

# International Finance Institutions and Development Through the Private Sector

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A joint report of 31 multilateral and bilateral  
development finance institutions

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# Table of Contents

Preface	iii
Executive Summary	1
<b>Chapter 1: Role of the Private Sector in Development</b>	<b>3</b>
Development Challenges	4
<i>Broad Development Challenges</i>	4
<i>Millennium Development Goals</i>	5
Role of the Private Sector in Addressing the Development Challenges	7
<i>Growth</i>	7
<i>Jobs</i>	8
<i>Poverty Reduction and Inclusive Growth</i>	8
<i>Service Delivery</i>	11
<i>Addressing Food Security, Climate Change, and Environmental Sustainability</i>	12
<i>Taxes</i>	12
Role of Government	12
Conclusion	14
<b>Chapter 2: Role of the IFIs in Private Sector Development</b>	<b>15</b>
Private Sector Challenges	16
IFIs' Role in Addressing Private Sector Challenges	18
<i>The Three Channels of Development Assistance</i>	18
<i>Overview: Role of Private Sector-Oriented IFIs in Addressing Private Sector Challenges</i>	20
<i>Finding High Development Impact Investment Areas and Approaches</i>	22
<i>Special Role/Additionality</i>	26
<i>Partnerships</i>	30
<i>Lessons from Experience</i>	33
Conclusion	34
<b>Chapter 3: Results and Case Studies</b>	<b>35</b>
Overview	36
<i>Commitment Volumes</i>	36
<i>Development Outcome or Transition Success Rates</i>	36
<i>Reach Indicators</i>	38
<i>Demonstration Effects</i>	38
IFI Role in Specific Sectors	38
<i>Private Infrastructure and Public-Private Partnerships</i>	38
<i>SMEs and Microenterprises</i>	42
<i>Financial Sector</i>	45
<i>Agribusiness</i>	47
<i>Inclusive Business Models</i>	49
<i>Investment Climate Reform</i>	51
<i>Climate Change</i>	53
<i>Innovation</i>	54
Results and Case Studies Summary	56
<b>Chapter 4: Conclusion</b>	<b>57</b>
<b>Annex: Profiles of International Finance Institutions with Private Sector Operations</b>	<b>60</b>



## Preface

The private sector is recognized as a critical stakeholder and partner in economic development, a provider of income, jobs, goods, and services to enhance people's lives and help them escape poverty. Multilateral development banks and bilateral development finance institutions (together in this report called *International Finance Institutions*, or *IFIs*, see box 1) play a significant role in supporting the private sector in developing countries. They provide critical capital, knowledge, and partnerships; help manage risks; and catalyze the participation of others. They support the kind of entrepreneurial initiatives that help developing countries achieve sustainable economic growth. This role is becoming increasingly important for development institutions, along with more traditional aid and loan programs to governments.

Yet the important development contributions that IFIs make when engaging with the private sector in developing economies are often not

clear or adequately communicated to stakeholders and the public. It is the aim of this report to help bridge that gap—to increase the information and understanding about both the *value* of the private sector in development, and the *role* of international development finance institutions in supporting development through the private sector.

The report is a joint effort of 31 multilateral and bilateral development institutions that have significant programs to promote private sector investment and assistance. The content benefited from an extensive interchange of ideas and materials among all participating institutions. This report was initiated under the sponsorship of the Private Sector Development Institutions Roundtable, which is an annual meeting of the heads of IFIs focusing on private sector development, and was coordinated by the International Finance Corporation (IFC).

**Box 1: International Finance Institutions with Private Sector Operations**

## Examples of Multilateral Development Banks or Finance Institutions with Private Sector Operations

- African Development Bank (AfDB)
- Asian Development Bank (ADB)
- Black Sea Trade and Development Bank (BSTDB)
- Development Bank of Latin America (CAF)
- European Bank for Reconstruction and Development (EBRD)
- European Investment Bank (EIB)
- Inter-American Development Bank (IDB)
- Inter-American Investment Corporation (IIC)
- International Finance Corporation (IFC)
- Islamic Corporation for Development of the Private Sector (ICD)
- Multilateral Investment Fund (MIF)
- Multilateral Investment Guarantee Agency (MIGA)
- Nordic Investment Bank (NIB)
- OPEC Fund for International Development (OFID)

## Examples of Bilateral Private Sector Development Finance Institutions

- Belgian Corporation for International Investment (SBI-BMI)
- Belgian Investment Company for Developing Countries (BIO)
- CDC Group (British Development Finance Institution)
- COFIDES (Spanish Development Finance Institution)
- Danish Industrialization Fund for Developing Countries (IFU)
- DEG (German Development Finance Institution)
- Development Bank of Austria (OeEB)
- Entrepreneurial Development Bank of the Netherlands (FMO)
- Finnish Fund for Industrial Cooperation (Finnfund)
- French Investment and Promotions Company for Economic Cooperation (Proparco)
- Japan Bank for International Cooperation (JBIC)
- Norwegian Investment Fund for Developing Countries (Norfund)
- Overseas Private Investment Corporation (OPIC, US)
- SIMEST (Italian Development Finance Institution)
- SOFID (Portuguese Development Finance Institution)
- Swedfund
- Swiss Investment Fund for Emerging Markets (SIFEM)

## Executive Summary

The private sector is recognized as a critical stakeholder and partner in economic development, a provider of income, jobs, goods, and services to enhance people's lives and help them escape poverty. Multilateral development banks and bilateral development finance institutions (together in this report called *International Finance Institutions*, or *IFIs*) play a significant role in supporting the private sector in developing countries. They provide critical capital, knowledge, and partnerships; help manage risks; and catalyze the participation of others. They support the kind of entrepreneurial initiatives that help developing countries achieve sustainable economic growth. This role is becoming increasingly important for development institutions, along with more traditional aid and public sector financing.

Yet the important development contributions that IFIs make when engaging with the private sector in developing economies are often not clear or adequately communicated to stakeholders and the public. It is the aim of this report to help bridge that gap—to increase the information and understanding about both the *value* of the private sector in development, and the *role* of international development finance institutions in supporting development through the private sector.

The main messages of this report include:

**Growth, poverty reduction, and improving people's lives require a vibrant private sector.** There are still enormous development challenges in increasing inclusive growth, reducing poverty, and improving people's lives. The private sector has a key role to play in addressing these challenges by supporting inclusive growth, poverty reduction, job creation, and access to critical goods and basic services and by providing tax revenues.

**IFIs support the private sector gaps in finance, knowledge, and standards and endeavor to create high-impact, sustainable development projects and programs.** The private sector in developing countries faces many constraints in such areas as finance, infrastructure, employee skills, and the investment climate. IFIs focusing on private sector development can help address these constraints and can be most effective by targeting high-impact sectors and projects, ensuring sound business practices, leveraging partnerships, and focusing on segments where IFI assistance is needed most and where IFI additionality, or the value brought to a project beyond what private financial institutions could offer, is greatest. As shown in chapter 2, IFIs' additionality is particularly evident in their greater engagement in higher-risk countries and products where private capital is often scarce, their countercyclical operations, and their recognized special contributions to knowledge, standards, risk mitigation, and catalyzing others.

**IFIs have reached a significant scale in global private sector finance and achieved notable success in projects and in key sectors.** Over the past decade, IFIs have achieved substantial growth in private sector operations. Current results measurement systems show positive development outcomes in terms of returns to the economy, environmental and social performance, private sector development, financial returns, and people reached. As discussed in chapter 3, IFI projects have had significant impacts on job creation, connecting people via infrastructure and communications, reaching small and medium enterprises (SMEs), generating government revenues, providing health care and education, and assisting farmers. The broader impact, additionality, and demonstration effects of IFI investments can be seen in the various case studies discussed in chapter 3, which offer examples in infrastructure, financial systems, agribusiness, SMEs, inclusive business models, and the investment climate.

Great change is occurring both in developing countries and in the approaches and institutions that promote development. Keeping pace with that change through creative and timely approaches to clients' needs will be challenging. IFIs and governments are likely to continue to put more emphasis on the private sector to improve lives and living conditions in developing countries. Recent trends also indicate continued movement toward greater partnership among IFIs to increase impact, greater reliance on approaches that leverage the public and private sectors, continued innovation in products and services while scaling up impact, and greater attention to development results and additionality.

Governments that fund IFIs are increasingly looking for approaches that deliver high development impact while efficiently using the limited taxpayer resources. In this regard, IFIs that include a private sector focus are attractive options, because they leverage the limited funds entrusted to them by catalyzing the resources and talent of private actors.

Yet, to address the growing expectations, IFIs will also need to determine where they can make the greatest impact and move resources to the most effective programs. IFIs have worked hard to learn from past experiences in order to identify those areas where their interventions can be most effective. Monitoring and evaluation will be critical to further guide investment prioritization and improve operation design through continuous learning. In a complex interactive system, IFIs will need to partner with each other and with other key stakeholders to enhance impact and to adapt and become more nimble.

To maximize development impact, public and private sector policies in each country need to be coherent and complementary. As such, IFIs should strive to focus on opportunities that best leverage national public and private sector strategies. There needs to be a virtuous circle between public and private undertakings to maximize development impact and ensure inclusive growth.



Chapter 1:

# Role of the Private Sector in Development

This chapter will review some of the major development challenges today and then look at the role of the private sector in addressing these challenges.



## Development Challenges

Different IFIs focus on various development challenges, such as promotion of growth and job creation, poverty reduction, improved health and education and insurance systems, greater food security, climate change mitigation, and transitioning toward well-functioning markets. This section provides an overview of some of these challenges.

### Broad Development Challenges

IFIs have different ways of expressing the key challenges they try to address. Presented below is a brief review of some of the major development themes expressed by IFIs:

**Improving People's Lives.** Improving people's lives is at the core of the mandate of many IFIs. This development objective often includes advances in overall growth and productivity, increased jobs and incomes, poverty reduction, provision of safety nets, and improvements in availability of essential goods and services, such as housing, infrastructure, health, and education.

**Inclusive Growth.** A related development concept for IFIs is *inclusive growth*. Inclusive growth refers to a focus on economic growth in a country that is both broad-based across sectors and inclusive of the large part of the country's labor force. This concept includes attention to the welfare of the poor but also to opportunities for the majority of the labor force, poor and middle class alike.<sup>1</sup> The inclusive growth approach looks to productive employment as an important means of increasing incomes of excluded groups.

**Poverty Reduction.** Many IFIs view poverty reduction as the core of their mission. Poverty reduction is associated not only with raising incomes of the poor but also with providing the poor with greater opportunities for jobs

and access to essential services, such as health, education, housing, infrastructure, financial services, and safety nets.

**Food Security.** There is increasing recognition that the era of cheap food is gone and that a food price crisis may be one of the biggest challenges now facing most developing countries. According to the Food and Agriculture Organization of the United Nations (FAO), food production (net of food used for biofuels) will need to increase by 70 percent in order to meet demand from a global population of 9 billion people by 2050.<sup>2</sup> In mid-2008, international food prices reached their highest level in 30 years, which, when added to the global economic crisis, contributed to push an additional 115 million people into poverty and hunger.<sup>3</sup> After a brief respite in 2009, the FAO Food Price Index surpassed its 2008 peak again in December 2010.

**Climate Change.** Climate change could affect many important development goals, such as those related to water, food, health, and poverty, and its impacts could disproportionately affect the poorest countries. The greatest mitigation opportunities, especially energy efficiency, remain in middle-income countries. At the United Nations Framework Convention on Climate Change summit in Cancun in December 2010, developed countries reaffirmed their Copenhagen Accord pledge to provide \$30 billion up to 2012 as "fast-track" climate financing and to help catalyze \$100 billion per year by 2020 to address climate change challenges in developing countries.

**Market Development.** A number of IFIs include in their missions helping countries make the transition toward well-functioning markets, with competitive and innovative businesses, rising productivity and incomes, and where environmental and social conditions reflect people's needs.

<sup>1</sup> World Bank, *What Is Inclusive Growth?* (Washington, DC: World Bank, 2009).

<sup>2</sup> FAO, *How to Feed the World in 2050* (Rome: Food and Agriculture Organization, 2009).

<sup>3</sup> <http://www.fao.org/isfp/about/en/>.

**Global and Regional Integration.** Some IFIs also put particular importance on creating global and regional integration to boost productivity and growth and help bring less-developed countries into an enhanced growth process. Global and regional integration can be advanced via, for example, improved trade, promotion of regional infrastructure networks, and creation of integrated production chains.

The emphasis that different IFIs place on the various development challenges is an important element of IFI strategies. An example of how one IFI tries to balance activities to address some of the important development challenges, and how those approaches affect the poor, is shown in figure 1.

### Millennium Development Goals

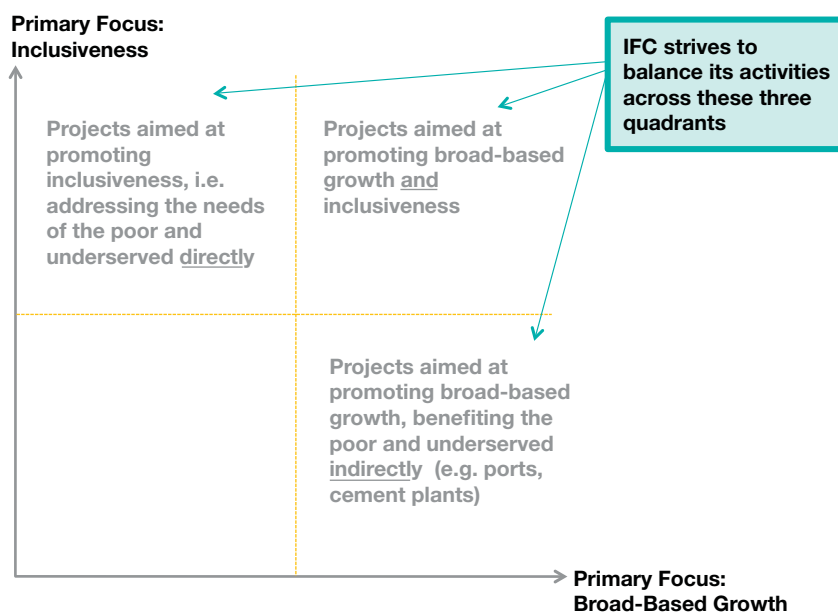
In addition to the broad development challenges discussed above, a number of IFIs consider progress on a set of development goals, called the *Millennium Development Goals, or MDGs*, as one important way of looking at the challenges of development. Many of the MDGs have measurable targets for achievement by 2015 (over a baseline of 1990) and cover

poverty, employment, hunger, health, education, gender equality, and environmental sustainability. They were agreed to in September 2000 by leaders from 189 nations.

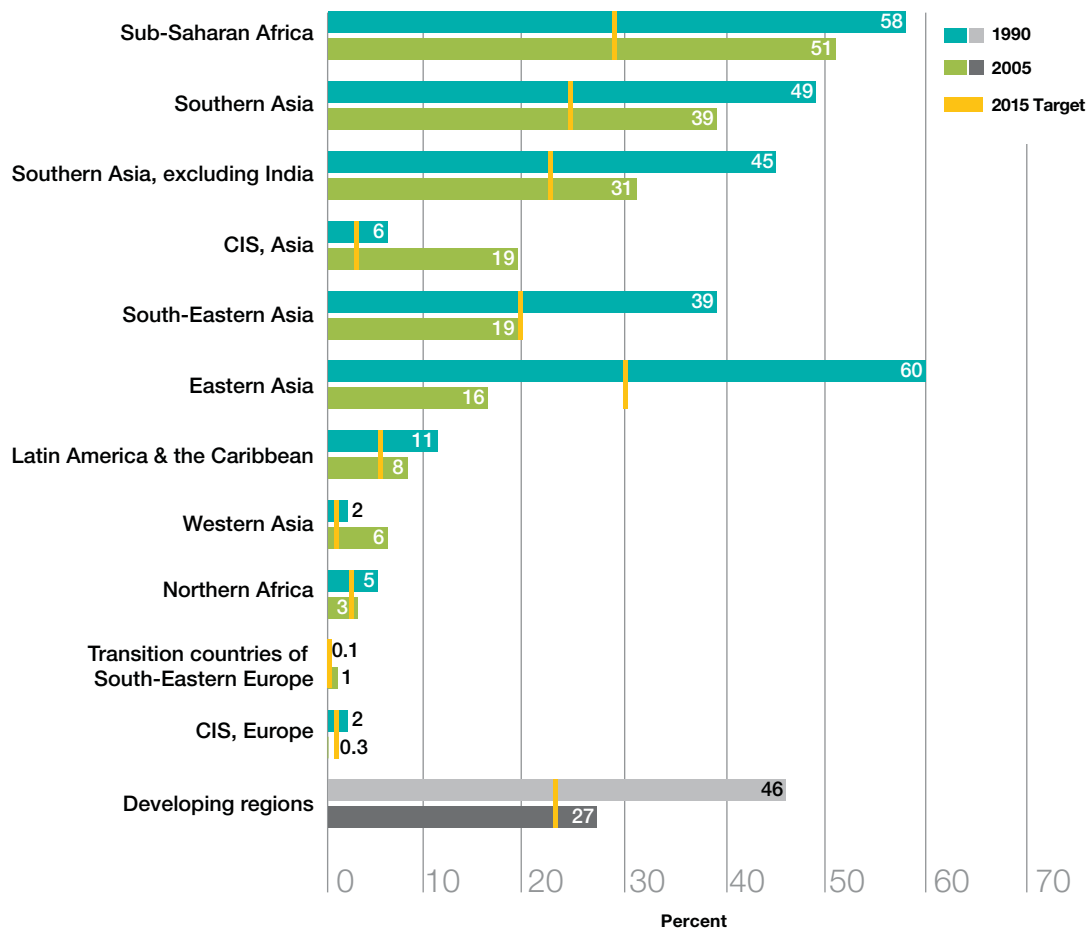
The first MDG aims to *eradicate extreme poverty and hunger and achieve full and productive employment and decent work for all*. This MDG is particularly relevant to many private sector operations.

- Figure 2 shows progress toward the target of reducing the proportion of people living in extreme poverty by half over the period 1990 to 2015. Even though the global crisis has slowed progress, the world is generally on track to meet this target, with extreme poverty rates (\$1.25/day) declining from 46 percent in 1990 to 27 percent in 2005. Poverty rates have declined significantly in most regions, particularly in East Asia. Although this progress represents an impressive accomplishment, much poverty remains, and many countries are still likely to fall short of meeting their poverty reduction targets.
- The first MDG also includes achieving full and productive employment. Within developing markets, unemployment varies

**Figure 1.** Supporting Poverty Reduction Through Inclusive and Sustainable Growth (IFC Framework)



**Figure 2.** Proportion of People Living on Less than \$1.25 a Day, 1990 and 2005 (Percentage)



Source: Millennium Development Goals Report 2010.

by population segment, most notably with higher youth unemployment in all regions. Youth unemployment in the Middle East and North Africa is the highest at 25.1 percent and 23.6 percent, respectively; in Central and Southeastern Europe and the CIS more than 18 percent of youth are unemployed.<sup>4</sup> Women have also fared poorly, especially in the Middle East and North Africa, where female unemployment is above 15 percent.<sup>5</sup> In the Middle East, North Africa, and South Asia, the percentage of women in the workplace also remains particularly low.

- The third target in the first MDG is to cut in half the proportion of people who suffer from hunger. Progress has been made on this target as well, but not as much as for overall poverty: the percentage of the undernourished population declined from 20 percent in 1990–92 to 16 percent in 2005–07.<sup>6</sup> However, the level of undernourished population is estimated to have risen to 19 percent in 2009 following significant increases in food prices.<sup>7</sup>

<sup>4</sup> ILO, *Global Employment Trends 2011: The Challenge of a Jobs Recovery* (Geneva: International Labour Organization, 2011).

