend from CDC. Instead, all profits are re-invested in funds. The government has no involvement in CDC's day-to-day decision-making which is carried out by the CDC Board of Executive and Non-executive Directors based in London. CDC is required to operate commercially according to the highest standards of corporate governance.	
FinnFund	Finnfund promotes economic and social development in developing countries by financing responsible and profitable private projects. By 2013, Finnfund will be at the forefront in Finland's economic relations with developing countries, particularly in the area of facilitating links between Finnish business and developing countries		FinnFund focuses on projects, target countries and types of financing that will offer it the most effective way of promoting sustainable development in their mandate countries.
IFU/IO	IFU/IØ invests in projects located in developing countries, where political and economic conditions may be turbulent. In addition, the commercial risk in the projects is often high. To minimize the overall risk in IFU/IØ's investment portfolio, a set of risk policies have been implemented in the investment policy. These policies include guidelines for project, partner and country risk exposure as well as guidelines for managing the direct financial risk.		
OeEB (Oesterreichische Entwicklungsbank AG)	OeEB, the official Development Bank of Austria, acts on behalf of the Federal Government. It is specialised in realising private-sector projects that • require long-term financing and that can service their borrowings out of their own cash flow • have a sustainable impact on the regional economic development As a wholly-owned subsidiary	OeEB) is a wholly-owned subsidiary of Oesterreichische Kontrollbank (OeKB), the Export Credit Agency of Austria. OeEB is a private finance institution mandated by the Austrian Government to act as the Development Bank of Austria.	

DFI	2. Objectives (Mandate)	3. Ownership and governance structure	4. Activities undertaken
	of Oesterreichische Kontrollbank AG (OeKB), it is a private financial entity with a public mandate. At the same time it benefits from the network and international know-how of OeKB Group. OeEB is engaged in challenging markets, notably in developing countries. In this context, it provides tailor-made financing solutions for a diverse set of long-term investments that are usually not available in these markets.		
SBI/BMI (the Belgian Corporation for International Investment)	The mission of BMI-SBI is to provide medium or long term co-financing to business ventures made by Belgian private companies abroad. BMI-SBI supports projects that are of general economic interest, (to both Belgium and the host country), financially viable and that offer realistic prospects of profitability whilst respecting the principle of sustainable development and social corporate responsibility. In concert with the Belgian company, BMI-SBI offers tailor-made solutions taking into consideration the particular needs and risk profile of each individual project. As BMI-SBI sets out to be a genuine long-term partner, it provides comprehensive support as well as co-financing. Since its creation in 1971, the BMI-SBI has invested in over 300 projects in more than 50 countries.	Founded in 1971, BMI-SBI is a limited company, with 63% of its capital held by the Belgian Government through the Belgian Federal Participation and Investment Company (Société Fédérale de Participations et d'Investissement -SFPI / Federale Participatie- en Investeringsmaatschappij - FPIM) and the National Bank of Belgium and 37% held by banking institutions and other private companies	By encouraging Belgian companies to extend their international reach and create local infrastructures, by encouraging them to produce goods and services locally, by using local manpower, they play a part in the technological development and the improvement of the living standards of the population. They provide know-how needed by the host countries, thereby contributing to the globalization of economical and technological exchanges
SOFID	SOFID´s activity aims at contributing for the sustainable progress of developing countries arm in arm in with the objectives and strategy of the Portuguese State in matters of economic policy, co-operation and public aid for development To contribute to (1) the sustainable development of the business sector in developing countries, (2) to support Portuguese companies, alone or in partnerships with local investors in projects, businesses and investments in developing countries that will contribute to the sustainable	SOFID is a limited liability company majority owned by the Portuguese State and is as well a financial institution under the supervision of the Portuguese Central Bank (Banco de Portugal).	SOFID will act in order to, directly or indirectly, privilege: Portuguese interests, in conjunction with local interests or those of other countries or institutions; Portuguese speaking countries (Angola, Cape Verde, Guinea-Bissau, Mozambique, Brazil, S. Tomé and Príncipe and East Timor), Maghreb countries (Algeria, Libya, Morocco and Tunisia) and also, China, India and South Africa.

DFI	2. Objectives (Mandate)	3. Ownership and governance structure	4. Activities undertaken
	development of these countries, especially the ones that are beneficiary of the Portuguese ODA.		
IDC (Industrial Development Corporation of South Africa)	The IDC is a self financing national development finance institution in South Africa. The company was established in 1940 to promote the economic growth and industrial development of South Africa as well as Africa as a whole. The main objectives of the IDC are to contribute to equitable economic growth in Africa, the economic empowerment of South African citizens and the promotion of economic prosperity for all citizens. The IDC achieves its goals by promoting business (including SMEs) and industry, promoting businesses based on sound financial principles, that are sutainable and socially responsible.	The IDC is wholly (100%) owned by the South African Government and is controlled by the country's Ministry of Economic Development. The company operates under the KingCode of Governance of South Africa 2009 (King III). The Corporation has a unitary Board structure, comprising one executive and 13 non-executives, as defi ned by King III. The Board has established five standing committees, which are ultimately accountable to it: Board Risk Management; Board Audit; Human Capital and Nominations; Governance and Ethics; Development and Innovation Committee.	IDC activtieis include: Funding expansions of exisiting companies as well as startup companies, especially locally owend businesses. Provides loans to SMEs Provides finance for venture capital. IDC financing includes: Financing healthcare clinics in townships in South Africa Funding extractive industry companies in South Africa Financing of distressed companies (as a result of the 2008 economic crisi) in South Africa
OPIC (Overseas Private Investment Corporation – USA)	The Overseas Private Investment Corporation's (OPIC) mission is to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies. In accomplishing its mission, OPIC will promote positive U.S. effects and host country developmental effects. OPIC will assure that the projects it supports are consistent with sound environmental and worker rights standards. In conducting its programs, OPIC will also take into account guidance from the Administration and Congress on a country's observance of, and respect for, human rights. In accomplishing its mission, OPIC will operate on a self-sustaining basis.	OPIC's Board of Directors consists of fifteen members— eight from the private sector and seven from the federal government. At least two of the private sector directors must be experienced in small business, one must represent organized labor, and another must have experience in cooperatives. **Government members** include the Administrator of the Agency for International Development, the United States Trade Representative or Deputy U.S. Trade Representative, the President of OPIC, and four additional members, including US Department of Labour; Economic, Energy and Agricultural Affairs US Department of State; International Affairs US Department of State; and the US Department of Commerce.	OPIC provides small USA businesses with project financing in order to help them participate in the international markets. OPIC financing includes: Provision of loan to a US business in Uganda in order to healp the firm provide financial services to unbanked sections of the Ugandan population A US$ 10 million loan to a Georgian dairy operator in order to help expand its business Provision of funds to an Indian (but USA owned) solar power provider A US$ 15 million loan to the only private Afghan insurance provider
IFC	The Purpose of the IFC is to further economic development by encouraging the growth of productive private enterprise	Shareholders are member countries. The Board of Governors may determine from time to time	