<sup>5</sup> Ibid.

<sup>6</sup> United Nations, *The Millennium Development Goals Report 2010* (New York: United Nations, 2010), 12.

<sup>7</sup> World Bank, *Unfinished Business: Mobilizing New Efforts to Achieve the 2015 Millennium Development Goals* (Washington, DC: World Bank, 2010).

Other development challenges captured in the MDGs relate to health, education, gender equality, and environmental sustainability. In general, improvement in most of these areas has been quite uneven, and much remains to be done. Good progress has taken place in gender parity in education and reliable access to water, but progress in child and maternal mortality, primary school completion, and sanitation have lagged.<sup>8</sup> For example:

- Major advances have been made in *getting children into schools* (Goal 2) in many of the poorest countries, but the progress is probably insufficient to achieve the goal of universal primary school enrollment by 2015.
- *Gender parity* (Goal 3) in primary and secondary education will likely be achieved by 2015.
- For reduction of *child mortality* (Goal 4), while mortality rates for children under five have improved significantly since 1990, only about one-fourth of developing countries are expected to reach the targets by 2015, and reduction in *maternal mortality* has also been inadequate (Goal 5).
- Some progress has been made with respect to *combating diseases including HIV/AIDS and malaria* (Goal 6), such as the halting of the rapid spread of HIV and related deaths, great increases in antiretroviral therapy, and better delivery of malaria interventions. Few countries, however, are likely to meet the target of universal access to HIV/AIDS treatment by 2015.
- Regarding *environmental sustainability* (Goal 7), most regions are on track for expanding access to safe drinking water, but the global target for improving access to sanitation will likely be missed. Slum improvements, although considerable, are failing to keep pace with the growth of urban poor.

Overall, there has been significant progress in development as reflected in some of the MDGs. Nevertheless, substantial challenges clearly remain in most areas.

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## Role of the Private Sector in Addressing the Challenges

The private sector is a critical component in addressing the development challenges discussed above through its contributions in many areas, including growth, jobs, poverty reduction, service delivery, food security, climate change mitigation, environmental sustainability, and contributions to taxes. These roles are discussed below.

### Growth

The *Commission on Growth and Development*, which included a broad group of eminent economists and policy makers that spent two years reviewing research and experience on economic growth, found in their 2008 report five common characteristics of countries with high, sustained growth (figure 3).<sup>9</sup> While many of these characteristics relate to actions that governments need to take (see section ahead on the “Role of Government”), also prominent among these is *market allocation of resources*, led by the private sector. As the report states, there is no known, effective substitute for relying on markets to allocate resources efficiently.<sup>10</sup> A key mechanism for economic growth is higher productivity and knowledge transfer, and the private sector can be a critical facilitator of this process. Private firms and entrepreneurs invest in new ideas and new production facilities. As shown in figure 4, higher private investment is associated with faster-growing economies.

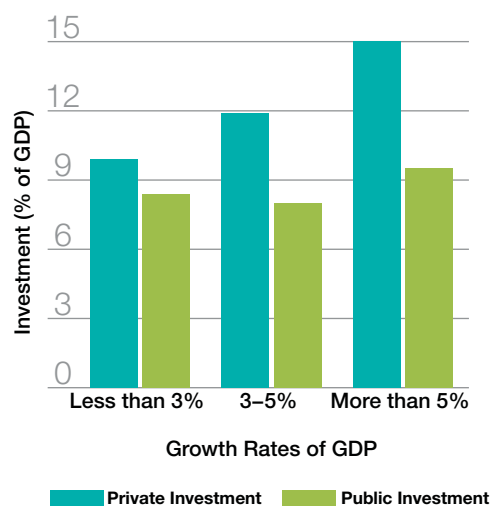
<sup>8</sup> Ibid.

<sup>9</sup> Commission on Growth and Development, *The Growth Report: Strategies for Sustained Growth and Inclusive Development* (Washington, DC: World Bank, 2008).

<sup>10</sup> Ibid., 4.

**Figure 3.** The Common Characteristics of High, Sustained Growth

Source: Commission on Growth and Development, "The Growth Report," 2008, p.22.

**Figure 4.** Investment and Economic Growth in Selected Developing Countries, 1970–98

Source: Bouton and Sulinski, "Trends in Private Investment in Developing Countries," IFC Discussion Paper Number 41.

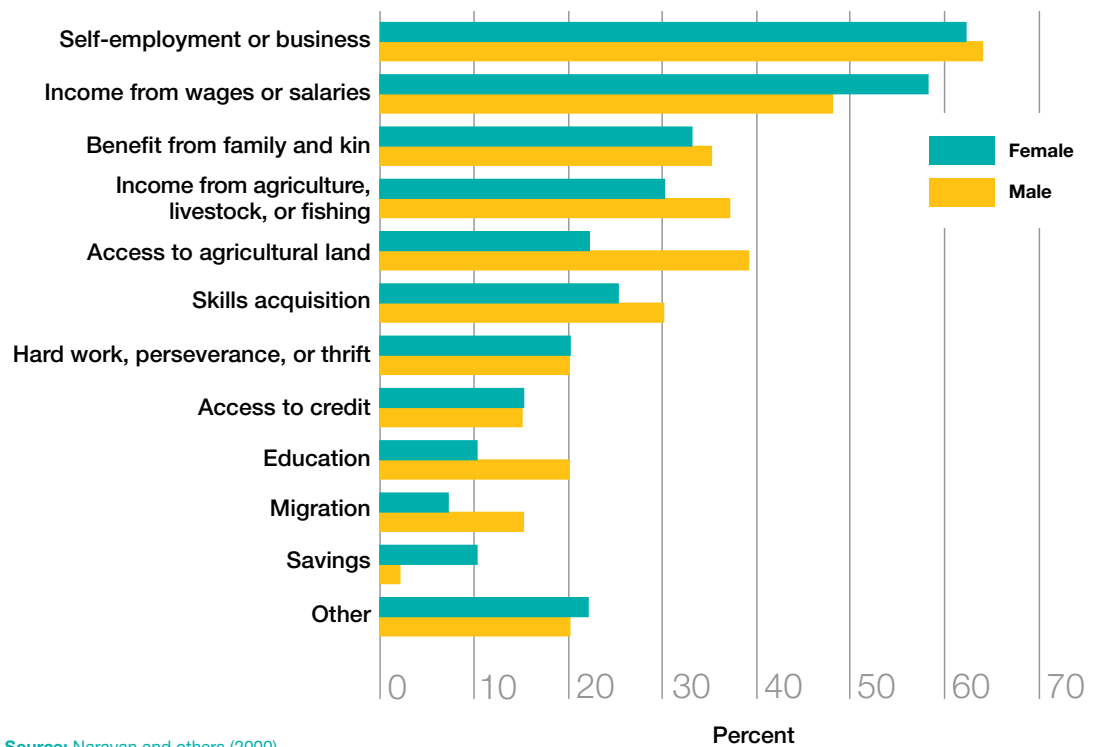
### Jobs

In most countries, the private sector is the major component of national income and the major employer and creator of jobs. Over 90 percent of jobs in developing countries are in the private sector.<sup>11</sup> The pace of job growth and the quality of employment in the private sector are thus central to development. Poor people recognize the importance of jobs as they see employment as their best prospect for escaping poverty (figure 5).

### Poverty Reduction and Inclusive Growth

According to extensive research, economic growth contributes significantly to poverty reduction and to higher living standards for poor

<sup>11</sup> World Bank, *World Development Report 2005: A Better Investment Climate for Everyone* (Washington, DC: World Bank), chap.1.

**Figure 5.** Views of 60,000 Poor People on Their Best Prospects for Escaping Poverty

Source: Narayan and others (2000).

Note: Data from over 50 developing countries.

people (figures 6 and 7).<sup>12</sup> In general, growth raises the incomes of the poor at about the same rate as for the overall economy and significantly reduces poverty. Government transfer programs, such as conditional cash transfers, can help, as they have in Brazil,<sup>13</sup> but for most low-income countries and many middle-income countries, the tax rates that would be required to significantly alleviate even extreme poverty (\$1.25/day) would be prohibitive.<sup>14</sup> Growth is also required to continue to help improve people's lives well beyond levels of extreme poverty and is also associated with better attainment of MDGs related to education, health, and environment.<sup>15</sup>

While growth on average has significant benefits for the poor, how fast poverty declines for a given rate of growth, particularly over the short to medium term, varies considerably among countries. For instance, one study covering many countries found that when average household incomes rise by 2 percent per year, poverty rates fall by about twice as much on average, but the range among countries can be significant, for example, 1.2–7 percent.<sup>16</sup>

Accordingly, in recent years development researchers have made a major effort to identify the characteristics that might affect

<sup>12</sup> For a recent review, see Francisco Ferreira and Martin Ravallion, "Global Poverty and Inequality: A Review of the Evidence" (Policy Research Working Paper 4623, World Bank, Washington, DC, 2008). Also see Commission on Growth and Development, *Growth Report*, p. 14.

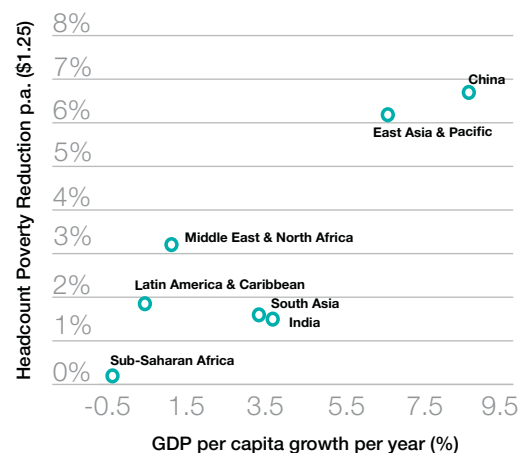
<sup>13</sup> See Martin Ravallion, "A Comparative Perspective on Poverty Reduction in Brazil, China, and India," *World Bank Research Observer*, 2010.

<sup>14</sup> See Martin Ravallion, "Do Poorer Countries Have Less Capacity for Redistribution?" (Policy Research Working Paper 5046, World Bank, Washington, DC, 2009); and J. Humberto Lopez, "Pro-Poor Growth in Latin America, in *Poverty Reduction and Growth: Virtuous and Vicious Circles*, ed. G. Perry et al., (Washington, DC: World Bank, 2006), chap. 5.

<sup>15</sup> World Bank, *Global Monitoring Report 2011* (Washington, DC: World Bank, 2011), chap. 1.

<sup>16</sup> Commission on Growth and Development, *Growth Report*, 14.

**Figure 6.** Poverty Reduction vs. Growth 1981-2005



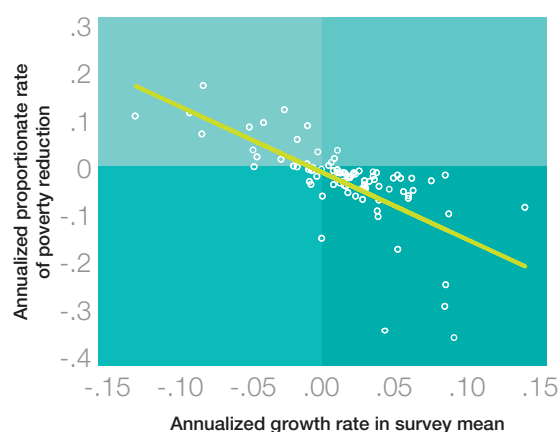
\*Source: World Development Indicators, Povcalnet.

the rate of poverty reduction for a given rate of economic growth. A number of factors have been found:<sup>17</sup>

- Inequality of income, opportunities, assets, and access to services, such as health, education, infrastructure, and finance, can hinder the ability of poor people to benefit from economic growth. This factor highlights the role of policies and institutions that can help ameliorate some of these inequalities.
- The geographical and sectoral patterns of growth, such as growth where poor people live and sectors where they work, can affect the rate of poverty reduction. For example, the expansion of smallholder farming, increase in labor-intensive manufacturing, and growth in services have been particularly effective in raising incomes of the poor in certain countries.

Moreover, successful growth experience usually involves many poor people moving to places or sectors where there are jobs, often in urban settings. Policy agendas thus need to address migration, urbanization, and skill development to enable the poor to move to good-paying jobs.<sup>18</sup>

**Figure 7.** Poverty Reduction vs. Growth for 92 Countries, 1980 – 2005\*



\*Source: Martin Ravallion, World Bank Policy Research Working Paper 4947, June 2009.

Note: Chart shows rate of change in \$2/day poverty for 92 countries based on earliest and latest household surveys available over 1980 to about 2005. Average years between surveys is 13.

Complementing these trends in development thinking, a number of private companies and government institutions have been considering how private businesses can play a more active role in providing the products, services, and economic opportunities that particularly benefit poor populations. These programs have a number of names such as *inclusive business models*, *base of the pyramid*, or *opportunities for the majority*. The programs can, for example, include a focus on businesses that broaden access to services such as finance, education, and infrastructure; firms that employ many poor people or are active in certain sectors such as agriculture or microfinance; or companies that focus on low-income regions of countries or target the urban poor. The role IFIs can play in helping the private sector engage in inclusive business activities is discussed in chapter 3.

<sup>17</sup> See Francisco Ferreira and Martin Ravallion, "Global Poverty and Inequality: A Review of the Evidence" (Policy Research Working Paper 4623, World Bank, Washington, DC, 2008); Growth Commission, *Growth Report*, p. 14; Martin Ravallion, "Pro-Poor Growth: A Primer" (Policy Research Paper 3242, World Bank, Washington, DC, 2004); Organisation for Economic Co-operation and Development, *Accelerating Pro-Poor Growth through Support for Private Sector Development* (Paris: OECD, 2004); and Perry et al., eds., *Poverty Reduction and Growth, Virtuous and Vicious Circles*, World Bank 2006, particularly chaps. 4 and 5.

<sup>18</sup> Commission on Growth and Development, *Growth Report*, 58–60; World Bank, *World Development Report 2009: Reshaping Economic Geography* (Washington, DC: World Bank, 2009).

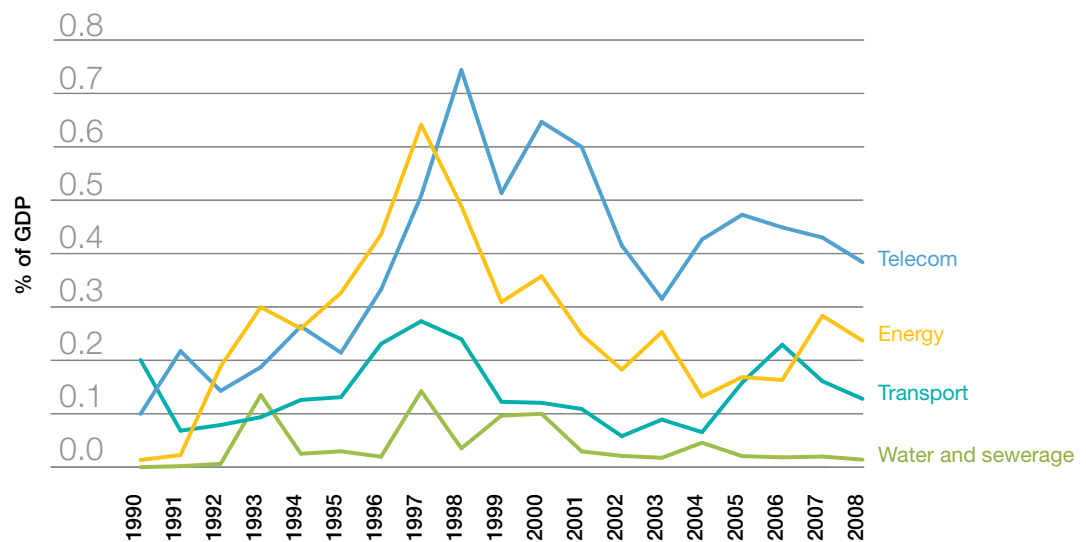


## Service Delivery

Besides directly contributing to economic growth, poverty reduction, and jobs, the private sector also provides essential services such as infrastructure (transport, telecommunications, water, power), health, education, and finance that are important to growth and to improving people's lives (see figures 8 and 9). Private sector participation in infrastructure and other services has become more important over the past 20 years, as governments have sought alternatives to public funding and looked for more efficient ways to deliver services. Estimates for global infrastructure investment needs in developing countries range as high as \$1 trillion per year, over 5 percent of GDP.<sup>19</sup> In some countries, private participation in infrastructure now accounts for as much as half of infrastructure spending.<sup>20</sup>

During the 1990s, the private sector began increasing its participation in the delivery of essential services partly because of the heavy fiscal burdens of state-owned enterprises and partly because of the increased commercial opportunities in emerging markets for private investors. While governments maintained their role of managing policy and regulatory frameworks, they allowed more private sector provision of services. The shift from public to private provision of infrastructure was rapid—by the end of 2001 more than \$755 billion of investment flows and nearly 2,500 private infrastructure projects had been undertaken in developing countries.<sup>21</sup> Results, however, were mixed, and investment flows steadily declined from their peak in 1997. Investors' expectations sometimes failed to be met because of pricing issues, for example, problems in sustaining price increases for existing customers.

**Figure 8.** Private Participation in Infrastructure in Developing Countries, 1990–2008



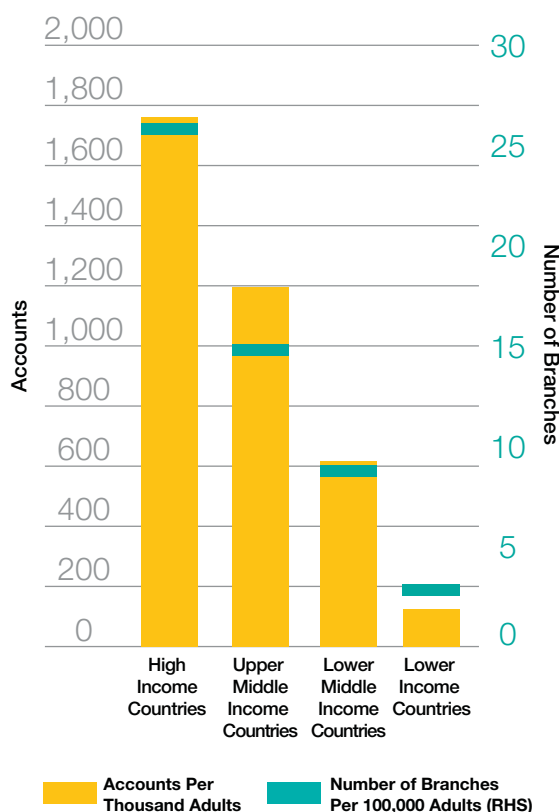
Source: PPI Database.

<sup>19</sup> World Economic Forum, in collaboration with PricewaterhouseCoopers, *Paving the Way: Maximizing the Value of Private Finance in Infrastructure* (New York: World Economic Forum, 2010).

<sup>20</sup> See specific country examples in the annex to Commission on Growth and Development, *Growth Report*.

<sup>21</sup> Clive Harris, "Private Participation in Infrastructure in Developing Countries: Trends, Impacts, and Policy Lessons" (Working Paper 5, World Bank, Washington, DC, 2003).

**Figure 9.** Commercial Banks' Coverage by Country Income Level (median)



Source: FINSTATS.

The implementation of new public-private partnership models has initiated a second phase of private participation in infrastructure programs. These models incorporate the advantages of the fully state-owned and fully privatized models while managing their shortcomings. The benefits of these programs include productivity gains, improved quality of service, and increased coverage. These benefits can be enhanced with better project design and implementation and an appropriate institutional capacity and legal and regulatory framework.<sup>22</sup> With a pressing need to restore fiscal space and some restrictions on borrowing, many developing countries must look toward private sector solutions to finance the scale-up in infrastructure. Fiscal austerity among donors also makes it likely that official development assistance for infrastructure will be less available in the future.

## Addressing Food Security, Climate Change, and Environmental Sustainability

Critical public issues related to food security, climate change, and environmental sustainability also depend on successful operations of private sector firms—as they are major operators of the businesses that produce food, generate greenhouse gas emissions, and affect the environment. Thus meeting the food challenge depends on improving the operations and productivity of agricultural firms; addressing climate change requires energy efficiency in businesses and firms that can develop technologies for low carbon power; and environmental sustainability requires firms that both use and supply appropriate environmental technologies.

## Taxes

Finally, the private sector and private sector employees are the providers of most of the taxes that support government operations. This leads to a natural synergy between the public and private sectors, which is discussed further in the next section.

## Role of Government

While the private sector is critical to development, it cannot act alone. Not only does the public sector have an essential role in providing public services related to areas such as health and education, safety nets, transfer programs, and environmental stewardship, it also has a critical role in supporting economic growth and the private sector. The Growth Commission report suggested a number of critical areas for government activity related to growth, including:<sup>23</sup>

<sup>22</sup> L. Andres, L., J. L. Guasch, T. Haven, and V. Foster, *The Impact of Private Sector Participation in Infrastructure: Lights, Shadows, and the Road Ahead* (Washington, DC: World Bank and PPIAF, 2008).

<sup>23</sup> Commission on Growth and Development, *Growth Report*, p. 22.

- *Creating openness to allow knowledge transfer and access to markets.* High-growth economies benefit from connection to the global economy by importing ideas, technology and know-how, and by exploiting global demand to provide a deep market for goods.
- *Supporting macroeconomic stability.* Macroeconomic stability, including stable prices, encourages private sector investment and thus growth.
- *Providing public investment in infrastructure and in health and education.* High-growth economies have had high rates of saving and investment, including public investment in infrastructure.
- *Providing strong leadership and capable administration.* This includes commitment to growth, including inclusive growth shared by different segments of society, and a

social contract to support growth, including health, education, and sometimes redistribution. Governments need to find effective policies and regulations that promote economic growth over time.

When government and the private sector are effective, an essential complementarity can evolve, with the public sector enabling a stronger private sector through appropriate regulation, rule of law, institutions, public investment, and security, while the private sector generates innovation, wealth and taxes, and additional services that can help the public sector better fulfill its mission (figure 10). The private sector can be most effective and achieve more equitable results when accompanied by good government and transparency.

**Figure 10.** Synergy between the Public and the Private Sectors



Critically for the success of the private sector, the policy and investment climate must often be improved simultaneously with increased private sector activity. The private sector can be a crucial element in the “push for change” in the regulatory system and transparency of many developing countries. However, in a distorted environment, private activity can be thwarted, or diverted to rent-seeking behavior, undermining governance and potentially leading to a misallocation of resources.

While priorities for improving the investment climate vary for each country based on current conditions, potential benefits, national or regional goals, and implementation constraints, some important investment climate areas in which government is essential in supporting the private sector were highlighted in the World Development Report 2005, “A Better Investment Climate for Everyone,” and include:<sup>24</sup>

- *Stability and security*
  - Verifying and securing rights to land and other property, which encourages investment and can ease access to finance
  - Facilitating contract enforcement, including improving courts, flow of reputational information, and alternative dispute resolution
  - Reducing crime and ending uncompensated expropriation of property
- *Regulation and taxation*
  - Improving domestic regulation, including removing unjustified burdens and streamlining procedures, reducing regulatory barriers to entry and exit and tackling anticompetitive behavior by firms, and addressing other market failures such as externalities or unequal access to information
  - Improving domestic taxation, with better administration to avoid distortions in competition
  - Improving regulation and taxation at the border, including customs administration to reduce delays

- *Finance and infrastructure*
  - Improving finance, including through protecting property rights, facilitating competition, strengthening creditor and shareholder rights, supporting establishment of credit bureaus and other mechanisms to address information problems, and enhancing bank regulation
  - Improving infrastructure, including through a more conducive investment climate for providers of infrastructure, competition, better regulation, private participation, and more effective management of public resources
- *Workers and labor markets*
  - Fostering a skilled workforce, essential for firms in order to adopt new and more productive technologies
  - Designing market interventions to benefit all workers and helping workers cope with change

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## Conclusion

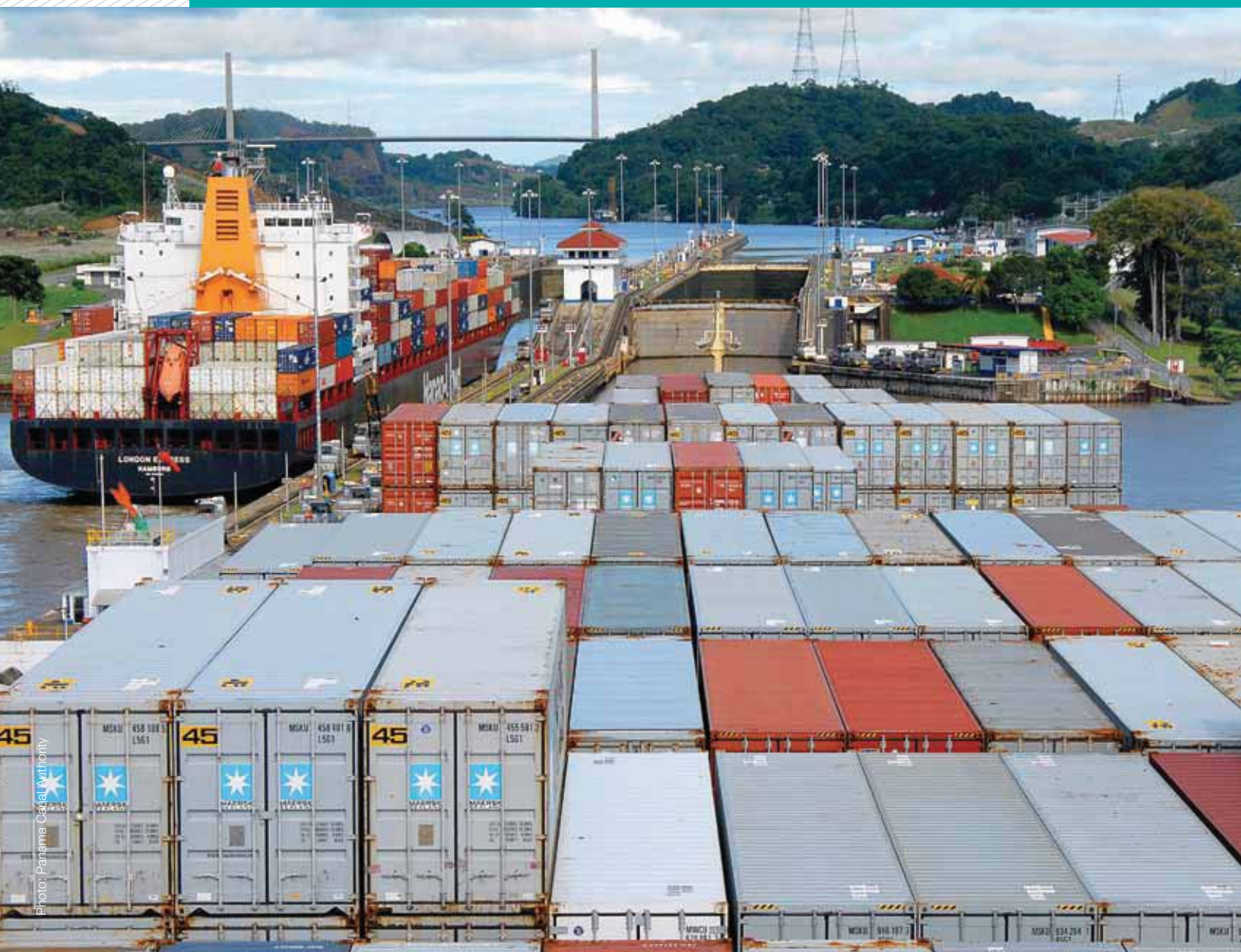
Enormous development challenges persist, and much remains to be done in improving people’s lives, reducing poverty, creating employment, improving health and education, and maintaining the environment. While the government has a critical role to play in addressing these challenges, the private sector also has a key role in supporting inclusive growth, facilitating poverty reduction, creating jobs, and providing critical basic services and public goods. The next chapter looks at how international finance institutions that focus on the private sector can help enhance the role of the private sector in this development process.

<sup>24</sup> World Bank, World Development Report 2005, “A Better Investment Climate for Everyone,” World Bank, 2004, pp. 8–15.

## Chapter 2:

# Role of the IFIs in Private Sector Development

Given the importance of the private sector in development, what can international finance institutions do to enhance the private sector role? This chapter will look at the needs of the private sector and at how the IFIs can help address those needs and endeavor to create high-impact, sustainable development projects and programs.



## Private Sector Challenges

Over the past decade, the World Bank has undertaken extensive surveys of tens of thousands of private sector firms throughout the developing world. Figure 11 presents the results from the 2006–10 surveys on the major obstacles to firm operation and growth.

As shown in the figure, the top obstacles for firms in developing countries include problems with access to finance, infrastructure, investment climate, and worker skills. These types of obstacles to business have also been reported using other types of research, such as examination of binding constraints on firm growth. For example, lack of finance has frequently been identified as a major constraint to business activity in developing countries and a brake on company growth prospects.<sup>25</sup>

The obstacles tend to be worse in poorer countries and for smaller firms. Figure 12 shows that obstacles such as finance and infrastructure tend to be more acute in lower-income countries. For finance, smaller businesses report greater difficulty with access at all country income levels.

While the research shows that access to finance is frequently a major obstacle for firms, that obstacle may reflect a number of different underlying causes. Problems with access to finance can, for example, be a result of lack of firm skills in preparing bankable proposals, lack of SME finance skills at banks, risk-averse banks with excessive collateral requirements, lack of specialized financial institutions, shallow capital markets, weak financial sector in general, lack of equity capital, lack of collateral registries and credit bureaus, or inadequate payment systems. SMEs in particular suffer from scale issues and weak information and bank systems.

In many cases, limited access to finance is also related to the underlying risk factors of business in a country, which can be driven by factors such as the investment climate, government credibility, and the quality, skills, and governance of local businesses. Problems with access to finance can also be a proximate cause of other identified obstacles; for example, limited access to long-term debt and equity finance may affect the potential for infrastructure improvement.

Access to international finance has recently become more acute with the global financial crisis. The crisis led to a retrenchment in global finance, particularly for international bank loans to companies in developing countries (see figure 13). Although international finance has recovered somewhat since 2009, current expectations are that international debt finance will continue to be less accessible for certain developing countries and companies than it was before the crisis.

Finance availability is also likely to continue to be a critical issue in developing countries because of significant increases in expected investment demand. The growing economies in the developing world are likely to need large capital investments over the next decade, beyond what the public sector alone can meet. For example, according to some estimates:

- \$93 billion per year in Sub-Saharan Africa for infrastructure (with only \$40 billion currently being invested).<sup>26</sup>
- \$140–175 billion per year for climate change mitigation in developing countries by 2030.<sup>27</sup>
- \$83 billion per year in agriculture in developing countries.<sup>28</sup>
- \$25–30 billion in Sub-Saharan Africa for hospitals, clinics, and medical distribution warehouses.<sup>29</sup>

<sup>25</sup> See Guillermo Perry, Draft, “Growing Business or Development Priority? Multilateral Development Banks’ Direct Support to Private Firms,” Center for Global Development, October 2010, 9–13. Also see H. Dinh, D. Mavridis, and H. Nguyen, “The Binding Constraint on Firms’ Growth in Developing Countries” (Policy Research Working Paper 5485, World Bank, Washington, DC, 2010).

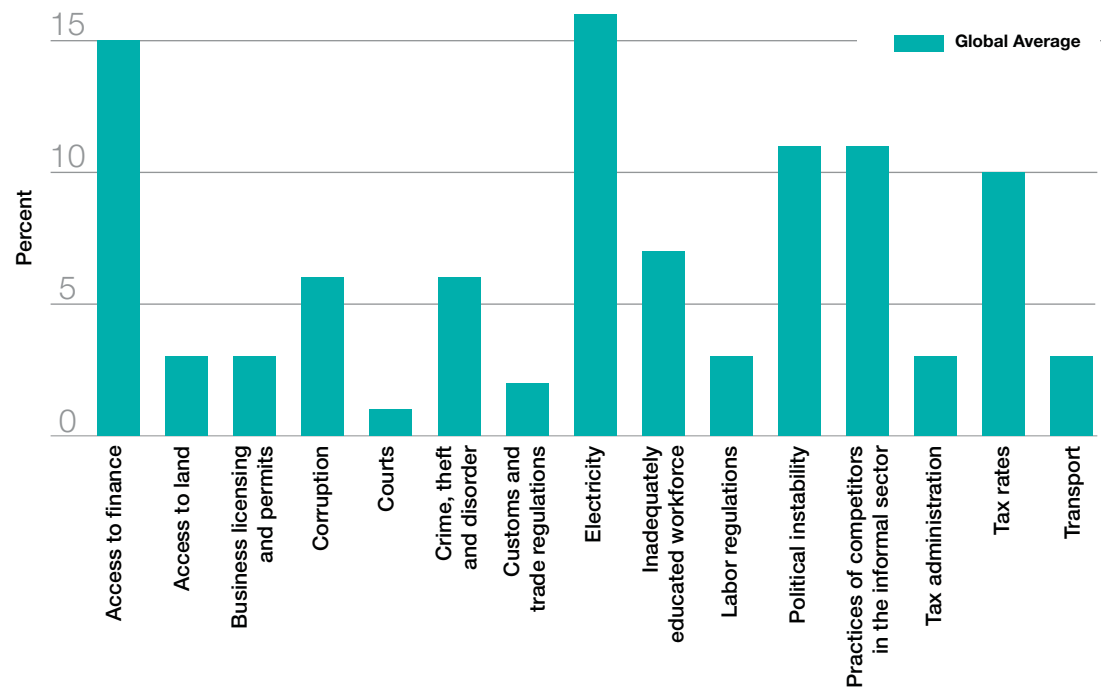
<sup>26</sup> World Bank, *African Infrastructure Diagnostic* (Washington, DC: World Bank, 2009).

<sup>27</sup> World Bank, *World Development Report 2010: Development and Climate Change* (Washington, DC: World Bank, 2010).

<sup>28</sup> FAO, *How to Feed the World in 2050* (Rome: Food and Agriculture Organization, 2009).

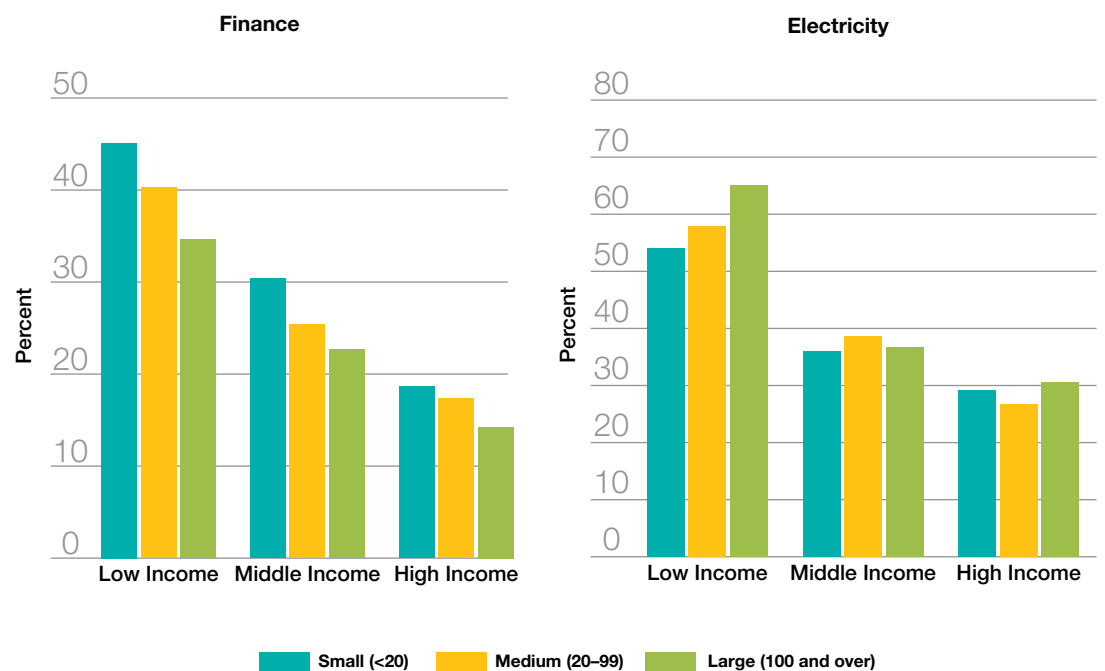
<sup>29</sup> IFC, *The Business of Health in Africa* (Washington, DC: International Finance Corporation, 2009).

**Figure 11.** Percent of Firms Indicating the Item Is the Top Obstacle to Firm Operation and Growth

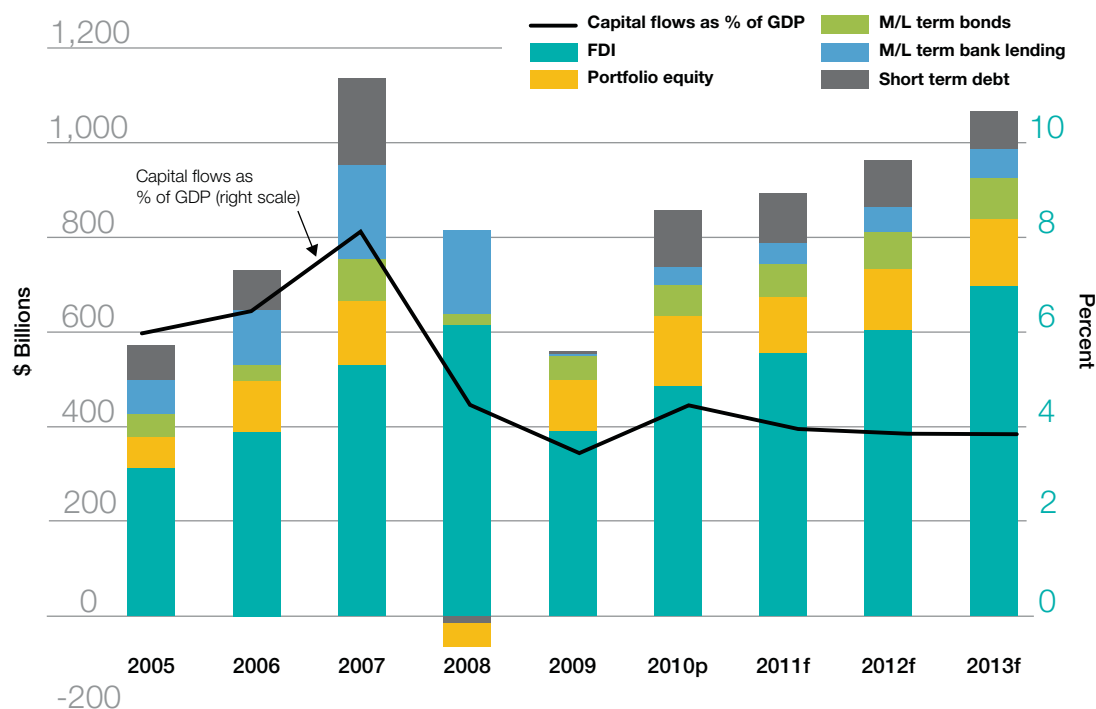


Source: 98 World Bank Enterprise Surveys from 2006-10.  
 Note: Global average is the average of the regional averages.