DFI	2. Objectives (Mandate)	3. Ownership and governance structure	4. Activities undertaken
	in member countries, particularly in the less developed areas. In carrying out this purpose, the Corporation shall: (1) assist in financing the establishment, improvement and expansion of productive private enterprises which would contribute to the development of its member countries (2) seek to bring together investment opportunities, domestic and foreign private capital, and experienced management; and (3) seek to stimulate, and to help create conditions conducive to, the flow of private capital, domestic and foreign, into productive investment in member countries.	what part of the Corporation's net income and surplus, after making appropriate provisions for reserves, shall be distributed as dividends. Dividends shall be distributed in proportion to capital stock held by members. Capital Stock by Country: US (24%); Japan(6%); Germany (5%); France(5%); UK(5%); Canada(3%); India (3%); Italy (3%); Russian Federation (3%); Netherlands (2%); and 172 other countries (38%). IFC's share capital of $2.45 billion was held by 182 member countries. These countries guide IFC's programs and activities. Each country appoints one governor and one alternate. Corporate powers are vested in the Board of Governors, which delegates most powers to a board of 24 directors. Voting power on issues brought before them is weighted according to the share capital each director represents.	
EBRD	In contributing to economic progress and reconstruction of Central and European coun-tries, the purpose of the EBRD shall be to: (1) promote the establishment, improvement and expansion of productive, competitive and private sector activity. (2) to stimulate and encourage the development of capital markets	Shareholders are member countries (both regional and non-regional members) The Board of Governors shall determine at least annually what part of the Bank's net income, after making provisions for reserves and, if necessary, against possible losses shall be allocated to surplus or other purposes and what part, if any, shall be distributed (in proportion to shares held by each member). In the history of the EBRD, never has a distribution of dividends been approved by the BoG. All the powers of the EBRD are vested in the Board of Governors. The Board of Governors has delegated many of its powers to the Board of Directors	
EIB	The ACP Investment Facility shall operate in all economic sectors and support investments of private and commercially run public sector entities, including revenue	It is funded by the European Union's Member States' contributions and is managed under mandate by the European Investment Bank (EIB).	

DFI	2. Objectives (Mandate)	3. Ownership and governance structure	4. Activities undertaken
	generating economic and technological infrastructure critical for the private sector. The ACP Facility shall: be managed as a revolving fund and aim at being financially sustainable. Its operations shall be on market-related terms and conditions and shall avoid creating distortions on local markets and displacing private sources of finance; support the ACP financial sector and have a catalytic effect by encouraging the mobilisation of long-term local resources.	As a revolving fund, income generated is reinvested in the fund. The Treaty makes important changes in the way the Bank's Board of Governors, composed of the EU's Economy and Finance Ministers, takes decisions. Normal decisions will continue to be taken by a majority of members representing at least 50% of the Bank's subscribed capital. However, a new qualified majority voting threshold (18 votes, representing 68% of the subscribed capital) has been introduced in place of the unanimity rule that used to apply to EIB lending operations outside the EU. The Board of Directors has sole power to take decisions in respect of granting finance, particularly in the form of loans and guarantees, and of borrowings. As well as seeing that the Bank is properly run, it ensures that the Bank is managed in keeping with the provisions of the Treaties and its Statute and with the general directives laid down by the Governors.	
PIDG	The Private Infrastructure Development Group is a coalition of donors mobilising private sector investment to assist developing countries to provide infrastructure vital to boost their economic development and combat poverty PIDG works in partnership with other donors, local operators and government bodies to deliver badly-needed infrastructure and to increase funds for development in some of the poorest countries in the world	Contributing donors to the PIDG include: The UK DFID (49%); the Swiss State Secretariat for Economic Affairs (SECO: 10%); the Netherlands Ministry of Foreign Affairs (DGIS/FMO: 17%); the Swedish International Development Cooperation Agency (SIDA: 11%); and the World Bank Group represented by IFC: 6%). Austrian Development Agency (ADA: 3%) and the Irish Aid (1%) joined in 2007 and 2008 respectively. KfW of Germany (3%) joined in 2009. A number of the PIDG facilities are private limited companies (or in the ICF-DP's case, a limited liability partnership) with an independent board of non-executive directors who are predominately private-sector	The total number of investment projects supported by the PIDG companies and facilities since 2002 is now 72, with 20 new projects initiated in 2009. This represents the largest number of new projects in a single year to date. The total number of projects supported by the PIDG financing companies (i.e. EAIF and GuarantCo) is 30 to date, including nine in 2009, while those supported by PIDG project development companies and facilities is 42 to date, with 11 in 2009. In addition, 36 grants have been committed through the TAF, with eight grants awarded in 2009.

DFI	2. Objectives (Mandate)	3. Ownership and governance structure	4. Activities undertaken
		individuals. The day-to-day management of EAIF, GuarantCo, InfraCo Africa, InfraCo Asia, and the ICF-DP has been contracted to specialist management companies following competitive international tenders. The boards have a responsibility for ensuring that the management companies operate in the interests of their PIDG sponsors. The board members are not typically from donor organisations, but rather infrastructure and finance professionals with a detailed understanding and experience of the operations of the underlying vehicles.	
AfDB	The purpose of the Bank shall be to contribute to the sustainable economic development and social progress of its regional members. To implement its purpose, the Bank shall: (1) … participate in, the selection, study and preparation of projects, enterprises and activities contributing to such development; (2) use the resources at its disposal for the financing of investment projects and programmes relating to the economic and social development of its regional members; (3) mobilize and increase in Africa, and outside Africa, resources for the financing of such investment projects and programmes.	Shareholders are member countries (both 53 regional and 24 non-regional members) The Agreement Establishing the African Development Bank (the Agreement) designates the Board of Governors as the Institution's highest policy-making organ. The Board of Governors is made up of one representative from each member country. **Board of Governors** elects an 18-member Board of Directors to which it delegates its powers, Twelve Directors are elected from RMCs and 6 from non-RMCs for a 3-year term which is renewable for one term. The Board of Directors oversees all Bank operations. The Board of Governors elects the President of the Bank Group for a 5-year term, renewable for one term. The President, who must originate from an RMC, chairs the Board of Directors, appoints Vice-Presidents – in consultation with the Boards – and manages the Bank's daily operations.	The Bank prioritizes are national and multinational projects and programs that promote regional economic cooperation and integration.
ADB	(1) to foster economic growth and co-operation in the region of Asia and the Far East (2) to contribute to the acceleration of the process of economic development of the	Shareholders are member countries (both regional and non-regional members) The Board of Governors shall determine annually what part of the net income of the Bank, if any, shall be	

DFI	2. Objectives (Mandate)	3. Ownership and governance structure	4. Activities undertaken
	developing member countries in the region, collectively and individually. (3) promote investment in the region of public and private capital for development purposes;	distributed to the members. In the history of the ADB, never has a distribution of dividends been approved by the BoG.	
IADB	The purpose of the Bank shall be to contribute to the acceleration of the process of economic and social development of the regional developing member countries, individually and collectively. To implement its purpose, the Bank shall: (1) to encourage private investment in projects, enterprises, and activities contributing to economic development.	Shareholders are member countries (both regional and non-regional members) The Board of Governors may determine periodically what part of the net profits and of the surplus of the ordinary capital resources shall be distributed. In the history of the IaDB, never has a distribution of dividends been approved by the BoG.	

Sources: Te Velde & Warner, 2008:50ff; EDFI, 2009; and authors based on latest DFI annual reports.