**Figure 12.** Percent of Firms Viewing Access to Finance and Access to Electricity as a Major Obstacle, by Country Income



Source: World Bank Enterprise Surveys 2006-2010.

**Figure 13.** Net Capital Flows to Developing Countries, 2005–2013

Source: Global Economic Prospects, June, 2011.  
Note: p=projected; f=forecast.

The gaps between investment needs and investment availability are often not just due to a lack of finance but also to a lack of bankable projects related to inadequate investment climate and lack of planning and institutional capacity on the part of government and the private sector.

## IFIs' Role in Addressing Private Sector Challenges

Given these challenges, how can the IFIs help the private sector? This section will review the role of IFIs in assisting the private sector in addressing some of the challenges, discuss how IFIs target projects and programs that can yield high development impact, and look at how IFIs focus on areas where their contribution is over and above (“additional”) to what commercial institutions can provide. It will also discuss how IFIs leverage partnerships to increase their impact.

## The Three Channels of Development Assistance

As shown in figure 14, assistance to developing countries can be thought of as having three main channels:

- *Government and related aid agencies*, which largely provide grants (and some loans) for development assistance and humanitarian aid. Newer actors, like foundations, are also becoming more prominent in aid.
- *Multilateral development bank (MDB) public sector arms*, like the World Bank and the public arms of the regional development banks, which provide development loans and some grants to the public sector, sometimes including state-owned enterprises.
- *Bilateral development finance institutions (DFIs) and the private sector arms* of the multilateral development banks, which provide financial products and related advisory services to the private sector in developing countries.

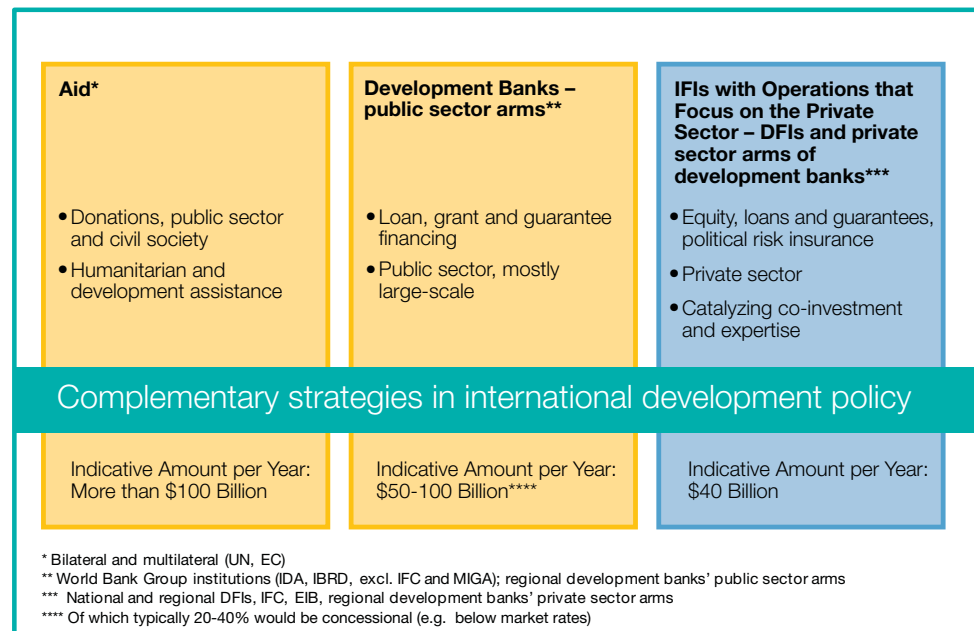


This document focuses on the role of the latter group of development finance institutions (DFIs) and the private sector arms of the multilateral development banks, which together for this report are called *IFIs with a focus on private sector development, or private sector-oriented IFIs*. Included in this group are the bilateral private sector development institutions from Europe, the United States, and Japan; the International Finance Corporation (private finance and advisory arm of the World Bank Group); and the private sector activities of the European Investment Bank (EIB) and the regional development banks (over 30 institutions in all, see box 1 in the preface for listing). With the exception of EBRD, the private sector activities of the regional development banks tend to be smaller than their public sector activities. However, the data and analysis in this report focus only on the private sector operations of all the institutions covered except where specifically noted.

The three channels discussed above capture essential elements of the international aid architecture, but there are many nuances. For instance, some IFIs with operations that focus on the private sector also finance municipal finance, and some have different definitions of precisely what the private sector includes in terms of relative levels of state ownership, for example, in public-private partnerships (PPPs). The annex provides profiles of the IFIs covered in this report and captures some of the detailed characteristics that make each institution unique.

The three channels of the development system shown in figure 14 are complementary and together support economic growth. Aid programs and public sector arms of the multilateral development banks strengthen many of the public institutions that are crucial to the private sector investment climate. The private sector-oriented IFIs complement these efforts

**Figure 14.** Complementary Roles of the Three Channels in International Development Policy



**Source:** EDFI/Dalberg Report. Aid and Development Bank public sector numbers are from Global Monitoring Report 2010. Development Bank numbers are for commitments and exclude IMF. IFI private sector amounts from IFI database.

by providing direct support to firms and related advisory services. This synergy mirrors the complementary roles of government and the private sector discussed in chapter 1. Because a number of the IFIs have both public and private sector activities, a clear separation of activities is at times needed to prevent conflicts of interest. A number of the IFIs thus have detailed rules and institutional arrangements to avoid potential conflicts.

The bottom portion of figure 14 also shows indicative amounts of annual finance for the three channels. Notably, the characteristics of the finance from the three channels can be quite different, as aid is generally provided as grants, whereas the development banks and the private sector-oriented IFIs largely provide loans that are repaid. Thus the implications of the different institutions' activities for donor government budgets are not the same. This is discussed in more detail for the private sector-oriented IFIs in the partnerships section of this chapter.

A number of developing countries also have their own development programs and institutions—the domestic development banks in Brazil and China, for example—and there are a number of regional and subregional DFIs, such as BOAD (West African Development Bank). These institutions often provide an important complementary role to the development institutions discussed above.

### **Overview: Role of Private Sector-Oriented IFIs in Addressing Private Sector Challenges**

Private sector-oriented IFIs are at the interface of public and private sectors, with a unique mission and perspective that allow them to provide a special role in projects. Private sector-oriented IFIs address private sector challenges by providing finance and knowledge and catalyzing others:

- *Providing financial products to private companies that lack sufficient access to private sources of capital.* IFIs may be able to bring in funds in a configuration (e.g., terms, conditions) for which the private sector has no risk appetite at present. As a group, IFIs provide a mix of instruments, including debt, equity, guarantees, Islamic finance, local currency loans, and political risk insurance.
- *Providing related advisory (technical assistance) products to make available the specialized and scarce knowledge essential for effective investments, such as to*
  - Improve the investment climate
  - Strengthen project performance and impact
  - Facilitate privatization and proper risk sharing
  - Enhance environmental, social and corporate governance effectiveness
- *Providing comfort in difficult environments to catalyze, or help bring in, financing from other investors.* Comfort comes when IFIs help mitigate a number of risks, including country risk (for example, currency convertibility, breach of contract, expropriation, or other nonbusiness events that threaten company operations) and also project risk through the due diligence and standard setting that the IFIs provide with respect to the project, sponsor, and the company's environmental, social, and corporate governance procedures.
- *Demonstrating the viability of private solutions in difficult or new areas, leading to further investments and creating or developing new markets, fostering "safe" innovation.* Innovative IFI transactions can also help push the reform agenda, facilitating further investments.
- *Networking*—helping firms get to know other firms, banks, IFIs, and the like through working together.

IFIs work with firms in situations when alternative financing is scarce but where good projects can still be done and improved with adequate finance and advice. In this sense, the IFIs are

addressing market failures, helping fill market gaps, and improving the development impact of projects, as opposed to providing special subsidies. IFIs generally charge market rates to ensure that they crowd in new finance and do not undermine existing commercial finance.<sup>30</sup> In most cases, private sector-oriented IFIs also operate without government guarantees, sharing risk along with project sponsors and avoiding adding to the debt burden of the public sector. Thus for most IFIs, sustainability from a financial perspective is essential both to ensure that they can continue operations without major cash injections from their shareholders and to help create a robust, sustainable private sector that is not reliant on unsustainable IFI support.

As a group IFIs have become significant participants in global private investment in developing countries. As shown in table 1, private sector IFI finance has now reached over \$40 billion in commitments per year, having grown substantially in recent years as the private sector has become more important in developing countries and as IFIs have put more emphasis on the private sector for development. On a global scale, this level of finance amounts to about 5 percent of capital flows to developing countries, and within certain regions this is much higher, for example,

10–11 percent of capital flows to Sub-Saharan Africa or the Middle East come from IFIs. About 18 percent of all long-term syndicated loans to developing countries (more than one-year maturity) include an IFI as one of the participants. For new private infrastructure in developing countries, IFIs now account for about 5 percent of the annual finance.

Despite their growth, private sector-oriented IFIs are still small relative to total economic activity in developing countries. For example, IFI annual finance is about 1 percent of private capital investment in developing countries and about 2 to 4 percent in Sub-Saharan Africa or the Middle East and North Africa. Thus, overall, IFIs are big enough to be an important factor in private sector development but still small on the global scene.

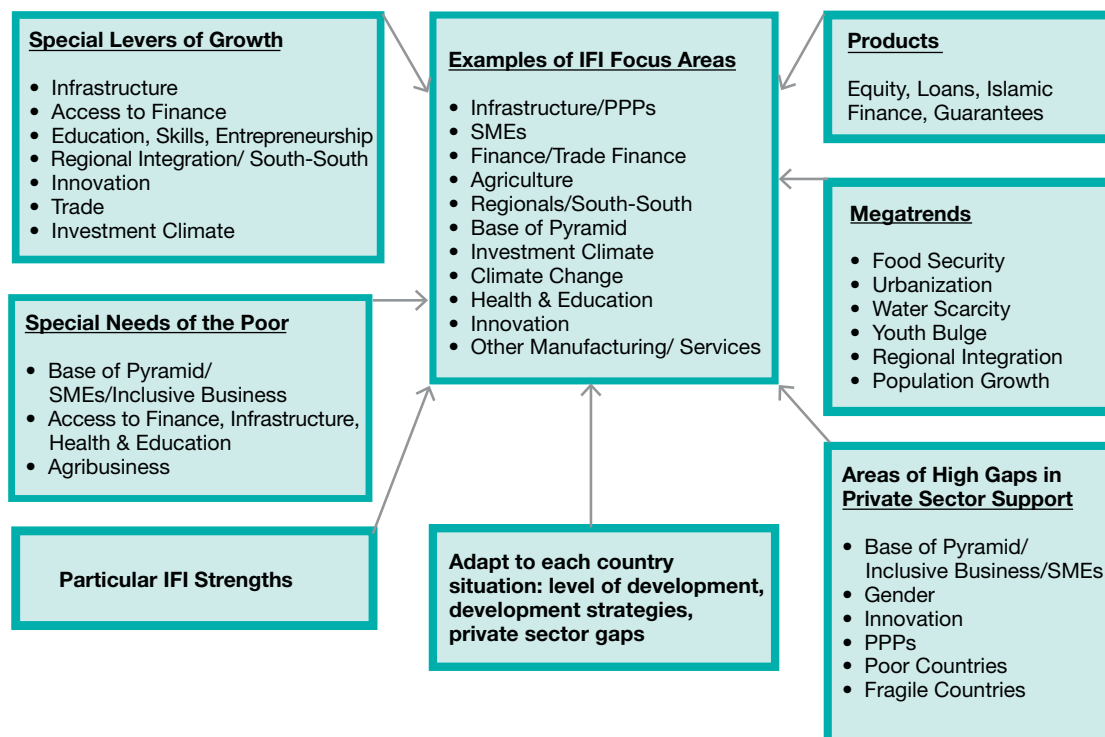
Thus the challenge for IFIs is to leverage their increasing private sector presence for greater impact. To make the most difference, the IFIs must deploy their resources strategically: by focusing on investment areas and approaches with high development impact, by providing investment and advice not available commercially, and by leveraging partnerships with the private sector, other IFIs, and governments to maximize impact. These areas are discussed in more detail in the next sections.

**Table 1.** Comparisons of Private Sector IFI Finance (Not including mobilization of other financial institutions)

Total 2009 IFI commitments to the private sector in developing countries	About \$42 billion
IFI private sector commitments as a percent of gross global long term flows to the private sector in developing countries (2009)	About 5 percent
In Africa, Middle East/North Africa	About 10-11 percent
Percent of syndicated loans to developing country private firms that include an IFI, >=1 year maturity (2007-10)	About 18 percent
IFI private infrastructure commitments as a percent of private participation in infrastructure in developing countries	About 5 percent

**Sources:** IFI private sector volumes from IFI private sector database, largely from Annual Reports; Gross Global Long Term Flows from Global Development Finance 2011; Syndicated loan data from Dealogic Loanware, PPI data from World Bank PPI Database.

<sup>30</sup> At a March 2011 meeting of multilateral development banks in London, a plan was initiated to develop a set of general principles for MDB engagement in the private sector, to help support sustainable market development and ensure additionality.

**Figure 15.** Some IFI Focus Areas and Examples of Selection Criteria

### Finding High Development Impact Investment Areas and Approaches

**High-Impact Focus Areas.** Many IFIs have chosen to focus on strategic areas where they can achieve high development impact and that also reflect their particular strengths. The mix of focus areas of various IFIs provides complementary strengths that can be leveraged through partnerships. Figure 15 includes some of the factors that have influenced various IFIs in choosing their strategic areas:

- Sectors and themes that have a major effect on *growth*, such as infrastructure, access to finance, education, trade, innovation, regional integration, and the investment climate.<sup>31</sup>
- Areas likely to particularly *affect the poor*, such as business models that specifically target services and employment for poor populations (inclusive business models or base-of-the-pyramid programs); infrastructure, health, and education investments likely to benefit poor populations; or sectors such as SMEs, microfinance, and agribusiness likely to employ poor people or contribute to poverty reduction.<sup>32</sup>

<sup>31</sup> On the role of infrastructure and growth, see J. Lin, "New Structural Economics: A Framework for Rethinking Development" (Policy Research Working Paper 5197, World Bank, Washington, DC, 2010), 24; on the importance of access to finance for growth and poverty alleviation, see World Bank, *Finance for All: Policies and Pitfalls of Expanding Access* (Washington, DC: World Bank, 2008); on the importance of innovation for growth, see Indermit Gill and Homi Kharas, *An East Asian Renaissance: Ideas for Economic Growth* (Washington, DC: World Bank, 2008); on the importance of trade and investment climate for growth, see Commission on Growth and Development, *Growth Report*; and *World Development Report 2005: A Better Investment Climate for Everyone*; on the importance of regional integration, see *World Development Report 2009: Reshaping Economic Geography*, and Gill and Kharas, *An East Asian Renaissance*; for education, see Ravallion, "Pro-Poor Primer."

<sup>32</sup> For inclusive business models, see IFC, *Inclusive Business Solutions: Expanding Opportunities at the Base of the Pyramid* (Washington, DC: IFC, 2010); on SMEs, see World Bank, *Finance for All*, and Peer Stein, Tony Goland, and Robert Schiff, *Two Trillion and Counting: Assessing the Credit Gap for Micro, Small, and Medium-Size Enterprises in the Developing World* (Washington, DC: IFC and McKinsey, 2010); for access to finance, see World Bank, *Finance for All*; for infrastructure, health, and education, see OECD, *Accelerating Pro-Poor Growth through Support for Private Sector Development*, and World Bank, *World Development Report 2000/2001: Attacking Poverty* (Washington, DC: World Bank and Oxford University Press, 2001); and for agribusiness, see Commission on Growth and Development, *Growth Report*.

- Areas where *major global trends* suggest need for great investment, such as food security, urbanization, water scarcity, youth employment, regional integration, and climate change.<sup>33</sup>
- Areas with particularly *large gaps in availability of commercial finance*, such as with SMEs, base-of-the-pyramid projects, new public-private partnership models, and in lower-income and fragile countries.

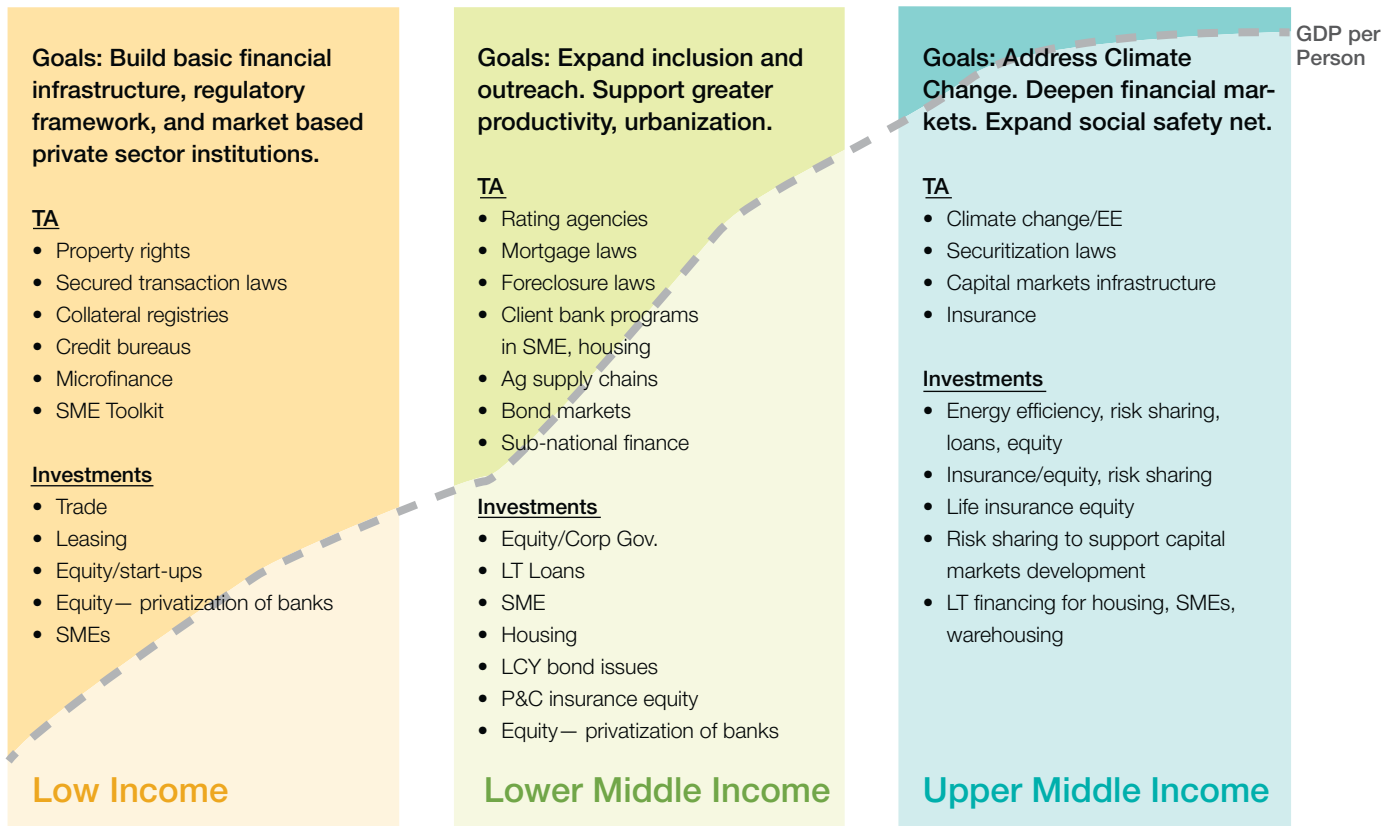
These factors are then considered vis-à-vis the particular strengths of each IFI and the particular needs of an individual country, taking into account the level of development, country development strategies, and private sector gaps.