Annex 3: Sectors, financial or other instruments employed and amounts offered

Development Finance Institution (DFI)	5. Sectors chosen for operations (Operating Restrictions)	6. Financial or other Instruments (Type of Funding) Employed	Proportions (Amounts offered)
DEG (Germany)	Provides know how to *enterprises in all sectors* of the economy, particularly: • Agribusiness; • Infrastructure; • Processing industries (manufacturing & services); • Financial sector.	**Equity participation:** minority stake; variable arrangement of risk components; in some cases voting rights / seat on the board • **Mezzanine Finance:** subordinate; project-specific arrangement; conversion options • **Long-term loans:** term usually 4 – 10 years; tailored to individual project; • **Guarantees/ guarantee instruments:** mobilization of long-term loans or bonds in local currency; reduced exchange rate risk	Own financing commitments of more than EUR 11 billion have contributed to providing an investment volume of EUR 70 billion to date.
Proparco (France)	Proparco's sectorial strategy is tailored to the level of a country's development and focuses on the: • Productive sector, • Financial systems, • Infrastructure and • Equity investment. Proparco also invests in the transport sector, the telecommunications sector and the energy sector.	PROPARCO offers the full spectrum of long-term financial services and products: • Acess to long term financing • Risk reduction/hedging products • Tailor made products for individual companies to help them overcome their different challenges • Equity/Quasi Equity Investments in business capital	TERM: MEDIUM & LONG-TERM Loans & guarantees: 5 to 15 years Equity & quasi-equity: 4/5 to 10 years Private Equity: €0.5 million to €20 million Loans: €2 million to €100 million per transaction Guarantees: €2 million to €100 million per transaction
FMO (Netherlands)	Focus sectors are the: • Financial sector, • (Renewable) energy • Housing sector.	FMO carries out special-purpose funds on behalf of the Dutch Government. Current fund facilities include: AEF – Access to energy Fund for sustainable energy services to the rural poor of the world. MASSIF – Fund for the development of financial services for SMEs & microbusinesses and includes the Capacity	FOM – Maximum €10 million for a 3 – 12 year period.

Development Finance Institution (DFI)	5. Sectors chosen for operations (Operating Restrictions)	6. Financial or other Instruments (Type of Funding) Employed	Proportions (Amounts offered)
		Development Programme and the Infrastructure Development Fund FOM – Fund Emerging Markets – supporting the development of emerging markets through financing for Dutch enterprises investing in these markets	
BIO	BIO invests directly in private sector projects. They priorities the: • agribusiness, • manufacturing and • ICT telecom sector.	Credit lines or guarantees to intermediary banks and non-banking financial institutions, which on-lend the funds to finance small and medium-sized enterprises • Credit lines to microfinance institutions • Credit lines to small and medium-sized enterprises • Private equity (direct equity in unlisted companies, private equity funds and financial institutions) • Grants for feasibility studies • Technical assistance to strengthen the capacity of existing clients.	Maximum amount of respectively € 1.000.000 for investments in SMEs and € 7.000.000 for financial institutions (banks, non-banking financial institutions, microfinance institutions) and investment funds. Grants for feasibility studies of up to €100,000 to be matched by the Sponsor. Operations can be done in €, $ or local currency. Generally BIO does finance up to 50% of the investment cost in the case of start-up projects.
FinnFund		Equity -risk-sharing as a minority shareholder, Mezzanine -subordinated and convertible loans, Loans -medium to long-term investment loans, Guarantees to local financiers	Average size of participation in a project is around EUR 3 million and varies from EUR 1 million to EUR 10 million.
SBI	Belgian economic interest, no financial institutions, employment of youngsters, weapons and ammunition.		
COFIDES (Spain)	COFIDES backs enterprises in all productive industries as long as they are marketing Spanish goods or services and where medium/long term finance is necessary. However COFIDES will not support projects in housing, construction, defense, education or healthcare and will only support infrastructure projects if they are privately managed.	COFIDES provides the following financial services: Holdings in the share capital of companies founded int he host country by Spanish investors Quasi-capital like instrument Medium/long term loans to companies founded in the host country Medium/long term loans to Spanish investors Multi project loans	COFIDES has a maximum budget of €900 million with a maximum of €25 million per project.

Development Finance Institution (DFI)	5. Sectors chosen for operations (Operating Restrictions)	6. Financial or other Instruments (Type of Funding) Employed	Proportions (Amounts offered)
	The major industries that COFIDES invests in are infrastructure (46%) and Industry (46%)		
SIMEST (Italy)	No sectors are excluded from SIMEST financing, however SIMEST prefers to finance foreign firms active in the same sector as the Italian firm which has proposed the investment. Financing is however excluded in the sectors reffered to Article 1 of the EC Regulation no. 1998/2006	• SIMEST participation in the capital stock of foreign companies • Reduced interest rates on financing shares of the Italian firm • Venture capital Fund • Venture capital Fund for start-up businesses For public internationalisation instruments, SIMEST supports export credits for investments goods produced in Italy finances pre-feasibility and feasibility studies, and technical assistance programmes finances programmes to break into foreign markets finances interventions in favour of exporting SMEs. SIMEST also provides professional consultancy and technical support services, such as: scouting activities (seeking out opportunities abroad), matchmaking initiatives (locating partners), pre-feasibility/feasibility studies, financial, legal and corporate assistance related to foreign investment projects for which subsequent SIMEST involvement is foreseen.	SIMEST can fund up to: €40 million per Italian company per calendar year €80 million per group of Italian companies (with consolidated accounts) per calendar year. The company can cover up to 90% of an Italian company's equity share in an investee foreign company (but up to a maximum of 51% of the foreign company's total capital) SIMEST can also provide loans of up to €100,000 for commercial investment studies €200,000 for investment production studies €300,000 for technical assistance
SIFEM (Switzerland)	SIFEM has no discernable sector preference but selects investments on a commercial basis	SIFEM undertakes the following: SME investment Infrastructure Investment Mezzanine Funds Investment Investments in Private Equity Funds Investments in Microfinance Funds Direct & Non-fund investments	The SIFEM budget for 2009 was allocated in the following way: USD$ 60 million to Direct & Non Fund Investments USD$ 8 million to Mezzanine Funds USD$ 16 million to Microfinance Private Equity Funds USD$ 8 million to Infrastructure Funds USD$ 308 million to SME Private Equity Funds
SwedFund (Sweden)	SqedFund operates in all sectors, barring the weapons, tobacco and alcohol sectors.	SwedFund uses equity & equity-related instruments. Investments are always in	USD$ 2 to 10 million per investment, for a 5 to 10 year period.

Development Finance Institution (DFI)	5. Sectors chosen for operations (Operating Restrictions)	6. Financial or other Instruments (Type of Funding)	
		Employed	**Proportions (Amounts offered)**
		minority shares, typically 25% to 35% of the total investment amount	
NorFund (Norway)	Norfund Invests in a number of sectors including: Services Construction Aquaculture ITC Forestry Telecom Agriculture Tourism Financial Institutions Microfinance Renewable Energy	NorFund provides the following services: Investments in Equity funds (including Mezzanine funds) Investments in Private Equity Funds Provision of Loans	NorFund has invested NOK 2.7 billion in equity (including mezzanine loans), NOK 1.7 billion in private equity funds and NOK 785 million in loan agreements (year-end 2009)
Industrial Development Corporation (IDC) (South Africa)	IDC Invests in the following sectors: Manufacturing Agriculture & Agro Processing Mining & mineral beneficiation Oil & gas Energy Tourism ITC Transport Infrastructure & services Health Education Media	IDC uses the following instruments: Equity Quasi-equity Commercial debt Export finance Guarantees and loans.	In SADC - Project= minimum size US$ 3 Million In SACU - Project= minimum size of US$ 322.160 (R5 million) Commercial loans typically last between 5 and 10 years
OPIC (USA)	OPIC Invests mainly in: Microfinance Institutions Renewable Energy Houseing Construction	OPIC provides: Corporate, Project & Hybrid Loans Housing & Mortgage Finance Franchise Loan Commercial Bank On-Lending Agreement Insurance Investment in Private Equity Funds	Insurance can cover a project up to USD$ 250 million for 20 years Direct loans range from USD$ 100,000 to USD$ 10 million
International Finance Corporation (IFC)		IFC provides clients with loans and intermediary services, loan participations, equity, structured finance, trade finance, risk management products, and sub national finance.	IFC investments typically range from $1 million to $100 million, with a limited number of investments in the $100,000 to $1 million range. To ensure the participation of investors and lenders from the private sector, IFC typically finances no more than 25 percent of the total estimated project costs.

Annex 4: Operations and instruments, transparency and disclosure policies

Development Finance Institution (DFI)	7. Distribution of operations and instruments	8. Transparency and Disclosure policies	9. Scoring & Reporting of Activities for the purposes of ODA
DEG (Germany)	DEG's activities are confined to developing and transition countries. Activities in industrial countries and dependent territories are excluded. DEG doesn't finance certain activities such as the production of munitions and drugs in accordance with criteria set up by the World Bank /IFC.	Support the Private Equity Principles issued by the International Limited Partners Association (ILPA). Transparency in relation to all the risks undertaken. The audit provides a reasonable basis.	n.a.
Proparco (France)	In 2009 PROPARCO extended its business area to all countries eligible for official development assistance as defined by the OECD. PROPARCO is now active in Africa, the Mediterranean, Asia, Eastern Europe and Latin America.	n.a.	n.a.
FMO (Netherlands)	FMO targets increasingly low income countries. FMO does not finance activities in the EU or in pre-accession countries, and has as part of the new strategy stopped pursuing new investments in the investment grade higher middle income countries (Mexico, Brazil, Russia, and Kazakhstan) as from 2009.	n.a.	n.a.
COFIDES (Spain)	COFIDES targets Spanish interests in any developing or emerging country. In addition it can manage investment projects in any foreign country through the state trust funds FIEX and FONPYME. Its portfolio is split is as follows: 55% in South & Central Amercia 11% in Central & Eastern Europe 17% in Asia 9% in North America 5% in Africa	n.a.	n.a.
COMESTI (Italy)	COMESTI invests in any country not belonging to the European Union	n.a.	n.a.
FinnFund	Investments in DAC-countries and others, as approved by the		

Development Finance Institution (DFI)	**7. Distribution of operations and instruments**	**8. Transparency and Disclosure policies**	**9. Scoring & Reporting of Activities for the purposes of ODA**
	Government.		
IFU/IØ/IFV	IFU invests only in countries with a per capita income below 80% of the World Bank's upper limit for Lower Middle Income Countries (LMIC's) (which in 2009 is USD 2.964) plus South Africa, Botswana and Namibia. IØ invests only in Russia, Ukraine and Belarus.		
OeEB	OeEB activities are confined to developing and transition countries. Activities in industrial countries and dependent territories are excluded.		
SIMEST	SIMEST's activity is restricted to support the Italian investments abroad.		
SIFEM (Switzerland)	60% of Sifem's investments are to be made in a priority list of 26 countries determined by the Swiss Government. Any other country (as well as those in the list) must have a per capita below USD$ 6000. By 2009 SIFEM commitment have reached USD$ 400 million, in more than 30 countries of which 36% was in Asia, 23% in Africa, 19% in Eastern Europe and 16% in Latin America	n.a.	n.a.
SwedFund (Sweden)	SwedFund operates in any country in the first three columns of the DAC's list of ODA recipients. It also explicitly excludes investments in any EU country. It portfolio is currently split as follows: 46% in Africa 32% in Asia 16% in Eastern Europe 6% in Latin Amercia	In its annual report SwedFund makes a separate disclosure of average pre tax return on equity in relation to the average interest rate on Swedish central government debt of one-year maturity as well as reporting the developmental effect of its activities (target based) and how funds are being used. SwedFund complies with the Swedish Government guidelines (29th November 2007) on external reporting by companies with state ownership.	n.a.
NorFund (Norway)	NorFund mainly invests in East and Southern Africa (36%), Central & Latin America (36%) and selected countries in SE Asia (26%). Norfund focuses on the Least Developed Countries	NoFund has signed the Joint Decelration (with nearly 30 other Development Finance Insitutions) on "A Corporate Governance Approach Statement by	n.a.

Development Finance Institution (DFI)	7. Distribution of operations and instruments	8. Transparency and Disclosure policies	9. Scoring & Reporting of Activities for the purposes of ODA
	Central America: Guatemala, El Salvador, Nicaragua, Honduras, Panama and Costa Rica. Regional office in San José, Costa Rica. Southern Africa: Angola, Namibia, South Africa, Lesotho, Swaziland, Mozambique, Zimbabwe, Zambia, Madagascar and Malawi. Regional office in Johannesburg, South Africa. East Africa: Kenya, Tanzania, Uganda, Burundi, Rwanda and Southern Sudan. Regional office in Nairobi, Kenya. Southeast and South Asia: Bangladesh, Vietnam, Laos and Cambodia; energy investments in Nepal, and in Burma/Myanmar	Development Finance Insitutions[12]" in July 2007 which guides its corporate governance procedures	
Industrial Develop-ment Corporation (IDC) (South Africa)	IDC works mainly in South Africa (76% of its portfolio) as well as in countries in the SADC, the insitution however also works throughout the whole of the African continent and is present in 34 African countries	The IDC carries out an audit report of the institution using independent auditors in compliance with International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette 32758 on 27 November 2009. The audit is presented presented in terms of the South African Treasury Regulations and the Public Finance Management Act, No 1 of 1999	n.a.
OPIC (USA)	OPIC invests in over 150 countries worldwide. Strategic investments are undertaken in Central America, the Middle East, Sub-Saharan Africa, North Africa and South Asia as well as in Mexico and Russia	OPIC has undertaken an Anti-Corruption and Transparency Initiative aimed at demonstrating how CSR and corporate governance can be compatible with profitable investments. The initiative focuses on improved disclosure of OPIC projects as well as a variety of environmental impact assessment studies, improved involvement of stakeholders affected by OPIC backed projects and increased transparency of the OPIC	n.a.

[12] http://norfund.no/images/stories/dfi_cg_approach_statement_final_-_23_july_2007.pdf

Development Finance Institution (DFI)	7. Distribution of operations and instruments	8. Transparency and Disclosure policies	9. Scoring & Reporting of Activities for the purposes of ODA
		decision making process.	

Annex 5: Catalytic effects, direct impact and wider economic impacts

DFI	13. Catalytic Effect	14. Direct Economic Impact of operations	15. Wider Economic Impact of investments
DEG (Germany)	Works in close cooperation with its European partner institutions under **EDFI**. Cooperates closely with FMO and Proparco. Mobilise venture capital in DCs & EMEs.	DEG has a system of Corporate Policy Project Rating (GPR) adopted by 14 other DFIs. The investments co-financed by DEG in 2009 secured or created approximately 196,000 **jobs**. Through their **tax payments**, the project enterprises will additionally contribute more than EUR 568 million annually to government revenues in partner countries and earn around EUR 1.7 billion in **net foreign exchange income** per annum.	It focuses particular attention on the investments producing positive effects in the DCs. DEG thus contributes to the Millennium Development Goals.
Proparco (France)	Can provide innovative solutions to investors and borrowers and fully play its role as a catalyst for private investment in EMEs.	Prparco carries out a systematic impact measurement of its activities, it is carried out prior to any investment and throughout the project lifecycle. The tool looks at different effects such as: • current public revenue • net currency effects • employment • technology and know-how transfer • extension and improvement of basic service suppl • improvement of performances thanks to private operators • social effects • compliance with environmental standards • positive environmental impacts	n.a.
FMO (Netherlands)	The FMO hedges its own currency risk through The Currency Exchange Fund (TCX) hence removing a large risk from the projects it invests in and thus acting as a catalyst for other investors to partner with the FMO in sponsoring projects. In addition it offers services in	FMO uses a tool called the Development Impact Indicator aimer at evaluating expected and actual development impact of projects. Projects are evaluated after 5 years (or on exit) and is focused on three areas 1. Project development outcomes (business success,	The FMO has a three pronged economic evaluation system that looks at: 1. Economic Impacts (economic development contribution of projects) 2. Sustainability Impacts (improvements in client social & environmental