**High Impact Projects.** Besides identifying important sectors, IFIs also often seek out projects and programs likely to deliver particularly broad effects. For example:

- Pacesetter projects that yield high “demonstration effects,” showing that private investment in emerging markets can provide good returns and attracting other investors who then replicate the approach. Such projects can also demonstrate that enhanced environmental, social, and governance standards can be in the best interest of private companies and therefore encourage other companies to improve their standards.

**Figure 16.** Conceptual Example of High Impact Approaches: Leveraging Technical Assistance (TA) and Investments in Programmatic Approaches

#### Example in Financial Markets: Activities by Stage of Country Development



<sup>33</sup> See IFC Road Map, FY12-14.

- Projects that have particularly high impacts because of their extensive outreach to people and other firms.
- Programmatic approaches—a reinforcing combination of projects and technical assistance to develop activities that help open up new markets. A conceptual example of this approach applied in the financial sector is shown in figure 16. The case studies in chapter 3 provide some specific examples from different IFIs.

**Sound Business Practices.** A third consideration in developing high-impact investments is to ensure that projects have high standards of business practice in such areas as environmental and social practices, corporate governance, and institutional integrity. While investing in the private sector can have substantial positive effects on a country, these can be jeopardized if firms fail to uphold business standards. Ensuring sound business practices can both ensure the positive impacts of projects and, through demonstration effects, help spread the practices throughout the economy.

To respond to the need for sound business practices, in recent years IFIs have been scaling up their capabilities in these areas significantly

(table 2). They have become leaders in helping firms establish strong environmental, social, and corporate governance standards, for example, through the Corporate Governance Approach Statement signed by many development finance institutions. They promote corporate social responsibility programs by helping companies work with local communities, for example, in promoting community health and education and employing local suppliers. Other important areas requiring attention to high corporate standards include sponsor integrity, offshore financial centers, and responsible finance, where many IFIs now have programs. For example, EIB's policy on Non-Compliant Jurisdictions (NCJ) includes: enhanced due diligence to ensure the transparency and integrity of the financial structure of lending projects, the economic justification for related tax structures and tax disclosure requirements. Further, EIB will not sign a cross-border contract with a counterpart located in a blacklisted or graylisted NCJ unless the relevant counterparty relocates.

Nongovernmental organizations (NGOs) are often extensively involved in these issues and have become important partners with IFIs in working with governments, the private sector, and local populations.

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**Table 2.** Examples of Areas Where IFIs Contribute Standards

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Environmental and social standards
Corporate governance
Health and safety
Corporate social responsibility
Sponsor and business integrity
Offshore financial centers
Responsible finance
Labor and human rights
Mortgage lending standards
Revenue transparency
Commodity standards in agribusiness
Tourism standards
International financial reporting standards
International private equity and venture capital valuation guidelines
Investment exclusion lists (e.g. alcohol, tobacco, weapons, and hazardous substances)

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Beyond individual companies, IFIs are also leaders in industry-wide standard setting. For example, the Equator Principles provide commercial banks with standards in environmental and social practices, the Extractive Industries Transparency Initiative provides guidelines for revenue transparency in mining and extractive industries projects, and a number of commodity roundtables set standards for agribusiness practices. IFIs have also played an important role in providing the financial sector with training on environmental and social risk management. For example, since 1999, the Inter-American Investment Corporation has

trained more than 437 participants from 189 financial institutions. Many of these commercial banks have subsequently gone on to adopt the Equator Principles.

IFIs not only promote better standards for their clients but also seek to improve their own transparency and to ensure that their priorities are consistent with the priorities of the countries in which they operate.

Boxes 2 and 3 give examples of the various ways IFIs work to further high standards of corporate activity.

### Box 2: IFC Standards Case: Equator Principles

- *Description:* Voluntary bank guidelines for managing environmental and social issues with borrowers.
- *IFI Additionality:* IFC initiated and led the drafting and implementation of the guidelines, including a convening role for global banks and a training program for Equator Bank professionals.
- *Results:* The Equator Principles have become the de facto standard for project finance throughout the financial industry.
  - 70 financial institutions have adopted the principles, 17 from emerging markets.
  - About 53% of total project finance debt in emerging markets in 2009 was subject to the Equator Principles.

### Box 3: FMO Standards Case: Ameriabank CJSC, Environmental, Social Management System

- *Description:* Armenia's second-largest bank received a margin reduction after completing the development and implementation of an environmental and social management system.
- *IFI Additionality:* Motivated the incorporation of environmental and social issues into banking processes within six months through use of a pricing incentive offered by FMO and DEG.
- *Results:*
  - Reduced portfolio risk—An environmental and social management system was designed to take into account the risks associated with corporate lending and other activities of the bank, including hydropower plants and dams.
  - Cost reduction—Ameriabank could save up to \$300,000 based on continuing implementation of its environmental and social management system.
  - Demonstrates potential of an innovative financial product that other IFIs could emulate to promote sustainable investing.

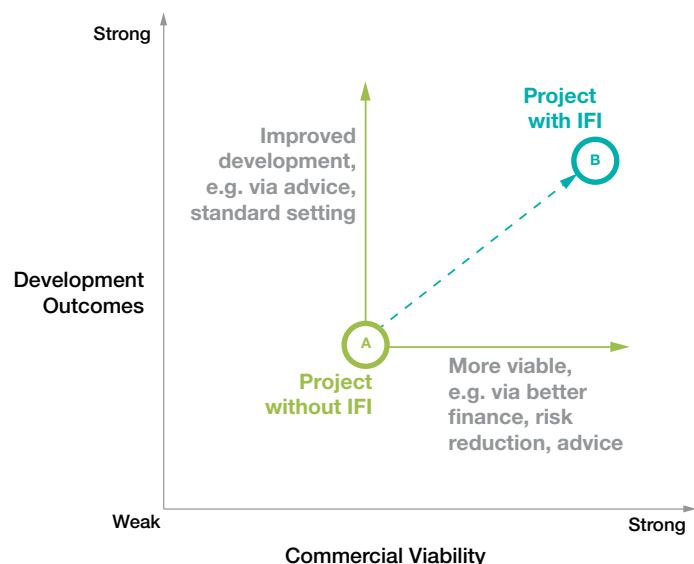
**Measurement and Learning.** Finally, in order to have high impact, IFIs must measure development results and use the findings to constantly improve effectiveness. IFIs have been developing results systems for some time, but the pace of change has accelerated over the past five years. A key contribution in performance measurement and the development of good practice standards in private sector operation evaluation was made by the Evaluation Cooperation Group of the IFIs. Most of the major IFIs now have development results systems, and many have begun to issue periodic results reports. In measuring development results, these systems generally track such items as project financial returns, economic returns (returns to all stakeholders, not just financiers), environmental and social outcomes, and impact on private sector development. The systems also often track the reach of projects in terms of number of people or firms the projects have affected. IFI efforts are currently focused on enhancing these systems and using them to improve investment and advisory activities. Chapter 3 presents some of the current results from these measurement systems.

### Special Role/Additionality

IFIs need to demonstrate that their financing is essential, beyond what commercial finance would provide on its own, and that they add value through risk mitigation and improved project design that leads to better development outcomes. They must ensure that they crowd in investment and do not harm development of private financial markets. Most IFIs recognize this need, and many call their special role “additionality,” that is, the value they bring to a project beyond what private sector financial institutions could offer.

One way to think about IFI additionality is shown in figure 17. IFI participation helps projects in two ways: (1) making them more commercially viable through, for example, better finance, risk reduction, advice; and (2) improving their developmental outcomes by, for example, providing the advice and standard setting that lead to better operations, products, and services; stronger environmental, social, and corporate governance activities; or projects that are more inclusive.

**Figure 17.** How IFI Additionality Improves Projects



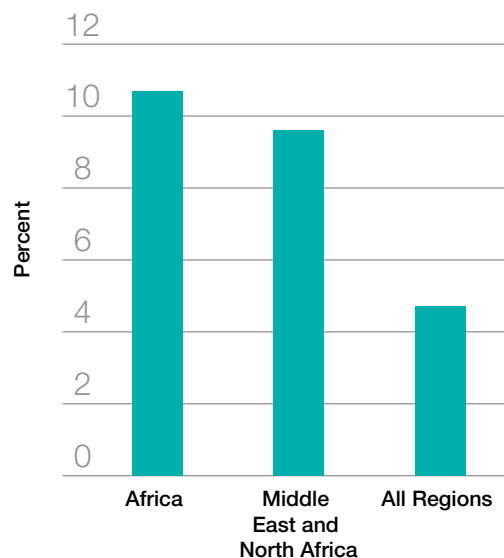


A number of measures demonstrate that IFIs tend to provide finance and services in cases where the commercial finance and advice are not readily available. For example, IFIs provide finance in locations where private capital is particularly scarce, such as in higher-risk regions, as shown in figure 18.

In many cases IFIs also have core corporate policies that target countries and sectors that have less access to capital (for example, higher-risk and more complex situations) and are thus more likely to provide projects with high additionality. For example:

- CDC Group (the UK development finance institution) makes new investments only in low-income or lower-middle-income countries in Sub-Saharan Africa and South Asia.
- FMO (the Entrepreneurial Development Bank of the Netherlands) has a lower-income-country focus (42 percent in 2010).
- DEG (the German Development Finance Institution) tracks the percentage of investments in low-income or high-risk countries.
- Proparco has growth in Africa as one of its four focus areas.

**Figure 18.** Regional IFI Commitments to the Private Sector as a Percent of Regional Gross Equity and Long-Term Debt Flows to the Private Sector, 2009



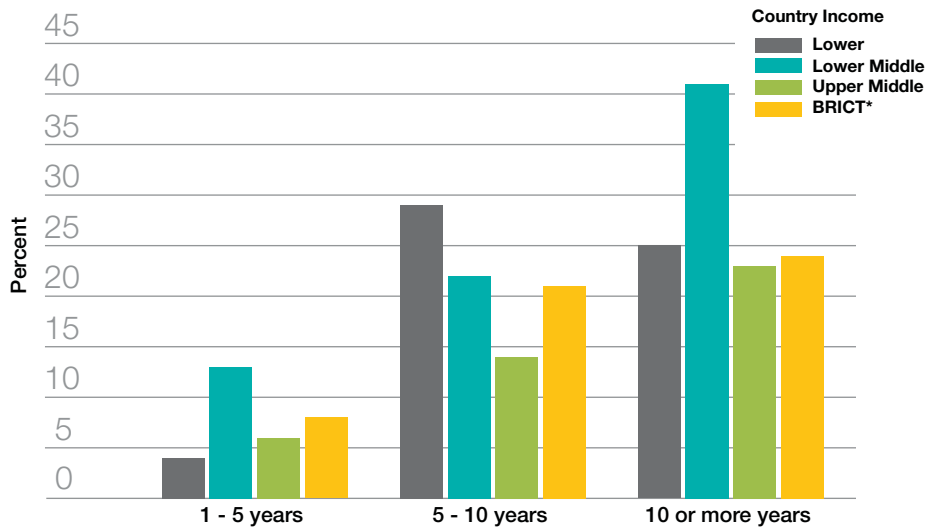
Source: IFI private sector database; Global Development Finance.  
Note: For this chart, trade finance is not included.

- The Asian Development Bank has a focus on frontier areas and underserved markets.
- IFC aims to commit 50 percent of its projects in IDA (lower-income) countries and targets high-additionality projects in middle-income countries (for example, in poorer regions or addressing climate change).
- The Japan Bank for International Cooperation has set up the JBIC Facility for African Investment to support private investment in Africa.
- The Black Sea Trade and Development Bank targets a minimum share of its portfolio for its smallest, poorest, most isolated member countries.
- The Inter-American Investment Corporation and the IDB Group target 35 percent of their gross loan and equity portfolio and the majority of the number of outstanding operations to less developed economies. IIC also targets at least 75 percent of its gross loan and equity portfolio for SMEs, and IDB targets 50 percent of its loans to poverty reduction and social equity enhancing operations.
- The African Development Bank has a 40 percent target for direct lending to lower-income countries and fragile states, as well as one-third of total volume for regional operations, bringing total lower-income-country lending (direct and indirect) to up to 60 percent.
- The EBRD focuses on operations in the least advanced countries (the Early Transition countries), where about 50 percent of the population lives below the national poverty line. Roughly 30 percent of the EBRD transactions are with these countries.

IFIs also tend to provide finance with longer maturities, which is generally beyond the risk appetite of private capital, as shown in figure 19.

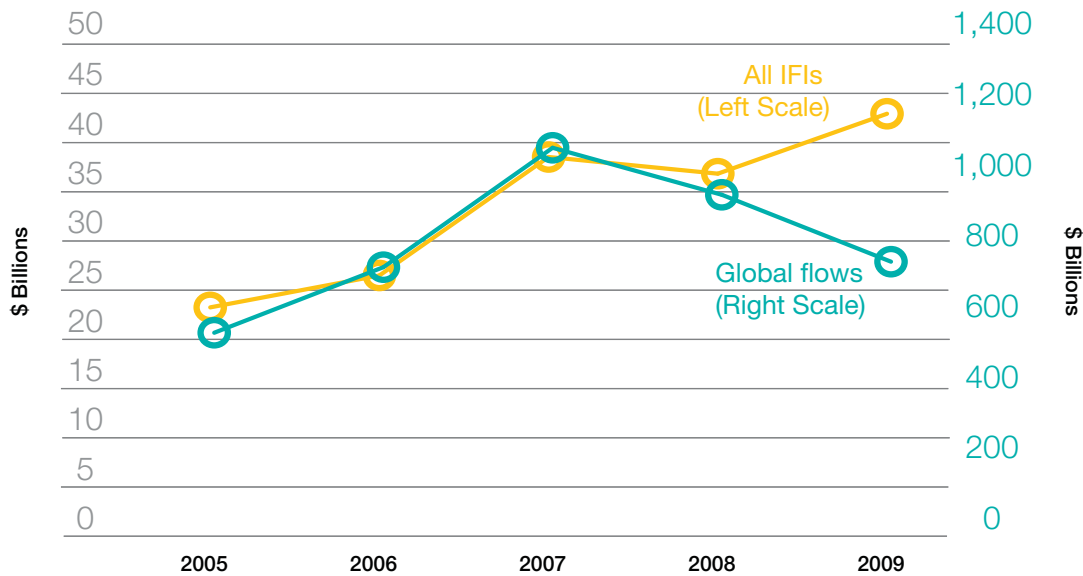
IFI additionality is particularly apparent in times of crisis, when private capital retreats (see figure 20). In the recent financial crisis, for example, IFI programs, such as the Joint IFI Action Plan in Central and Eastern Europe (the “Vienna” initiative) brought in IFI finance

**Figure 19.** Percent of International Syndications to the Private Sector in Developing Countries Where an IFI Participated, by Country Income Level and Maturity, 2007-10



Source: Based on analysis from Loanware data.  
 Note: \*BRICT = Brazil, Russia, India, China and Turkey.

**Figure 20.** IFI Commitments to the Private Sector and Global Gross Flows to the Private Sector, 2005–2009



Source: IFI Private Sector Database, Global Development Finance.

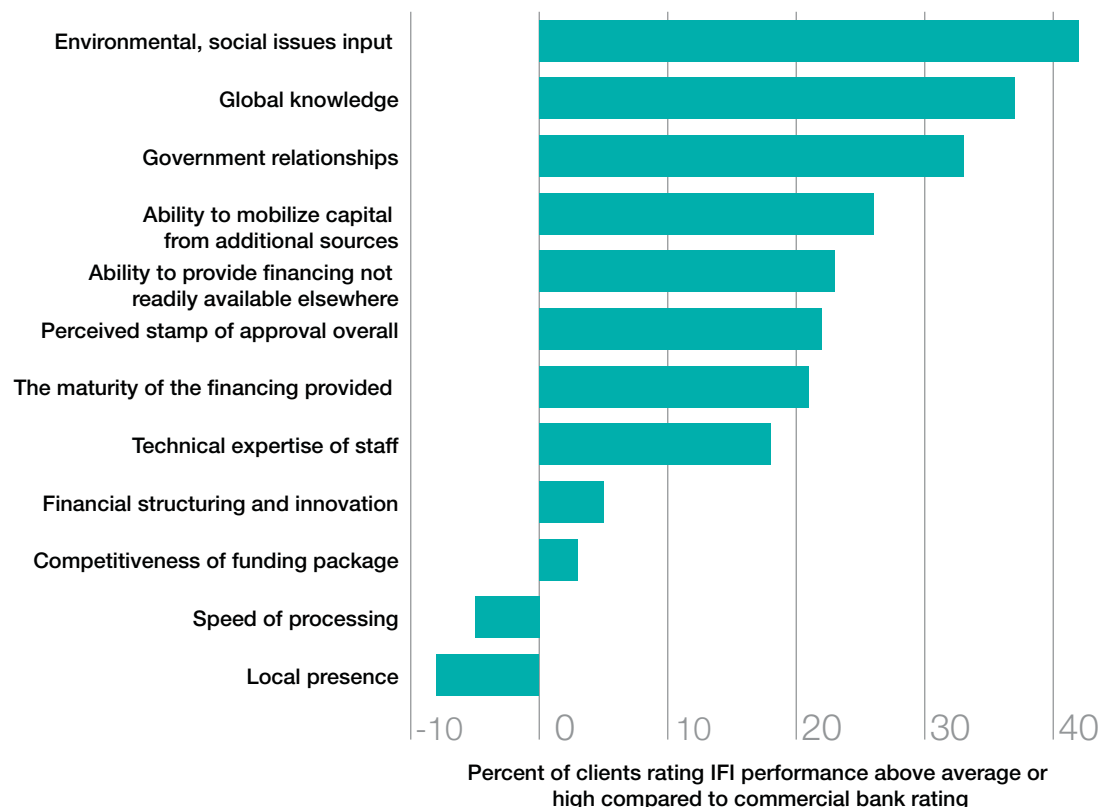
and helped mobilize other international institutions to support struggling Eastern European banks. IFIs also worked together on the Global Trade Liquidity Program, which facilitated exports and imports by providing liquidity and sharing risk, at a time when the global financial crisis was cutting off critical funding. The program was active in a number of regions, including a significant program in Africa, where African economies were supported and job losses reduced.