DFI	13. Catalytic Effect	14. Direct Economic Impact of operations	15. Wider Economic Impact of investments
	local currency, further reducing project risks.	contribution to economic growth and private sector development) 2. Project Investment Outcome (contribution to FMO's financial sustainability) 3. FMO work quality The evaluation follows the methodology of the Good-Practice Standards for Evaluation of Private Sector Investment Operations by the Multilateral Development Banks – Evaluation Cooperation Group	performance & contributions to FMOs sustainability priorities) 3. Role of FMO (additionality, catalytic effects & non-financial role)
COFIDES (Spain)	n.a.	COFIDES uses the Operation Impact Rating Tool to help assess project impact on target country development. It applies the following criteria: • Sponsors entrepreneurial capacity • Technical, commercial and financial viability. • Sponsors commitment to the project • Existence of suitable mechanisms to mitigate political and commercial risk. • Favourable atmosphere in the target country. • Project contribution to the internationalization of Spanish enterprise and the Spanish economy. • Contribution to host country development. • Suitable management of the environmental and social aspects of the project. • Good corporate governance. In addition it adheres to the Kyoto Protocol flexible project mechanism	n.a.
COMESTI (Italy)	n.a.	n.a.	n.a.
SIFEM (Switzerland)	n.a.	SIFEM projects follow a triple bottom line: a) to show a commercial return b) to be compliant with SIFEM's environmental, social and corporate governance standards and c) to have a significant development effect in the country of the investment. SIFEM carries out activities to	Wider economic impacts are measured by using the following guidelines: 1. Economic Sustanability: SIFEM only considers projects which will be economically sustainable and show positive returns 2. Social Sustainability: Projects need to have

DFI	13. Catalytic Effect	14. Direct Economic Impact of operations	15. Wider Economic Impact of investments
		ensure that companies meet the triple bottom line and assess the developmental effects using the GPR tool developed by the DEG	high standards in corporate governance, CSR and health and safet 3. Environmental sustainability: SIFEM investments need to fulfill the environmental guidelines of the World Bank
SwedFund (Sweden)	n.a.	SwedFund requires that its portfolio companies carry out annual social and environmental impact reports. The reports follow the Global Reporting Initiative framework. The developmental effects of Swedfund are also monitored and measured against measurable targets.	Investments are evaluated from an ethical point of view as well as on their sustainability. Swedfund's policy is based on ILO, UN, World Bank, EDFI and OECD guidelines
NorFund (Norway)	NorFund acts as a catalyst by mobilizing private sector capital & skills which would have otherwise not been applied to the projects it invests in.	Norfund carries out a monitoring and evaluation exercise of its investments using the following (major) indicators: Number of persons employed Proportion of women employed Total tax contribution Share of the portfolio in the LDCs, Africa, start-up enterprises and equity investments Reduction of CO2 emissions Domestic purchases Technology transfer Improved infrastructure Anti-corruption efforts In addition Norfund uses different indicators depending on the type of service provided	n.a.
Industrial Develop-ment Corporation (IDC) (South Africa)	IDC acts as a catalyst by helping projects attain sustainable & balanced development, identifying opportunities not addressed by the market and providing risk capital	In 2010 IDC has help create or save over 30,000 jobs throughout the whole of Africa and has helped out over 2000 SMEs. Business proposals are considered on their own merits but attention is given to projects which will have impacts on rural development, job creation, empowerment and township development	n.a.
OPIC (USA)	OPIC is promoting investment into Africa and has provided a USD$ 227 million fund to help finance SMEs in Africa	OPIC applies due diligence practices to its finance projects as well as carrying out project screenings for all application. Projects will implement an	OPIC has created an Office of Accountability to provide an independent forum for people affected by OPIC supported projects to voice their concerns and help

DFI	13. Catalytic Effect	14. Direct Economic Impact of operations	15. Wider Economic Impact of investments
		Environmental and Social Action Plan aimed at reducing the environmental impacts of the project. Projects will also be submitted to 3rd party audits. OPIC has supported USD$ 188 billion in investments that have helped generate 830,000 jobs in host countries as well as 273,000 jobs in the USA	resolve problems. OPIC has its own policy requirements in terms of the environmental, social and human impacts of the projects it supports.
International Finance Corperation (IFC)			
European Bank for Reconstruction and Development (EBRD)			
European Investment Bank (EIB)			
Private Infrastructure Development Group (PIDG)			
African Development Bank (AfDB)			
Asian Development Bank (ADB)			
BIO		All projects must demonstrate long term financial viability and have a lasting impact on the development of the country in question, whether in terms of employment, the environment or economic and social growth. BIO also sets out to provide added value, in particular by contributing to good governance, by backing pioneering concepts and/or new initiatives or by attracting other investors.	

Annex 6: DFIs' ownership and governance structure

G**overnance** involves the establishment of structures and processes, with appropriate checks and balances that enable directors to discharge their legal responsibilities, and oversee compliance with legislation. Thus, this section covers the DFI's ownership and governance structure. In this report 'Governance' relates to how the various DFIs covered are directed by their sponsoring authorities.

Ownership

A number of DFIs are owned by the public sector, but there is also a number of DFIs with mixed public and private ownership. In our sample six of the DFIs covered are fully owned by governments namely: CDC (UK government's Department for International Development (DFID)), DEG (Development bank of the Federal Republic and federal states of Germany); SwedFund (Swedish Ministry for Foreign Affairs); NorFund (Norwegian Ministry of Foreign Affairs); IDC (South African Government's Ministry of Economic Development, previously the Ministry of Trade and Industry); and OPIC (US Government Agency). Four DFIs have a mixed ownership structure with both private and public sector owners: Proparco; FMO; COFIDES; and SIMEST, while one is fully privately owned: SIFEM (**table**).

Mixed ownership structures may help DFIs to align themselves with the interests of key stakeholders through having both public and private sector representatives as owners. Mixed ownership also has the potential to provide additional sources of funding (Dalberg, 2010). It could also ensure additionality of DFI activity as has sometimes been argued in the case of Proparco.

Ownership of DFIs

DFI (Subsidiary)	Shareholder Ownership (shares)	Supervisory Board	Management Board (Board of Directors)
DEG	KfW Bankengruppe (100%)	15 members including 4 Gov. Ministries; AfD; KfW; etc.	4 members
Proparco	AfD (59%); French Financial Inst. (26%); IFIs (11%); Fr. Companies (3%); Funds & Ethical Foundations (1%)	30 members including: AfD; BNP Paribas; SG; Bank of Africa; DEG etc.	
FMO	Dutch Government (51%); Dutch Banks (42%); Private companies, Trade Unions & individuals (7%).	7 members including Employers association, Social Economic Council; Rabobank; Federation Dutch Trade Union; Senator etc.	3 members: CEO; CIO; and Chief Risk & CFO.
COFIDES	Spanish Foreign Trade Institute, Officiali Credit Institute, and ENISA(61%); BBVA; Santander; Sabadell.	15 members including ICEX; ICO; Riesgos Santander Central Hispano, S.A.; Financiación de Equipamiento Finanzia Banco de Crédito, S.A.; Ministry of Trade and Investment etc.	
SIMEST	Ministry for Economic Development (76%); IMI; UniCredito; Banco Popolare di Vicenza; Banca Popolare di Sondrio; Banca Intesa.	Chief Executive Officer; Responsible of Milan Office ; Responsible for Investment and Financing Evaluation; Marketing and Promotions Manager.	
SIFEM	Privately held management company	Independent Investment Committee of 4 members. All decisions forwarded to SECO.	1 Managing director; 1 Deputy Managing director.
SwedFund	Swedish State (100%)	A six-member team of Senior Advisors. Reports to the Swedish Ministry for Foreign Affairs.	The board of directors consists of 8 people including Ministry of Finance; Director, Min-istry of Foreign Affairs
NorFund	Norwegian Government (100%)	Owned by the Norwegian Government through the Ministry of Foreign Affairs. Board leader; deputy board leader; and 5 board members.	
IDC	South African Government (100%)	15 members including Chairman (Non-Executive); Deputy Chairman (Non-Executive); CEO (executive); CFO (alternate); and 11 other non-executive members.	
OPIC	Agency of the U.S. Government (100%)	15 members including 8 from the private sector and 7 from the federal government	
IFC	Member countries: US(24%)	Board of Governors: 182 mem-ber	Board of Directors:

	Japan(6%); Germany(5%); France(5%); UK(5%); Canada(3%); India(3%); Italy(3%) Russia(3%); NL(2%); 172 other members (38%).	countries each appoints one governor and one alter-nate. Voting power is weighted according to the share capital each director represents.	Including IFC Executive Vice President and CEO. Most powers delegated to a board of 24 directors.
EBRD	Member countries (regional and non-regional)	All the powers of the EBRD are vested in the Board of Governors, which consists of 62 governors and 62 alternate governors incl. the EU; the EIB; the US; etc.	The Board of Governors has delegated many of its powers to the Board of 23 Directors and 23 alternate directors.
EIB	EU Member countries	Board of Governors is composed of the 27 EU's Economy and Finance Ministers. A new qualified majority voting threshold (18 votes, representing 68% of the subscribed capital) has replaced the unanimity rule.	28 members of the Board of Directors with one Director nominated by each Member State and one by the EC.
PIDG	DFID(49%), SECO(10%), DGIS(17%), Sida(11%); IFC(6%); ADA(3%); Irish Aid (15%); KfW(3%).	A number of the PIDG facilities are private limited companies (or liability partnership) with an independent board of non-executive directors who are predominately private-sector individuals.	The daily management of EAIF, GuarantCo, InfraCo Africa, InfraCo Asia, and the ICF-DP has been contracted to specialist management companies.
AfDB	Member countries (53 regional and 24 non-regional)	The Board of Governors is the highest policy-making organ. The Board of Governors is made up of one representative from each member country.	An 18-member Board of Directors to which power is delegates. 12 Directors are elected from RMCs and 6 from non-RMCs.
ADB	Member countries (regional and non-regional)	The Board of Governors has 67 members and 67 alternate governors.	12 Executive Directors and 12 Alternate directors.
CDC	100% owned by UK government (DFID)	The government has no involvement in CDC's day-to-day decision-making which is carried out by the CDC Board consisting of: Executive Chairman; Chief Executive; and former chair as well as 5 Nonexecutive Directors.	

Sources: DFI Annual Reports.

The multilateral DFIs: PIDG; IFC; EBRD; EIB; AFDB and ADB are all owned by their shareholders, or member governments. Therefore national government tend to own or be shareholders in several DFIs at the same time, such as DFID which is shareholder in respectively CDC; PIDG; EIB; EBRD; IFC; AfDB and ADB.

The Setting of DFI Strategies and Policies

DFID sets CDC's investment policy targets of 75% of new investments in low income countries (LICs) and an Investment Code around environmental, social and governance (ESG) standards,[13] but does not get involved in CDC's day-to-day operational decision-making which is carried out by the CDC Board of Executive and Nonexecutive Directors based in London.

The OPIC's Board of Directors provides policy guidance to the Corporation and approves all major insurance, project finance and investment funds projects. At the IDC both the Board and Executive Management have the responsibility for defining the strategic direction and ensuring that it is managed in a manner consistent with *strategy*. Moreover, the IDC's *strategy and development focus* are designed to support the economic policies, priorities and vision of the Government of South Africa, which e.g. in February 2010 launched the Industrial Policy Action Plan (IPAP2). In line with this, the IDC has *realigned its strategy to support* IPAP2's priorities, which guides the strategy and action plans of the IDC's Sector Business Units.

DEG has a Supervisory Board, which when it meets four times during the year pays close attention to the company's financial development, its environment, the risk situation, *planning and strategy*,

[13] Includes procedures to ensure that business integrity, environmental, health and safety and social issues are assessed as a key part of its investment and monitoring processes. CDC requires its fund managers to ensure that companies in which CDC's capital is invested are themselves committed to international best practice in these areas and that any shortfalls are addressed through effective action plans (CDC, 2009).

its internal controlling systems and its development activities. In addition to supervising the proper conduct of its activity, the Supervisory Board gives DEG's Board of Management the benefit of its advice. For example as part of the Board of Management's *overall strategic policy*, the Supervisory Board discussed *business strategy* for 2010, *risk strategy* including annual planning for 2010, and the medium-term business outlook for 2011-2014. However, the Supervisory board does not have a strategic approach but is rather more interested in concrete projects when the investment amount exceeds €20 million. The Board doesn't set policy targets either. On the other hand the projects should be exemplary for what DEG does. The Supervisory Board for example, had a strategic discussion on whether DEG should invest in the palm oil industry or not.

The FMO's Management Board is also charged with *developing and implementing FMO's strategy*. To mitigate the risk of making the wrong choices FMO used input from clients and market research when formulating its *new strategy*, which will guide its activities until 2012. A similar approach to that chosen by IDC where the clients remain central to the *operating strategy*.

SIMEST is headed by the Ministry of Economic Development, along with private-sector shareholders which include major Italian banks and industrial business organizations. SIMEST's Board of Directors approves all financial involvement. On the other hand, PROPARCO is a DFI with *a governance structure* that sets it apart from other EDFIs. It gathers 30 private and public likeminded shareholders from both the North and South with AfD as its main shareholder (59%).

Under the SECO mandate SIFEM exclusively focuses on developing and transition economies whose GNI per capita is below USD 6,000. A list of priority countries into which SECO funds can be invested is presented to SIFEM annually. At least 60% of SIFEM's investment volume in any year must be allocated to this priority list. Norfund, which is an instrument of Norwegian development policy, also has a *company strategy* that the portfolio increasingly should be focused on Sub-Saharan Africa. In fact, in order to ensure a thorough understanding of the situation in the countries in which Norfund invests, operations are limited to four regions: Southern Africa, East Africa, South-East Asia and Central America.

Amongst the multilateral DFIs the PIDG has a Governing Council, which comprises representatives of the 8 PIDG member countries. The Council is the decision-making body and provides overall *strategic direction*. However, the Council provides sufficient flexibility to its facilities, which are private limited companies (or in the ICF-DP's case, a limited liability partnership) with an independent board of non-executive directors who are predominately private-sector individuals. The day-to-day management of EAIF, GuarantCo, InfraCo Africa, InfraCo Asia, and the ICF-DP has been contracted to specialist management companies following competitive international tenders. However, the boards have a responsibility for ensuring that the management companies operate in the interests of their PIDG sponsors.

IFC with its 182 member countries (October 2010) guides IFC's programmes and activities. The directors meet regularly at World Bank Group headquarters in Washington, D.C., where they review and decide on investments and provide *overall strategic guidance* to IFC management (IFC, 2006). The powers of the EBRD, the AfDB, and the ADB are like with IFC also vested in the Board of Governors. And similarly the Board of Directors is also responsible for the direction of the general operations of *these regional DFIs* in conformity with the general directions of the Board of Governors as the representative of the shareholders.

The Lisbon Treaty makes important changes in the way the EIB's Board of Governors, composed of the EU's Economy and Finance Ministers, takes decisions. Normal decisions will continue to be taken by a majority of members representing at least 50% of the Bank's subscribed capital. However, *a new qualified majority voting threshold* (18 votes, representing 68% of the subscribed capital) has been introduced in place of the unanimity rule that used to apply to EIB lending operations outside the EU. A new clause delegates power to the Bank's day-to-day management to take all necessary emergency measures when a financing operation needs to be restructured in order to safeguard the Bank's interests. The EIU's Board of Directors consists of 28 Directors, with one Director nominated by each Member State and one by the European Commission.

Selection of Board and Management

Although CDC is owned 100% by the Government, the Government has no direct (i.e. official) representation in the Board. As mentioned above PROPARCO enjoys a public-private governance that includes investors from both the North and South. NorFund has used external resource persons for some board positions. That is also the case for PIDG where the board members are not typically from donor organisations, but rather infrastructure and finance professionals with a detailed understanding and experience of the operations of the underlying vehicles. The PIDG governance structure comprises a Governing Council, the PIDG Trust and the PIDG Programme Management Unit. The PIDG Trust invests in, owns and manages the PIDG facilities. The PIDG Programme Management Unit, which functions as the Secretariat for the PIDG and is the central point of contact for the PIDG, coordinates activities between the Governing Council and the individual facilities. The PIDG companies and facilities fall under the overall governance structure of the PIDG.

FMO has a two-tier board structure: the Management Board and the Supervisory Board. The FMO's Management Board consists of three statutory members. The Annual General Meeting of Shareholders (AGM) has core powers including to appoint members of the Supervisory Board. FMO's Supervisory Board currently comprises seven independent members with very specific expertise in areas relevant to FMO's activities. The Works' Council has a right of recommendation for the nomination of one third of the members. The Supervisory Board in turn appoints members of the Management Board.

The relationship between the IDC and its Shareholder are regulated by an IDC Act and its Regulations. The IDC has a unitary Board structure, comprising one executive and 13 non-executives. This enables the Board to obtain the desired level of objectivity and independence in Board deliberations and decision-making. The size of the IDC Board is dictated by the IDC Act, which permits a minimum of five and a maximum of 15 directors appointed by the Shareholder. In line with the recommendations of King III, the positions of Chairman and Chief Executive Officer are separately held, with a clear division of duties.

OPIC's Board of Directors consists of 15 members— 8 from the private sector and 7 from the federal government. At least 2 of the private sector directors must be experienced in small business, one must represent organised labour, and another must have experience in cooperatives. Government members include: the Administrator of the Agency for International Development, the United States Trade Representative or Deputy U.S. Trade Representative, the President of OPIC, and four additional members who are senior officials of other government agencies, including the Department of Labor.

As an organisation owned by its member countries, IFC is accountable for the use and management of its resources in a manner consistent with its mandate and has an obligation to be responsive to the questions and concerns of its shareholders. Each of the 182 member countries of IFC appoints one governor and one alternate. Corporate powers are vested in the Board of Governors, which delegates most powers to a board of 24 directors. Voting power on issues brought before them is weighted according to the share capital each director represents (table 3.1). The section of board and management is the same for the Regional MDBs. For example the Board of Governors of the AfDB and ADB is the institution's highest policymaking organ, comprising one representative from each member country.

Assessment of Management by the Shareholders (Operational Risk)

The Basel Committee on Banking Supervision in December 2010 issued for consultation two papers on operational risk: *Sound Practices for the Management and Supervision of Operational Risk* and *Operational Risk - Supervisory Guidelines for the Advanced Measurement Approaches*. The first paper updates the Committee's 2003 paper on this topic. The updated version highlights the evolution of operational risk management since 2003 and is based on best industry practice and supervisory experience. The principles outlined in the report are discussed within the context of three overarching themes: governance, risk management and disclosure (BIS, 2010).

To improve project operations, a clear distinction is made between the Norfund project manager and the person representing Norfund on the board of directors. Thus projects are monitored closely along two different reporting lines.

It is the role of the FMO's Supervisory Board to endorse the Report of the Management Board. It also proposes to the AGM whether or not to adopt the audited annual accounts. The Supervisory Board is responsible for supervising the Management Board, and the general course of affairs in the company and in the company's business. FMO's Management Board assessed a number of key risks to which they have given special attention, based on the market situation, regulations or internal circumstances, for example. FMO has stepped up its monitoring activities in order to identify clients who are in trouble early. FMO has also intensified its credit risk procedures focusing more on liquidity-, country- and sector-related risks. To ensure the proper execution of FMO's operations, several tools are in place including the FMO internal audit function and FMO's directors' annual operational risk assessments. If operations have not functioned properly, an incident is reported to FMO's Management Board each quarter.

To integrate DEG into the risk management system of KfW Bankengruppe, identical instruments (e.g. rating methods) and processes which permit appropriate risk measurement have been implemented across the corporation. DEG has additionally committed itself to apply the standards of the Bank Supervision Act, e.g. Minimum Requirements for Risk Management, and to comply with these in its business operations. DEG's risk policy approach is determined by its annually updated risk strategy and by applied risk management methods and processes, which are subject to ongoing development.

The Board of IDC is responsible to its *sole Shareholder*, the Department of Trade and Industry, for setting economic, social and environmental direction through strategic objectives and key policies, and monitors implementation through structured annual reporting systems. The performance as well as management of IDC capital is supported by the agreement between the Corporation and the Shareholder in a form of the *Shareholder Compact* which outlines the agreements between the two parties as required by the provisions of the Public Finance Management Act, No 1 of 1999 (the PFMA). IDC is not required by law to maintain any level of capital but has to utilise its capital to achieve the Shareholder's mandate. The Shareholder approves the strategic direction and focus of the IDC as set out for each financial year. The annual report is submitted to Parliament by the Minister of Trade and Industry and made available to the public.

The AfDB seeks to minimize its exposure to risks that are not essential to its core business of providing development finance and related assistance. Accordingly, the AfDB's risk management policies, guidelines and practices are designed to reduce exposure to interest rate, currency, liquidity, counterparty, legal and other operational risks, while maximizing the AfDB's capacity to assume credit risks to public and private sector clients, within approved risk limits. The ADB saw rigorous assessment of strategies, policies, procedures, and operations by the renamed Independent Evaluation Department (IED) continued during 2009. Monitoring of IED's recommendations for deeper management accountability was an important theme throughout 2009. Credit risk management was improved to better position nonsovereign operations for the private sector's increased role in ADB operations over the coming decade.

Handling of Funding or Recapitalisation (Financial Risk)

Financial risk includes market risk related to volatility in interest rates, exchange rates, commodity and equity prices, *liquidity/funding risk* related to the cost of maintaining various financial positions and financial compliance risk, as well as credit and settlement risk related to the potential for counterparty default. Other financial risks include: the risk of over-concentrating investments in certain economic sectors, regions or counterparties as well as the risk of over-dependency on a limited number and/or types of products and the risk of margin erosion due to inappropriate pricing relative to the cost of funding of capital.

FMO, for example, manages its *liquidity risk* by using cash-flow forecasts and setting limits on the cumulative and non-cumulative gap per maturity bucket. As a result of taking risks that commercial market parties are not usually prepared to take, the most significant financial risks are *the credit and equity risks* related to the company's investment activities. FMO's AAA rating from Standard & Poor's facilitates the company's *access to financial markets for funding*, which should moderate liquidity risk. To support its operations in times of adverse market circumstances, FMO has *diversified its funding base* and has access to additional sources of liquidity, which consist of committed bank facilities, access to the Dutch Central Bank and the possibility to execute repo transactions.

As a vehicle for Spanish governmental policy, COFIDES manages State investment funds and mobilizes resources made available by multilateral financial institutions, thereby contributing to their financial returns.