IFIs also add value because they help attract other finance to projects and provide knowledge and risk mitigation services beyond what the market would normally provide. This can be seen in figure 21, which shows an international survey of clients who use IFIs. The clients were asked to compare the IFI services they receive to similar services provided to them by commercial banks. IFIs ranked considerably stronger in knowledge areas such

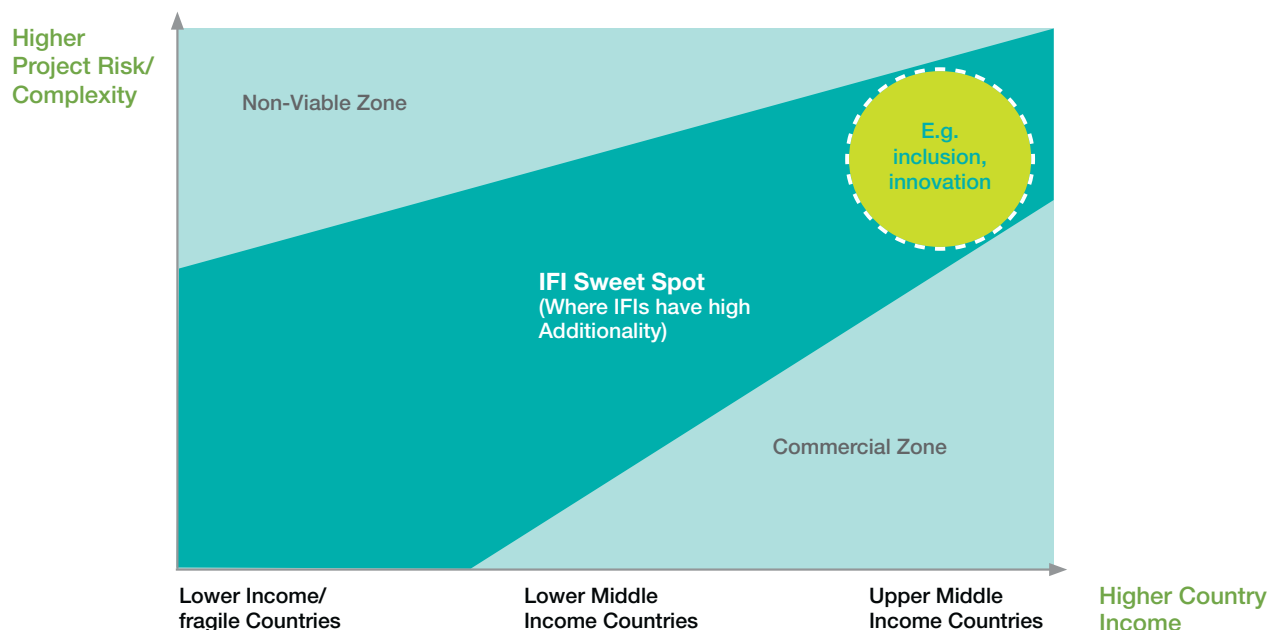
as in environmental and social input, global knowledge, and technical expertise of staff. They were also very strong in catalyzing other finance, as shown by their strong showing on “ability to mobilize capital from additional sources” and their ability to provide a “stamp of approval” on projects. Thus when working with private sector clients, IFIs provide value-added services that complement and significantly augment the value provided by commercial lenders.

Overall, IFIs add value by pushing the limit of the private sector, i.e., helping the private sector operate, and operate better, in areas that would otherwise be difficult. This effort, however, needs to be tailored to the type of country as shown in figure 22. Because many types of projects in lower-income and fragile countries have difficulty attracting capital and advice, the IFIs’ scope of activities can be quite broad, funding basic projects and, where viable, more

**Figure 21.** Performance of IFIs versus Commercial Banks for Private Sector Clients



Source: IFC Survey.

**Figure 22.** Tailoring Investments to the Type of Country for Additionality

complex or higher-risk projects. For higher-income countries that have greater access to capital and advice, however, IFIs need to focus on more difficult or higher-risk projects to add additional value. Examples of such projects include those targeted to poor populations or underserved areas, or for innovative, pioneering investments, including PPPs.

Figure 22 also highlights the need for IFIs to find the balance where they can have significant additionality without taking on so much risk that they are no longer financially viable. Thus IFIs need to have a strong credit culture to be able to assess and manage project risks, while still yielding high development impact.

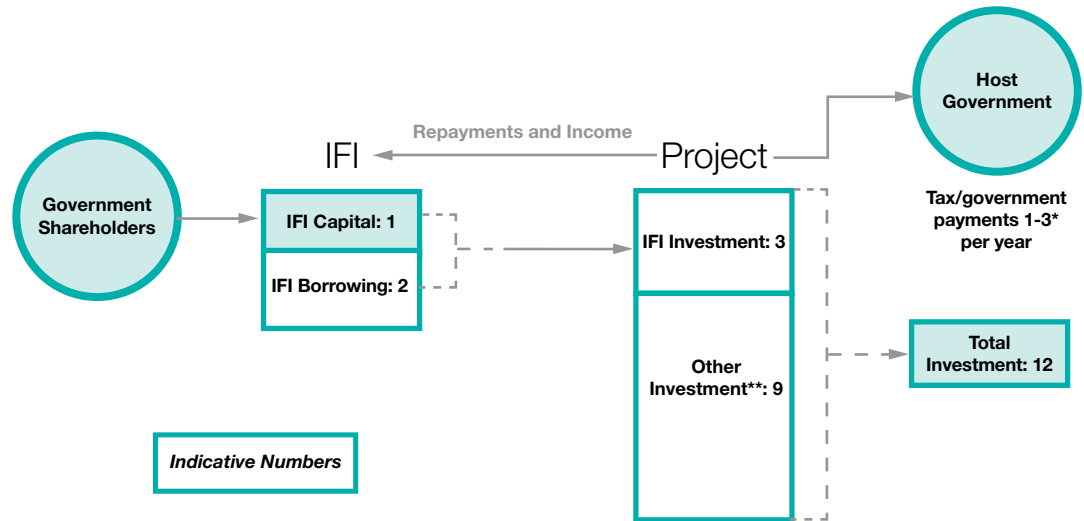
### Partnerships

As noted earlier, to maximize impact IFIs need to partner with many others, including private investors, other IFIs, governments, NGOs, and private companies.

### Partnerships with Private Investors.

Partnership with private investors has always been a central part of IFI support of the private sector. Most IFIs limit their participation in a project investment to well under 50 percent, thus requiring partnership with other investors. As shown in figure 23, the structure of IFI finance substantially leverages the capital provided by governments. Not only do IFIs borrow significantly from outside investors to support their operations, but they also invest alongside private financiers and sponsors in projects.

Indicatively, the net result is that one dollar of capital supplied to an IFI by governments can lead to \$12 of private sector project investment. This capital is further extended by the repayments and income to the IFI and the taxes paid by the project to the host government, which can easily exceed the initial IFI investment. Thus the private sector-oriented IFIs can be highly effective in leveraging government capital for development. In addition, government contributions to private

**Figure 23.** How \$1 of IFI Capital Is Leveraged with Private Capital, Returns, and Taxes

\* Tax payments are estimated based on payments tracked by EDFI and IFC (EDFI/Dalberg report p. 29, IFC Annual Report p. 29).

\*\* E.g. commercial banks, owners equity.

sector-oriented IFIs are quite rare, given that most institutions are self-sustaining through repayments and profits.

**Partnerships with Other Private Sector-Oriented IFIs.** The various private sector-oriented IFIs have different complementary strengths. For example, most of the multilateral banks have a regional focus, while many of the bilateral institutions concentrate on certain sectors or products such as finance, infrastructure, or equity. Some of the IFIs have advisory services, and some provide political risk insurance.

Recently, private sector-oriented IFIs have been deepening their partnerships to enhance impact and improve efficiency, especially because of the increased demands on their resources resulting from the global financial crisis. A number of cooperation platforms have been implemented, including:

- *Joint investment platforms*, such as the European Financing Partners (see box 4), the African Financing Partnership,

the IFC-sponsored Master Cooperation Agreement, and the Interact Climate Change Facility, which streamline the processes for IFIs to co-invest in projects. A number of IFIs also have memoranda of understanding for operational cooperation.

- *Global crisis initiatives and regional joint IFI action plans.* Initiatives such as the Joint IFI Action Plan for Central and Eastern Europe (see box 5) were started at the beginning of the global financial crisis to allow IFIs and governments to work jointly on critical sectoral and regional private sector initiatives.
- *G-20 investment and advisory programs.* Platforms for SME and agribusiness assistance have been started under the umbrella of the G-20 to marshal IFI and government finance for these critical global sectors.
- *Leadership meetings and related working groups.* IFIs also interact on key coordination dimensions such as results monitoring, corporate governance, and harmonization of activities where appropriate and in knowledge-sharing events, such as those for infrastructure in Asia.

**Box 4: Joint Investment Platform Case: EDFI, EIB European Financing Partners and Interact Climate Change Facility**

Members of the European Development Finance Institutions (EDFI) and the EIB have established the *European Financing Partners*, which provides an efficient means of cofinancing private projects in Africa, the Caribbean, and the Pacific. The facility was started in 2003 and has financed over €390 million worth of projects. The partners have undertaken extensive harmonization of guidelines, procedures, and processes to provide for efficient cofinancing. A similar facility, the Interact Climate Change Facility, which includes the French development finance institution AFD, has been established to invest in climate-friendly private sector projects in poor countries.

**Box 5: Multi-IFI Countercyclical Crisis Response: Joint IFI Action Plan by EBRD, EIB, and the World Bank Group**

- *Description:* At the height of the global financial crisis, the three IFIs introduced a financial package of up to €24.5 billion for 2009–10 to support financial sector stability and lending to the real economy in crisis-hit Central and Eastern Europe. The private sector-focused Action Plan was embedded into the macroeconomic crisis response programs supported by the International Monetary Fund and the European Commission.
- *IFI Additionality:* With capital flows and credit all but dried up, IFIs were highly additional and countercyclical with their support.
- *Results:* More than €33 billion were made available in the end, because the crisis was deeper than initially expected in this region and the recovery more protracted. In a coordinated way and through a variety of instruments reflecting each institution's remit, the Action Plan contributed to avoiding a systemic regional crisis in emerging Europe in face of massive economic shocks and helped maintain credit to the economy.

### Partnerships with Governments, Sovereign Financing Institutions, NGOs, and Private Sector Entities.

IFIs are now deepening their partnerships with governments, the private sector, and the NGO community to increase development impact. For example, governments are expanding platforms for coordinating donor and investment activities, including in some cases creating “blending structures” for IFI loans and donor grants. Examples include the Enhanced Private Sector Assistance Initiative, which supports the African Development Bank’s strategy for private sector development through a multidonor framework conceived in partnership with the government of Japan; the African Agriculture Fund linking government institutions and development banks to support private agricultural investment in Africa; and the Investment Climate Facility for Africa, which includes partnership among AfDB, IFC, DFIs, governments, and corporate sponsors (see case in chapter 3). The European Commission has created investment facilities to blend its grants with loans from IFIs, focused on areas such as climate change and energy efficiency.

IFIs are working with NGOs to leverage expertise in such areas as labor relations and the environment, and private firms are funding IFI advisory operations as part of their commitment to corporate social responsibility. IFIs also partner with private sector financial intermediaries and regional and subregional development finance institutions, such as subregional development banks in Africa, to extend reach especially to smaller enterprises.

Multilateral private sector-oriented IFIs are also increasing collaboration with their “public arms” on strategies and projects to help facilitate the government-private sector synergies that can lead to higher impact. Public arms or IFI technical assistance can help build the regulations and investment climate, and the private arms can develop projects that follow on from the investment climate reforms, test the new environment, and demonstrate to other investors the viability of new investment areas.

### Lessons from Experience

While IFI support of the private sector has become much more substantial in recent years, the IFIs as a group have a long history of engagement, going back more than 60 years. Many approaches have been tried, and many improvements have been made. Some of the critical lessons that IFIs have learned from their experience in addressing the private sector include:

- *Attention to sound business practices.* IFIs have broadened standard setting and monitoring in environmental and social issues, corporate governance, and institutional integrity in response to the emphasis placed on these areas by IFI stakeholders and the growth in importance of these issues for business success. Excellence in business practices has now become a key part of IFI additionality and contribution to clients.
- *Focus on additionality.* Before the 1990s, international finance for private sector projects was very limited, and the additionality, or added value of IFIs beyond what the commercial markets could provide, was generally clear. Starting with the rise in global capital flows to developing countries in the 1990s, however, the need to articulate clearly the added value of IFI participation in a project became more critical. As a result, the IFIs have developed policies and methodologies for identifying and explaining their additionality.
- *Importance of going beyond finance to improve development impact.* In some cases, IFIs have had problems finding sound developmental investments in countries with poor investment climates and business sectors. IFIs have thus enhanced their advisory activities to improve investment climates and to help projects become more viable with sound environmental impact and better development outcomes. IFIs’ private sector experience can also inform the overall regulatory discussion of a sector in a country.

- *Attention to credit quality, risk, and local knowledge.* To improve project outcomes, IFIs have been working to strengthen the credit and risk systems and cultures. Some IFIs have also begun decentralizing their operations to increase local knowledge, improve supervision, and work more closely with domestic companies as well as international corporations.
- *Importance of partnerships.* As IFI activities have expanded in scope and sophistication, the value of pooling knowledge and resources among the IFIs has become more apparent, particularly after the recent global financial crisis. This has led to a series of enhanced partnerships, as discussed earlier in this chapter.
- *Importance of measuring results.* With government budgets tight, IFIs need to demonstrate results—development impact and improvements in people’s lives. As a consequence IFIs are developing better metrics and reporting. These efforts should produce more lessons of experience that will guide IFI operations going forward.
- *Balancing innovation with replication.* A number of IFIs have found that while focusing on innovation in projects is important to productivity enhancement and growth, IFIs also may need to focus on scaling up new sectors through replication, until they reach a level of activity where the innovations are sustainable. For example, a number of the

projects under the *Opportunities for the Majority* program at IDB focus on bringing projects to scale that were pioneered by the sister institution, the Multilateral Investment Fund.

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## Conclusion

The private sector in developing countries faces many constraints, particularly lack of access to finance, poor infrastructure, insufficient employee skills, and an inadequate investment climate. Private sector-oriented IFIs can help the private sector address these constraints by providing critical financing and knowledge services and by catalyzing others. IFIs can be most effective in promoting development by targeting high-impact sectors and projects, ensuring sound business practices, leveraging partnerships, and focusing on underserved segments where IFI assistance is needed most and IFIs have the greatest additionality. IFIs have adjusted their programs in response to the lessons learned through years of experience with the private sector. Although great challenges remain, monitoring and evaluation should help IFIs learn from their past experiences, maximize development impact, and improve their operations. The next chapter will review some of the results and case studies from current IFI operations.



## Chapter 3:

# Results and Case Studies

This chapter presents some of the overall results from the private sector-oriented IFIs' emerging measurement systems, as well as discussions of IFI activities and case studies in key sectors. Because measurement systems are not yet uniform across institutions, this chapter approaches IFI activities from a number of different perspectives based on existing data, including commitment volumes, development outcomes, reach indicators, and demonstration effects.



## Overview

### Commitment Volumes

Annual IFI financial commitments to the private sector have grown significantly in recent years, reaching over \$40 billion per year in 2010 from about \$10 billion in 2002 (see figure 24). As a result of the rapid growth, private finance is a much more prominent component of overall development finance than it was 10 years ago.<sup>34</sup>

A number of the IFIs, particularly the multilateral development banks, also have mobilization programs, where other financial institutions participate in IFI projects, either through traditional loan syndications, or through newer instruments such as equity participations (for example, the IFC Asset Management Company, Proparco Amundi AFD mutual fund, or the China-IIC SME equity fund), or through special initiatives that pool donor and other funds into IFI projects. While there are some differences in definitions,

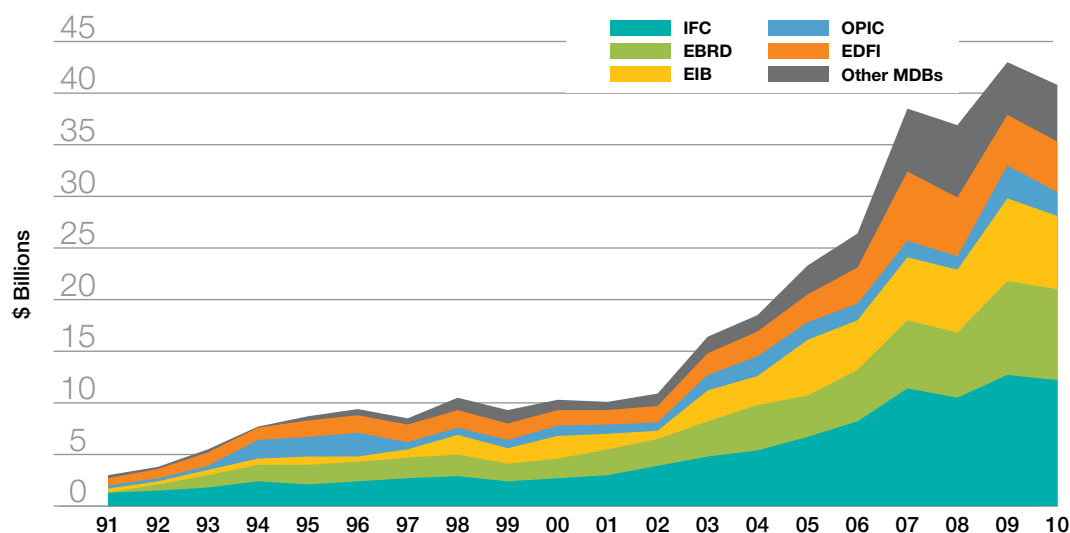
overall mobilization of this type appears to add over \$14 billion, or more than 25 percent, to the commitment numbers shown in figure 24.

Figure 25 shows the IFI commitments by region and by sector. Overall, the commitments are broad based, with some concentration in Europe and in financial markets (including funds, which are about 10 percent of the financial markets total, and including SME finance through financial intermediaries). Most of the finance is long-term debt, with about 15 percent equity and about 15 percent trade finance.

### Development Outcome or Transition Success Rates

A number of IFIs have developed systems that track development outcomes or transition outcomes for private sector projects. Measurements of success are typically based on such items as financial returns, returns to the whole economy, environmental and social

**Figure 24.** IFI Private Sector Commitments to Developing Countries, 1991–2010



**Source:** IFI Database, largely from annual reports. Data are for private sector operations, without sovereign guarantees or grants. Does not include political risk insurance. Data is for calendar year except for IFC where data is for fiscal year ending June of subsequent year. 2010 data is preliminary. It is estimated that over 90 percent of IFI private sector finance is covered in this database.

<sup>34</sup> See World Bank, *Global Monitoring Report 2010* (Washington, DC: World Bank,), for public and private finance numbers from multilateral institutions.

**Figure 25.** IFI Commitments to the Private Sector by Region and Sector, 2007–09

Source: IFI Database, largely from annual reports. Data are for private sector operations, without sovereign guarantees or grants. Political risk insurance is not included.

outcomes, and private sector development. Multilateral development banks have agreed on good practice standards for evaluating private sector investments. While implementation of these standards differs too much to make data from these banks directly comparable, results generally show that 60–85 percent of mature projects exceed targeted benchmarks,<sup>35</sup> a good outcome, given the inherent risk of private sector activity. Projects that have both high development impact and sustainable financial returns for the IFIs show that positive development outcome and IFI financial outcome tend to go together.<sup>36</sup> A number of IFIs also now track additionality in their measurement systems.

IFIs have used their development measurement systems to provide feedback to continuously improve performance: results inform strategy, operations, and incentives and help identify strengths and areas for improvement. For example, one IFI used metrics to identify weakness in environmental and social success rates in a region and responded by strengthening supervision (including more site visits and more environmental staff in the region), leading to improved results. Another IFI identified higher development success rates in its key areas of focus. IFIs are also taking measures to integrate lessons from experience into the design of new operations, including systematically reviewing lessons from similar projects, and have facilitated an inter-IFI exchange of lessons learned from evaluations of various operations.

<sup>35</sup> Based on DEG, FMO, Proparco, IFC, EBRD, CDC, COFIDES, and IIC annual reports or development reports and on EDFI and Dalberg, *The Growing Role of the Development Finance Institutions in International Development Policy* (Copenhagen: EDFI and Dalberg, 2009).

<sup>36</sup> Based on FMO, Proparco, DEG, COFIDES, BSTDB, IIC, and IFC annual reports.