The IDC's budgets for its 2009/10 financial year reflected substantial borrowing requirements and, in recent times, the IDC's *main source of borrowings* has been other DFIs and banks. However, accessing funds from these sources in an illiquid market has proven difficult. The IDC is continually identifying more *non-traditional sources of funding*. During the year the IDC concluded negotiations with the Unemployment Insurance Fund (UIF) with the aim of providing a portion of the IDC's borrowings at concessional rates. The IDC endeavours to maintain credit risk exposure within acceptable parameters, managing the credit risk inherent in the entire portfolio as well as the risk associated with individual clients or transactions.

The PIDG donors invest in the PIDG facilities through an independently managed trust fund. The trust fund structure has enabled the donors to fund any of the PIDG iniatives at different points in time (as a result PIDG donors can supply their funding in a flexible manner, supporting initiatives that closely meet their own individual objectives) and also allowed for the incorporation of additional members as the need arises. Subsets of the donors have contributed funding to the different PIDG companies and facilities, as well as to project development.

In its work, DEG co-operates closely with other members of the group of EDFI, with the EIB, and the EBRD. DEG also frequently works with the IFC, as well as with regional and local development finance providers. This type of co-operation means that funds required for project finance and know-how can be packaged, especially in the case of complex, high-risk investments. It also helps to improve the effectiveness of development co-operation. DEG also works with selected commercial banks in strategic partnerships.

In order to strengthen its balance sheet and to maintain its *triple A rating*, the AfDB initiated a process to mobilize additional capital resources under the Sixth General Capital Increase (GCI-VI).The credit ratings agencies Standard & Poor's, Moody's, Fitch Ratings and the Japan Credit Rating Agency reaffirmed their AAA and AA+ rating of the AfDB's senior and subordinated debt, respectively, with a stable outlook. Their rating reflects the Bank's strong membership support, its preferred creditor status, sound capital adequacy, and prudent financial management guidelines and policies.

Controlling of Political or Reputational Risk (Compliance Risk)

A code of conduct prescribing the behavior of FMO's employees has been implemented. Besides *hard controls* like rules and procedures, FMO's management believes that *soft controls*, focused on people's behavior, are of vital importance. There is also a Whistleblowers scheme in place. *Reputational and compliance risks* are also presented by FMO's clients. In the case of compliance risk, continuous awareness and management are *key controls*. To improve awareness in 2009, all departments involved in 'Know Your Customer' and anti-money laundering activities received specific training on compliance.

Along these same lines *DEG* also deals with *Reputational risks* by carefully selecting, controlling and supervising involvements through the use of the Corporate Policy Project Rating, by carrying out money laundering checks, maintaining representative offices in key countries, carrying out ongoing training and by an exchange of experience. Like the other DFIs both NorFund and IDC has adopted *principles embodies in appropriate international corporate governance* to enable them to handle geographical and ownership challenges. The prevention of corruption and economic crime forms an integral part of Norfund's mandate and activities, which proceed in accordance with current rules and regulations on public sector financial management.

Finally, the AfDB defines *operational risks* to include all aspects of risk-related exposure other than those falling within the scope of credit, market, and liquidity risks. Specifically, this includes the risk of loss resulting from inadequate or failed internal processes, people, and/or systems, and from external events which could negatively impact its *reputation*. Following approval by the Board of Directors in 2004, the AfDB established an *Internal Control Unit (ICU)* to among other duties implement the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework as a means of regularly evaluating the effectiveness and efficiency of its internal controls in all significant business operations. Other control initiatives or activities in the other areas of the AfDB Group which complement the work on operational risk management include: Code of conduct and staff rules; Fraud and investigation unit; Whistleblower protection policy; and Business continuity planning and preparedness.

Annex 7: Total annual commitments, 2009-2006

		2009	2008	2007	2006
CDC	Portfolio at start of the Year (£ MLN)	927.7	1,184.10		
	New investments in developing countries (£ MLN)	359.3	436.0		
	Realisations (£ MLN)	(48.0)	(245.3)		
	Unrealised value movements (£ MLN)	171.9	(447.1)		
	Portfolio at end of year (£ MLN)	1410.9	927.7		
	Total commitments (£ MLN)	**335**			
	Outstanding commitment (£m)	1561			
	Investment Value (£m)	1410.9			
DEG	Total financial commitments in financial year (€ MLN)	1,015	1,225	1206	930
	Total investments of co-financed enterprises (financial commitments)	4,574	6,166		
	Project portfolio at end of year	4,701	4,427		
	Total investments of cofinanced enterprises (portfolio)	32,083	31,546		
FMO	Committed Investment portfolio (EUR Million)	4,598	4,182	3,403	2735
	of which government funds (€ MLN)	721	639		
	New contracts (€ MLN)	911	1314	1315	937
Proparco	Committed Investment (in loans and equity) portfolio (EUR Million)	1121	789.4	598	401
COFIDES	Live Portfolio (€ MLN)	452.51	390.35	329.75	
	Approvals overall commitment (€ MLN)	202.81	132.16	148.31	
	Formalizations overall commitment (€ MLN)	139.87	114.01	125.05	
	Outlays (€ MLN)	91.1	99.32	79.24	
NorFund	loans to investment projects (Figures in 1000s of NOK)	542957	401441		
	equity investments (Figures in 1000s of NOK)	1050388	878624		
	total investments (Figures in 1000s of NOK)	1593345	1280065		
	total retained earnings (Figures in 1000s of NOK)	1220891	1237363		
	total equity (Figures in 1000s of NOK)	5870891	5302363		
SwedFund	Decisions (MLN SEK)	638.8			
	Contracts (MLN SEK)	627.9			
	Disbursements (MLN SEK)	532.2			
	Contracted but not yet disbursed investments	634.5			
	Investments with Board approval but not yet contracted	220			
	currency fluctuations reserve	151.5			
	Amount remaining available for new investment decisions	300.9			
IDC	Total approvals (R' MLN)	13674			
	Net financing approvals (after cancellation of prior year's undrawn commitments) (R' MLN)	10762			
	Investments (Assets) (R' MLN)	41701			
	Total Equity (R' MLN)	76489			
IFC	New Investment Commitments for IFC's own account ($)	10547	11399	8220	6703
	New Investment Commitments Total Mobilization ($)	3962	4653	3858	2817
	Investment Disbursements Total Mobilization ($)	1966	2382	1615	1311
	Commited Portfolio Total Mobilization ($)	8004	7525	5543	5079
	Advisory Services Total Expenditures ($)	291	269	197	152
EBRD	Commitments (€ MLN)	7861	5,087	5583	4936
	Resources Mobilised (€ MLN)	10347	8372	8617	7645
	Total Project value (€ MLN)	18087	12889	13809	12014
	Gross Annual Disbursements (€ Bn)	5.5	5	4.1	3.8
EIB	Projects Approved (€ MLN)	103,898			
	Disbursements (€ MLN)	54,022			
AfDB	ADB Approved Operations (UA Bn)	5.6			
	ADF Approved Operations (UA Bn)	2.43			
	NTF Approved Operations (UA MLN)	5.7			
	Equity Participation (UA MLN)	142.5			
ADB	Operational Activities ($ MLN)	16,077	11,329	10,771	8,390
	Loans ($ MLN)	13,230	10,124	9,516	7,264
	Grants ($ MLN)	1113	809	673	530
	Guarantees ($ MLN)	397		251	125
	Trade Finance Facilitation Programme ($ MLN)	850			
	Equity (Investmemnt/Commitments) ($ MLN)	220	123	80	231
	Technical Assistance Grants ($ MLN)	267	273	251	240

Source: Authors based on DFIs' Annual Reports