## Reach Indicators

Some private sector-oriented IFIs also use “reach indicators” for results measurement, which measure the number of clients affected by IFI projects. These metrics can provide an important perspective on the scope of impact of IFI operations. For example, the European Development Finance Institutions (EDFI), comprising 15 institutions, have pooled common reach indicators for their projects, which show the expected impact of the average €5 billion in new private sector projects committed each year over 2006–08, for each investment year:<sup>37</sup>

- 422,000 total direct jobs and 81,000 new jobs.
- 1.3 million indirect jobs procured through value chains and subborrowers.
- €1.7 billion in annual government revenues.
- €4.7 billion in annual net currency effects.

In another example, in 2009 IFC’s clients:

- Had an outstanding portfolio of 10 million loans to micro, small, and medium enterprises for \$112 billion.
- Provided jobs for 2.2 million people.
- Provided utilities for over 210 million people.
- Provided phones to almost 170 million people.
- Provided health care to 7.6 million patients and education to 1.4 million students.
- Provided opportunities for 2.1 million farmers.
- Purchased more than \$38 billion from domestic suppliers.
- Contributed over \$20 billion to government revenues.

And for AfDB, for new private projects approved during the 2009–10 period:

- More than 307,000 jobs will be created (temporary and permanent) over the duration of directly financed projects.
- Enhancement, credit, or business

opportunities will be provided to 52,000 women-led businesses.

- \$900 million will be channeled to micro, small, and medium enterprises.
- \$15.5 billion in taxes will be generated for governments throughout the projects’ lives, including businesses assisted by subloans from lines of credit.
- \$120 million in foreign exchange will be saved.

Other IFIs are beginning to provide these types of numbers, as well as sector-specific reach indicators (see below for examples under specific sectors).

## Demonstration Effects

Beyond the direct impacts, private sector IFI projects can also demonstrate the potential for new types of investments, helping open new markets, and leading to further investments by private actors. The potential for pioneering investments that can then be replicated by others is called the “demonstration effect.” This can be an important result of IFI interventions, but one not always fully captured in reach numbers or success rates. An example of how IFI projects can yield significant demonstration effects is shown in box 6.

## IFI Role in Specific Sectors

### Private Infrastructure and Public-Private Partnerships

Sound infrastructure is critical to private sector development. As discussed in chapter 2, inadequate infrastructure is a major constraint to private firms in many developing countries. Research has shown a high overall return (public and private) on infrastructure investment, including significant public returns beyond the project. Moreover, the *Growth Report* finds that extensive investment in infrastructure is a common characteristic of

<sup>37</sup> EDFI and Dalberg, *The Growing Role of the Development Finance Institutions in International Development Policy*, 29.

### Box 6: ADB Demonstration Effects Case: Wind Energy, India

- *Description:* Wind farms in three states in western India with a combined capacity of 252 megawatts (MW).
- *IFI Investment:* \$140 million in loans.
- *IFI Additionality:* The project pioneered new clean technologies.
- *Results:*
  - Demonstrating viability of private large-scale wind power projects.
  - Wind power capacity in the country almost doubled from 7,000 MW just before the ADB projects in 2007 to over 13,000 MW in February 2011.
  - Helping address chronic power shortages.

high-growth economies.<sup>38</sup> Infrastructure is also critical to regional integration, which itself can be an important catalyst for growth.<sup>39</sup> Better infrastructure access can also be particularly important to help reduce poverty by providing access to markets and by improving access to health, nutrition, and education.<sup>40</sup>

IFIs with a private sector focus engage in a broad range of infrastructure sectors, including power, roads, airports, telecoms, ports, and water. Public-private partnerships (PPPs), in which private participants work with governments in providing crucial infrastructure, are often critical components of infrastructure provision. IFIs work with governments on the regulatory environment, provide financing, and also assist with privatizations. PPPs need to be structured correctly for risk mitigation and for appropriate engagement and risk sharing with all stakeholders, and IFIs provide added value in supporting this because of their position at the intersection of public and private interests.

Total IFI private sector infrastructure commitments have recently been about \$9 billion per year (about 5 percent of private participation in infrastructure, not including mobilization). Selected reach metrics illustrate the impact of IFI projects:<sup>41</sup>

- *IFC portfolio.* In 2009, IFC clients generated power for 132 million customers, distributed power to almost 30 million users, served almost 35 million water and over 15 million gas customers, and provided phones to almost 170 million users.
- *ADB projects, 1998–2006.* As of 2009, these investments delivered 12,700 megawatts installed, served 23 million telecom customers, benefited 4.7 million people through road projects, and provided 50,000 new households with water.
- *AfDB projects, 2008–10.* These investments delivered 4,800 megawatts (both sovereign and nonsovereign), bringing power to 16.5 million customers, built 16,050 kilometers of road and gave improved road access to 16 million people.

Boxes 7–11 give examples of private sector IFI support to infrastructure.

<sup>38</sup> Lin, “New Structural Economics,” 24; Commission on Growth and Development, *Growth Report*, 2008.

<sup>39</sup> See *World Development Report 2009: Reshaping Economic Geography*; and Gill and Kharas, *An East Asian Renaissance*.

<sup>40</sup> Independent Evaluation Group, *Assessing IFC’s Poverty Focus and Results* (Washington, DC: IEG, 2011), 22.

<sup>41</sup> *IFC Annual Report 2010* (Washington, DC: IFC, 2010); and Asian Development Bank, *Development Effectiveness Report, 2009* (Manila: ADB, 2009).

**Box 7: OPIC Infrastructure Case: Water Desalination, Algeria**

- *Description:* Desalination plant for supplying 200,000 cubic meters per day of potable water from seawater. The first private reverse osmosis desalination plant in the country.
- *IFI Investment:* \$200 million loan guarantee.
- *IFI Additionality:* The project pioneered new technology and a new industry in the country.
- *Results:*
  - Potable water to 25% of Algiers' population; currently, half the city receives water only one day out of three.
  - Model for private sector involvement in future desalination projects in the country.

**Box 8: ADB Infrastructure Case: Communications, Papua New Guinea**

- *Description:* Digicel Ltd. will expand mobile network to 500 sites from 400, mostly in rural areas.
- *IFI Investment:* \$18 million loan.
- *IFI Additionality:* The project provided finance to a region that lacks investment in key sectors of the economy.
- *Results:*
  - Connecting communities that have had no access to telecommunications.
  - Improving safety through better natural disaster alerts; improving schooling as teachers avoid traveling large distances to banks.
  - Aiming to make mobile services available to about 25% of the population by 2011.

**Box 9: Swedfund Infrastructure Case: Waste Treatment, Vietnam**

- *Description:* Vietnam's first waste management plant, processing 1,200 tons daily, separating into organic waste, plastic, and metals. Organic waste is subsequently composted, plastic recycled to LDPE plastic granulate for sale to plastic manufacturers, and metal recycled.
- *IFI Additionality:* The project provided investment for pioneering technology.
- *Results:*
  - Keeping 80 percent of waste out of landfills.
  - Introducing advanced technology of solid waste disposal, urgently needed in both urban and rural areas.

### Box 10: COFIDES Infrastructure Case: Toll Road, South Africa

- *Description:* Toll road in South Africa, part of transcontinental corridor, built under a build-operate-transfer 30-year franchise. COFIDES managed the Spanish state equity investment.
- *IFI Investment:* 25% equity (2001) and successful divestiture to institutional investors (2010).
- *IFI Additionality:* The project provided endorsement of an innovative private project during uncertain times.
- *Results:*
  - Helped build confidence in South Africa's privatization plan.
  - 1,000 new direct jobs plus small and medium business subcontractor growth in disadvantaged areas.
  - Further regional tourism, agriculture, mining, and manufacturing.

### Box 11: AfDB Infrastructure Case: Senegal Integrated Infrastructure Approach

- *Description:* Simultaneous development and financing of infrastructure PPP projects in a coordinated manner in Dakar, comprising the Blaise-Diagne Airport, Power Project (Sendou), Toll Road, and Container Terminal.
- *IFI Investment:* The bank mobilized €190 million on its own account on nonsovereign terms, together with an additional €50 million from the African Development Fund resources, and an additional €494 million from DFIs and commercial banks. Total cost of projects: €1.2 billion.
- *IFI Additionality:* The parallel development and financing of these large structuring investments at the height of the financial crisis were actively supported by the bank (including by being mandated to perform a lead arranger role for two projects and co-arranger on one) to enhance their individual financial and economic viability and optimize transactional costs for the country, sponsors, and cofinanciers.
- *Results:*
  - Airport: Meets the forecast air traffic demand, enhances trade and regional integration, creates 1,000 direct jobs during construction and 500 during operations, and provides tax revenue.
  - Power plant: Increases by 40% the electricity generation in Senegal; decreases by 20% the generation costs.
  - Toll road: Complements the viability of other infrastructure projects; reduces overall transport costs and improves urban mobility; improves living environment of 300,000 inhabitants; serves as a base for the Trans-West African Highway.
  - Port: Unlocks and provide access to global supply chains; improves efficiency and lowers the prices of both imported and exported goods.

### SMEs and Microenterprises

Small and medium enterprises (SMEs) are the core of the private sector in most developing countries and, as discussed in chapter 2, often face significant investment climate and financing issues. These businesses can be an important segment for a potential rapid increase in employment, income generation, and poverty reduction. Research suggests that broader access to finance of such firms is likely to accelerate growth and reduce poverty.<sup>42</sup>

Many IFIs support SMEs through financial intermediaries in order to reach the greatest number of companies and leverage the presence and scale of local financial institutions. Local financial intermediaries can also supervise clients more closely by offering multiple products (for example, checking and savings accounts and letters of credit) and provide the specialized credit appraisal procedures appropriate to SME financing. This approach can also broaden the capacity of the local financial sector. Advisory services are a key part of many of these programs, assisting financial intermediaries in developing systems that profitably extend the range of their operations to small firms. Advisory services can also be important for developing the infrastructure to support SME finance, such as collateral registries, credit bureaus, and payment systems. IFIs also offer advisory programs to strengthen the business fundamentals that can help make smaller business projects more bankable.

IFIs in addition use a number of other approaches to SME finance. Some IFIs, particularly the smaller ones, invest directly in SMEs. The IIC, for example, which is dedicated to small and medium businesses, provides both direct and indirect financing as well as advisory services. Some IFIs, such as FMO and Proparco, have access to special government funds that allow them to invest in higher-risk SMEs. There is also currently a G-20 initiative to pool the advisory and investment resources of many IFIs and donors to expand the availability of support to the SME sector.

IFIs are also involved in providing financial services and advice to very small businesses or microenterprises. One way this is done is through microfinance programs. These programs can provide credit, savings, and other financial services to the poor, which are used both for microenterprises and for important financial services that the poor need to balance income and consumption and address unexpected events. A number of IFIs (e.g., MIF) provide both finance and advisory programs to support broad access to credit for both low-income people and for microenterprises and SMEs. Some IFIs are also developing programs on responsible finance in microcredit to ensure that credit is provided responsibly and that consumers are not burdened with excessive debt.<sup>43</sup>

Boxes 12–15 provide case studies of IFI support to SMEs and microenterprises.

<sup>42</sup> World Bank, *Finance for All*.

<sup>43</sup> See *CGAP Annual Report 2010* (Washington, DC: Consultative Group to Assist the Poor), 3–8, for discussion of the value of microcredit and issues with respect to responsible finance.



**Box 12: DEG SME Case: SME Finance, Guatemala**

- *Description:* Consultancy and financing of Banco de Trabajadores in Guatemala for SME and consumer financing, a key bottleneck in the country. Technical assistance helps internal processes for credit risk management.
- *IFI Investment:* €12 million plus technical assistance project.
- *IFI Additionality:* The project provides scarce long-term funds in a postconflict country and advisory services to manage credit risk.
- *Results:*
  - Diversification of Guatemala's banking sector to consumers and SMEs.
  - Product innovation: payroll-deductible loans.

**Box 13: IIC SME Case: Technical Assistance and Small Credit Program for SMEs (FINPYME)**

- *Description:* Donor-funded program of technical assistance (competitive diagnostics, project-specific technical assistance, improved exports, governance, ethics, and energy efficiency) and IIC-funded program of direct loans, \$100,000–600,000, to very small companies in the Latin America region.
- *IFI Investment:* \$7.9 million in technical assistance and \$7.6 million in loans, 2008–10.
- *IFI Additionality:* The project provides technical assistance and financing to SMEs.
- *Results:*
  - IIC approved 21 technical assistance initiatives and 33 loans benefiting more than 950 SMEs.
  - Local universities, business associations, and local experts have received training from the IIC and have become important partners in the advisory program.

#### **Box 14: EBRD Micro and Small Lending Case: Small Business Fund Downscaling Program, Russia**

- *Description:* Since 1994, under EBRD's Russia Small Business Fund Downscaling (RSBF) Micro and Small Enterprise (MSE) lending program, suitable financial intermediaries ("partner institutions," usually banks) receive a combination of long-term funding and dedicated technical cooperation support in order to on-lend these funds to eligible MSEs in Russia.
- *IFI Investment:* EBRD's own investment amounts to up to \$300 million at any given time ("revolving limit"), which will soon be increased to \$450 million. The RSBF has been successful in encouraging partner institutions to also use other funding for MSE lending under the RSBF.
- *IFI Additionality:* The project helps close the supply gap in MSE lending in Russia, which is estimated at up to \$75 billion. Only a tiny minority of the more than 1,000 banks in Russia lends to micro or small businesses, because of a persistent lack of awareness, lending technology, and long-term funding.
- *Results:*
  - Currently, around 87,000 RSBF loans for a total of \$1.3 billion outstanding to MSEs, 90% in the regions outside Russia's largest cities, disbursed by 17 partner institutions.
  - Cumulatively, since inception of the RSBF, more than 600,000 loans for almost \$9 billion were disbursed through 37 partner institutions.
  - Average sub-loan size outstanding below Rub 450,000 (\$15,000).
  - More than 8,700 loan officers trained since 1994, around 750 in 2010 alone.

#### **Box 15: Swedfund Case: Microfinancing, Latin America**

- *Description:* Locfund provides loans in local currency to about 20 microfinance institutions throughout Latin America and the Caribbean; technical assistance is also provided for asset and liability management and risk control.
- *IFI Investment:* Swedfund holds 25% shares of BIM, fund manager.
- *IFI Additionality:* Increases liquidity in the microfinance sector.
- *Results:* Expansion of finance to a larger number of small entrepreneurs.

## Financial Sector

A strong financial sector is critical for growth and poverty reduction,<sup>44</sup> and, as discussed in chapter 2, finance is a major constraint for many developing-country firms. In addition, the provision of financial services to households (financial inclusion) is an important agenda for poverty reduction.<sup>45</sup> Financial sector development can contribute to building and improving productivity of assets held by poor people, create opportunities for entrepreneurship and investment, facilitate remittances, improve efficiencies in product and factor markets, and stimulate private sector development, job creation, and growth.<sup>46</sup>

IFIs support key private financial institutions and infrastructure, including banks, funds, capital markets, housing finance, insurance, trade finance, and credit bureaus. IFIs also support innovative financial products such as climate change credit lines, distressed asset programs, local currency lending, foreign exchange hedging instruments, and bond market development. Recently, many IFIs joined together to provide the trade finance that was in particularly short supply during the global financial crisis. Advisory services are often a critical part of financial institution programs in such areas as institution building, financial infrastructure, systemic regulations, property rights, contracts, and training to handle financial crises. Responsible finance is also emerging as an important advisory area. Boxes 16–19 offer some examples of how private sector-oriented IFIs support the financial sector.

### Box 16: IIC Financial Sector Case: Local Currency Financing

- *Description:* Medium- and long-term financing in local currency has been offered to local financial institutions for on-lending in five local currencies; financing was used for SMEs and microentrepreneurs and for financing low- and medium-income housing.
- *IFI Investment:* Approximately \$440 million (2005–11), including B-loans.
- *IFI Additionality:* Provides scarce long-term local currency funding for non-exporters and individuals.
- *Results:*
  - Support of development of local capital markets. (The IIC issued bonds in Col\$150,000 mm, and Mx\$1.280 mm.)
  - Better matching for financial institutions.
  - Reduction in foreign exchange risk for financial institutions and their clients.

<sup>44</sup> World Bank, *Finance for All*.

<sup>45</sup> *Ibid.*

<sup>46</sup> IEG, “Assessing IFC’s Poverty Focus and Results,” 21.

**Box 17: OPIC Financial Sector Case: Mortgage Facilities for Families, Jordan**

- *Description:* OPIC financing is enabling three banks in Jordan to expand homeownership for low-income families. A joint venture formed by the Middle East Investment Initiative and the Cooperative Housing Foundation is serving as U.S. sponsor for the project.
- *IFI Investment:* \$100 million loan facility with Arab Bank PLC, \$100 million to Cairo Amman bank, and \$50 million to the Housing Bank for Trade and Finance.
- *IFI Additionality:* The sponsor will provide technical oversight, working with the banks to review participating banks' mortgage credit policies and origination and servicing procedures.
- *Results:* The facilities will enable the banks to introduce 25-year, fixed-rate mortgages to lower-income households in Jordan.

**Box 18: EBRD Financial Sector Case: Early Transition Country Local Currency Program**

- *Description:* Under EBRD's Early Transition Country Local Currency (ETC LCY) Program funding for developing countries in local currency is provided to financial intermediaries for on-lending to micro and small enterprises and directly to private sector enterprises to support private sector investment. The funding is combined with policy dialogue and technical assistance to support reforms to encourage greater confidence in and use of local currency among financial institutions and their customers at progressively longer tenors.
- *IFI Investment:* EBRD's own lending volume amounts to a planned portfolio of €200 million supported by a first loss guarantee of pooled donor funds amounting up to €30 million. The first loss guarantee allows marginally lower pricing of local currency loans at levels sufficient to encourage borrowers to shift their borrowing from foreign to local currency.
- *Reason for Partial Donor Support:* The market failure to recognize systemic risks embedded in foreign exchange lending, which artificially lowers the cost of such lending relative to local currency lending.
- *IFI Additionality:* The program addresses the relative scarcity of local currency loans at longer tenors in many early transition countries and the inability of many local financial intermediaries to source local currency to meet the demands of their micro and SME clients. The program also helps mitigate the mismatches on lenders' balance sheets or the higher credit risks associated with lending in foreign currency to unhedged local borrowers.
- *IFI Policy Dialogue:* Memoranda of understanding with the ministry of finance and central bank in each early transition country will confirm its engagement with EBRD on policy reform to strengthen capital markets and associated institutions and progressively increase local currency availability and transactions volume.

### Box 19: EIB Financial Sector Case: Sphinx Turnaround Fund, Egypt

- *Description:* First private equity fund targeting equity and equity-related investments in Egyptian companies in distress or default or in need of restructuring.
- *IFI Investment:* \$31 million out of \$57 million.
- *IFI Additionality:* IFI presence (EIB but also IFC and SIFEM) critical in catalyzing other funding to attain a close of this very innovative venture.
- *Results:*
  - First turnaround fund for SMEs in Egypt.
  - The aim of the fund is to create value by restructuring and relaunching companies that would otherwise most likely be liquidated.
  - Strong pipeline and first investment completed in the pharmaceutical sector, with an expected 1,150 jobs created. An experienced new management team has been hired and a restructuring plan is in the process of being implemented.

### Agribusiness

Development of agriculture can be very important in poverty reduction through its impact on the great many poor people engaged in agricultural activities.<sup>47</sup> Recent increases in food prices have also highlighted the importance of a sound and robust agricultural sector to global food supplies. Investments in agribusiness production, marketing, logistics, processing, and distribution can have extensive impacts on growth, rural development, and poverty reduction.<sup>48</sup>

IFIs engage in the agricultural and agribusiness sectors in ways that both support farmers and strengthen food availability. Investments can be made along the whole food supply chain—from agricultural inputs,

farming, storing, producing, distributing, and retailing. Warehouse and supply chain financing and crop/weather insurance can also be important. Advisory services also support development of the agricultural supply chain, including strengthening environmental and social standards.

The G-20 has recognized the crucial importance of strengthening the food supply chain, establishing the Global Agriculture and Food Security Program (GAFSP). A private sector window of GAFSP is intended to pool IFI and other resources to reach large numbers of farmers and agribusiness SMEs in lower-income countries with a combination of finance and advisory services. Boxes 20 and 21 show some IFI examples of support for the agricultural and agribusiness sectors.

<sup>47</sup> See Ferreira and Ravallion, "Global Poverty and Inequality: A Review of the Evidence," World Bank Policy Research Working Paper 4623, May 2008. See also Committee on Growth and Development, *Growth Report*, 14.

<sup>48</sup> IEG, "Assessing IFC's Poverty Focus and Results," 23.

**Box 20: DEG Agriculture Case: Finance for Rural Agriculture, South Africa**

- *Description:* Project with Farmsecure Holdings, South Africa, to provide financing for farmers, including insurance and an innovative securities structure for the banks involved; technical assistance for land use, production, and marketing; part of the Agro-Africa Initiative with Standard Chartered Bank.
- *IFI Investment:* Guarantee to a maximum of €9 million.
- *IFI Additionality:* The project provides innovative financing solutions for farmers where capital is scarce.
- *Results:*
  - Allows farmers and agricultural businesses to increase their competitiveness considerably.
  - €7 million in government revenues.
  - 1,500 direct employees.
  - MDG 1,2,4,5,6,8.

**Box 21: AfDB Agriculture Case: Markala Sugar Project, Mali**

- *Description:* The PPP project involves establishing a 14,132 ha irrigated cane estate in Mali, including 5,600 ha allotted to outgrower farmers; project also includes a private industrial complex (sugar mill and ethanol plant).
- *IFI Investment:* €123 million from lenders for the industrial (private) component, mostly from IFIs including AfDB; agricultural component is primarily public, with IFIs providing concessional finance.
- *IFI Additionality:* The project provides a more balanced share of revenues and risk, as well as environmental safeguards.
- *Results:*
  - Increased living standards of rural population.
  - Employment to 5,810 (agricultural) and 860 (industrial) workers.
  - Support to outgrower farmers.
  - Increased food production.
  - Increased regional trade.

## Inclusive Business Models

A number of IFIs have programs that focus on sustainable businesses that target poor populations—either as customers of goods or services or as employees. These programs have various names, such as Inclusive Business Models, Base of the Pyramid, or Opportunities for the Majority. The goal of these programs is to ensure that the poor participate fully in the benefits of growth and gain greater access to critical goods and services to improve their lives. Private businesses have shown increasing interest in these businesses, which can provide important growth opportunities as well as positive social impact.<sup>49</sup>

The IFI inclusive business programs support businesses in many sectors, for example, mobile communications and mobile banking, water supply infrastructure, farmer programs, low-income housing, microfinance, distribution, and education and medical care programs. This is an important but relatively new area for many IFIs: the challenge is to find models that can reach scale and be replicated. Boxes 22–24 provide some examples of inclusive business model projects.

### Box 22: IFC Inclusive Model Case: Jain Irrigation Systems Ltd., India

- *Description:* India's largest provider of micro-irrigation systems that reduce water consumption. IFC provided long-term loans and equity to finance the company's growth and expansion.
- *IFI Investment:* Since 2007, \$60 million in loans and almost \$15 million in equity.
- *IFI Additionality:* The project provides a higher standard of financial discipline, comfort to investors, and advice to help farmers adopt good agricultural practices.
- *Results:*
  - Water savings equal to the annual water consumption of more than 10 million households.
  - 25,000 small farmers have raised annual incomes by up to \$1,000.

<sup>49</sup> See Beth Jenkins and Eriko Ishikawa, *Scaling Up Inclusive Business: Advancing the Knowledge and Action Agenda* (Washington, DC: IFC and Harvard Kennedy School, 2010).

**Box 23: FMO Inclusive Model Case: Kumar Urban Development Limited, India**

- *Description:* A real estate company in Pune that participates in a slum rehabilitation scheme set up by the government of Maharashtra. Under this plan, part of the slum area will be used to construct high-rise blocks to house the existing slum dwellers without charge, while other parts of the area will be used to construct houses and offices to be sold commercially.
- *IFI Investment:* \$30 million.
- *IFI Additionality:* Through FMO, the company could tap into long-term offshore funding and DFIs for a total of \$50 million.
- *Results:*
  - Improvement of living conditions (health, education, community) of at least 25,000 people with delivery of 4,700 free houses.
  - Improvement in environmental and social performance with a focus on resettlement and working conditions.

**Box 24: IDB Inclusive Model Case: Microloans and Training for Street Vendors and Other Informal Food Sellers, Brazil**

- *Description:* One of Brazil's leading wholesale companies is offering microloans and training to help food entrepreneurs access supplies and knowledge to establish stable, profitable businesses.
- *IFI Investment:* \$10 million loan for microloan program and \$270,000 grant for the training program.
- *IFI Additionality:* The project provides finance and training not readily accessible.
- *Results:*
  - An estimated 55,000–90,000 microentrepreneurs in the state of São Paulo will participate.
  - Model is potentially replicable with retailers throughout the region and in other sectors.



## Investment Climate Reform

As discussed in chapter 2, the investment and regulatory environment for business is often a critical constraint for private sector development, and many of the IFI private investment programs require improvements in the investment climate for success. A good investment climate drives growth by encouraging investment and higher productivity.<sup>50</sup>

Private sector-oriented IFIs are engaged through their advisory services in working to improve the investment climate for business, often in partnership with companion public development institutions. Advisory areas can cover various regulatory, competition, and institutional issues such as regulation

of business entry, licensing, and insolvency; competition policy and corporate governance; tax policy; labor regulations; and regulation of public-private partnerships. Investment climate programs can also include industry-specific analysis and public-private dialogues. IFIs specializing in these areas can bring best-in-class methods to countries.

Investment climate issues are often articulated in the context of overall country assistance strategies that include both public and private sector parts of the IFIs. Implementation of such programs needs to be coordinated within the public and private parts of IFIs and among the various IFIs and donors active in the country. Boxes 25–27 present some examples of IFI work on investment climates.

### Box 25: Multi-IFI, Donor and Private Sector Investment Climate Case: Investment Climate Facility for Africa

- *Description:* Joint partnership among AfDB, IFC, DFIs, governments, and corporate sponsors. The facility is concentrating on eight priority areas that will have maximum impact on Africa's business environment. Since inception, the facility has supported 39 projects in 29 countries. Key projects have included those dealing with business registration and licensing, land registration, commercial courts, tax administration, computerization of customs, and alternative dispute resolution.
- *IFI Additionality:* Providing scarce specialized assistance.
- *Results:*
  - Burkina Faso: Time to transfer property fell by 88% and costs dropped by 97% for residential land and 64% for industrial land; time to register a business declined from 18 days to 3 days, and costs declined from \$350 to \$106; time to get construction permits dropped from 226 days to 19 days, and costs fell from \$2,270 to \$480.
  - Lesotho: Time to register for VAT dropped from two weeks to two days.
  - Liberia: 90% reduction in days to obtain the release of goods from customs.
  - Rwanda: Decline in days to register a business from 16 to 3, and costs fell 89%; four commercial courts established, which by March 2010 had resolved 6,279 cases.
  - Senegal: Reduced time to issue custom preclearance declarations from two days to seven hours.

<sup>50</sup> World Development Report 2005: A Better Investment Climate for Everyone, 2.

**Box 26: IDB Investment Climate Case: Addressing Barriers to Private Sector Investment, Latin America**

- *Description:* Fund for innovative projects and research proposals that reduce or eliminate barriers to private sector development. The first two topics covered have been informality and regulation, and SME access to finance.
- *IFI Investment:* \$2.3 million grant from the Spanish General Trust Fund.
- *Results:*
  - 14 activities and research projects have been financed.
  - Work includes experiments to test methods to promote formalization among microentrepreneurs (Colombia, Guatemala), new techniques for credit evaluation (Argentina, Peru), and use of financial and nonfinancial products for SMEs (Costa Rica).
  - Will provide lessons replicable in other areas of a country or in other countries.

**Box 27: JBIC Investment Climate Case: Policy Dialogue, Indonesia**

- *Description:* On-going dialogue between JBIC and the government of Indonesia to discuss issues relative to JBIC financial cooperation, particularly regarding clean energy, including facilitating private investment.
- *Results:*
  - Shared common understanding of appropriate risk sharing.
  - Memorandum of understanding concluded to confirm further cooperation on promoting environment-friendly projects.
  - Collaboration is expected to increase the flow of private investment, especially in the projects with impact on greenhouse gas reduction.
  - Given the positive outcome, JBIC is setting up a policy dialogue channel with the governments of Mexico and Brazil, as well.

## Climate Change

Investment and advisory services related to climate change are becoming a strategic area for many IFIs, and delivering finance through the private sector is an essential element for investment and innovation.

IFI programs can address climate change through investments in mitigation (renewable energy systems, energy efficiency investments, and technology transfer), adaptation (climate resilience), and forestry. IFIs address climate change through financial intermediaries, carbon finance programs, and equity funds, as well as through direct investment in projects in forestry, agribusiness, water and

waste management, green construction, and transport. A number of special funds exist that help IFIs finance innovative mitigation, adaptation, and forestry projects, such as the Climate Investment Funds and the Global Environment Facility, while bilateral donors continue to be an important resource for IFIs in supporting these projects. Climate finance is an area in which IFIs are closely cooperating. For example, EIB and 11 European bilateral development institutions have recently created a joint-financing vehicle for climate change and climate efficiency projects, and the World Bank Group and four regional development banks are jointly implementing the Climate Investment Funds. Boxes 28 through 30 provide some examples of IFI work related to climate change.

### Box 28: DEG Climate Change Case: Geothermal Power Plant, Kenya

- *Description:* Geothermal power plant expansion from 13 to 48 MW. This is the only privately owned geothermal power plant in Africa.
- *IFI Investment:* \$40 million loan; also arranging debt financing of \$105 million; Emerging Africa Infrastructure Fund, FMO, Proparco, KfW, and EFP also participate.
- *IFI Additionality:* The project facilitates innovative technology in Africa, pioneering new markets.
- *Results:*
  - Demonstration of technology with the promise of supplying the energy demands of 12 African countries.
  - Reduced dependence on carbon fuels.

### Box 29: CDC Climate Change Case: Africa Sustainable Forestry Fund

- *Description:* A pan-African private equity fund focused on sustainable forestry investments.
- *IFI Investment:* \$50 million from CDC; other DFIs also committed capital, including DEG, IFC, Proparco, FinnFund, and MAEC.
- *IFI Additionality.* A request for proposals was issued by CDC due to a lack of funds investing in African forestry; CDC selected fund manager GEF and then acted as a cornerstone investor.
- *Results:*
  - Two investments in sustainable forestry in Sub-Saharan Africa have been made to date.

**Box 30: EIB Climate Change Case: Windpower PPP, Cape Verde**

- *Description:* The project consists of the development, construction, and operation of four onshore wind farms on four islands of the archipelago of Cape Verde with a combined capacity of 25 megawatts. It will introduce modern wind power generation technology so that wind energy will become the primary alternative to fuel oil or diesel generation in Cape Verde. The project was developed as a public-private partnership (PPP) with the government of Cape Verde and the national power utility.
- *IFI Investment:* €30 million in loans.
- *IFI Additionality:* Providing technical and financial advice as well as long-term funding for an innovative PPP project during difficult times.
- *Results:*
  - Demonstrating viability of large-scale wind power project in Sub-Saharan Africa.
  - Demonstrating success of a commercial public-private partnership wind farm in Africa.
  - Helping Cape Verde address chronic power shortages and bringing the level of renewable energy generation of Cape Verde to 25% in 2011.

**Innovation**

Innovation—that is, bringing in new ideas and methods to increase competitiveness and productivity—is at the core of development. One of the key ways IFIs provide additionality and development impact is by helping transfer knowledge and supporting innovative approaches.

One example of IFI innovation is in the support of private health and education firms, where finance for these sectors is often scarce because commercial financial institutions often lack familiarity with these sectors. IFIs have pioneered finance in private education, such as

colleges and vocational schools, and in health care, such as private hospitals and clinics, public-private partnerships in health systems, health funds, and related advisory services.

Other examples of innovative IFI investments include water public-private partnerships, IT systems, crop/weather insurance, energy efficiency finance, toll roads, clean production, software, and pharmaceuticals. Although IFIs cannot themselves lead in all these sectors of innovation, they can support and catalyze these investments. Boxes 31–33 provide some examples of innovative projects funded by IFIs.

**Box 31: BSTDB Innovation Case: Global Software/Media Company, Black Sea Region**

- *Description:* Working capital and investment finance for expansion of Velti SA in the Black Sea region. The company provides software for mobile marketing and advertising.
- *IFI Investment:* €15 million, five-year, corporate loan.
- *IFI Additionality:* Helped Velti access additional new sources of financing in equity markets and provided a “certification” of the company’s robustness and favorable prospects.
- *Results:*
  - Expansion expected in the Black Sea region, including Bulgaria, Russian Federation, and Ukraine.
  - Successfully enabled company to enter the NASDAQ.

**Box 32: JBIC Innovation Case: Production and Sales of Mosquito Nets, Tanzania**

- *Description:* Vecto Health International Limited in Tanzania (in joint venture with Sumitomo Chemical Co.) to increase production of insecticide-treated mosquito nets from 19 million to 29 million nets a year. Nets are supplied through WHO to African countries for malaria prevention.
- *IFI Additionality:* Help companies expand in Africa by overcoming country risk and information gaps.
- *Results:* Help prevent malaria, a key need for Africa’s development.

**Box 33: OFID Innovation Case: Medical Center, Ghana**

- *Description:* Lister Medical Services 24-bed hospital provides specialized care in obstetrics and gynecology, as well as general health care services in an area of Accra that previously had no hospital.
- *IFI Investment:* \$1.4 million loan.
- *IFI Additionality:* Financing in innovative sector with limited available alternatives.
- *Results:*
  - Helps alleviate acute shortage of reproductive health care in Ghana and neighboring West African countries.
  - Higher standards of care and facilities.
  - Helps reverse “brain drain.”

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## Results and Case Studies Summary

Over the past decade, the annual private sector project commitments of IFIs have grown substantially. Current methods that measure results show generally positive development outcomes, given the inherent riskiness of private sector investments, based on measures such as financial returns, returns to the economy, environmental and social performance, and private sector development. Measures of project reach are starting to be tracked and published by different IFIs, which provide a sense of the scope of their impact. IFIs are also beginning to measure and report on additionality. The broader impact, additionality, and demonstration effects of IFI investments are featured in the various case studies discussed in this chapter, including impacts in infrastructure, SMEs, financial systems, agribusiness, inclusive business, investment climate, climate change, and innovation.

## Chapter 4:

# Conclusion

This brief overview of IFIs has highlighted their support of the private sector and their contribution to growth and poverty reduction.



The main messages of this report include:

**Growth, poverty reduction, and improving people's lives require a vibrant private sector.** There are still enormous development challenges in increasing growth, reducing poverty, and improving people's lives. The private sector has a key role to play in addressing these challenges, by supporting inclusive growth, poverty reduction, job creation, and access to critical goods and basic services and by providing tax revenues.

**IFIs support the private sector gaps in finance, knowledge, and standards and endeavor to create high-impact, sustainable development projects and programs.** The private sector in developing countries faces many constraints in such areas as finance, infrastructure, employee skills, and the investment climate. IFIs focusing on private sector development can help address these constraints and can be most effective by targeting high-impact sectors and projects, ensuring sound business practices, leveraging partnerships, and focusing on segments where IFI assistance is needed most and where IFI additionality is greatest.

**IFIs have reached a significant scale in global private sector finance, and achieved notable success and reach in projects and in key sectors.** Over the past decade, IFIs have had substantial growth in private sector commitments. Current results measurement systems show positive development outcomes in terms of returns to the economy, environmental and social performance, private sector development, financial returns, and people reached. The broader impact, additionality, and demonstration effects of IFI investments can be seen in the various case studies discussed in chapter 3, which offer examples in infrastructure, SMEs, financial systems, agribusiness, inclusive business models, investment climate reform, climate change, and innovation.

Great change is clearly occurring both in developing countries and in the approaches and institutions that promote development. Keeping pace with that change through creative and timely approaches to clients' needs will be challenging. IFIs and governments are likely to continue to put more emphasis on the private sector to improve lives and living conditions in developing countries. While the IFIs are working in many areas to improve their effectiveness, a few themes stand out among the institutions:

**Growth in private sector operations.** A number of IFIs, particularly the multilateral institutions, have announced plans to increase the size of their operations in the private sector. There are also efforts in the G-20, Organisation for Economic Co-operation and Development, and other institutions seeking better ways to leverage the private sector in development. Many private sector companies are also considering how they can be partners with the public sector in development. Overall, the increased emphasis on the private sector in many areas of development is likely to continue.

**Closer cooperation among IFIs.** The recent global financial crisis led to significant increases in private sector IFI cooperation to address the resulting complex financing and advisory challenges more effectively. This effort complemented earlier trends in IFI cooperation, such as the creation of a number of joint investment platforms. The models of cooperation are being replicated in new ways with G-20 programs in SMEs, agriculture, and infrastructure, with new plans for joint IFI programs in the Middle East for crisis response and for climate change investments and with further efforts at collaboration among the development institutions. In addition, the requirement of public-private solutions is leading to increased coordination among public and private entities, such as the growth programs being developed in Africa, greater focus on PPPs, and new modes of coordinating public and private financing of projects.



**Increased attention to results for development impact and additionality.** In a world where IFIs are small relative to the economies where they are trying to make a difference, and where shareholder resources are becoming more limited because of financial pressures on government budgets, it is essential that IFIs measure the results of their interventions and channel resources where the development impacts and additionality are greatest, while maintaining financial sustainability. Many IFIs are working to improve their measurement systems and reporting, and this is an area where improvements will continue over the next several years. IFIs are working to better measure their development effectiveness, reach, additionality, and poverty impact and to harmonize approaches that enhance comparability and simplify reporting for mutual clients.

**Product and project innovations.** IFIs have been introducing many new methods of supporting the private sector. Some areas where innovation is likely to continue include programmatic approaches, public-private partnerships, local currency finance, risk products and insurance, better use of capital (e.g., through sell downs and mobilization), climate change, women and gender, and inclusive business.

**Internal systems.** A number of IFIs are working on improving internal systems to support private sector investments, including such areas as strengthening competencies in private sector projects, increasing interactions with public sector parts of the institutions, and streamlining procedures.

Governments that support IFIs are increasingly looking for approaches that provide high impacts while efficiently using the limited resources available. In this regard, IFIs that include a private sector focus are attractive options, because they are very effective in using limited funds to leverage the resources and talent of private actors. Yet, to address the growing expectations with limited resources relative to the economies where they are trying to have impact, IFIs will need to determine where they can make the greatest impact and move resources to the most effective programs. Monitoring and evaluation will be critical to improving operations through continuous learning. In a complex interactive system, IFIs will need to partner and adapt.

To maximize development impact, public and private sector policies in each country need to be coherent and complementary. As such, IFIs should strive to focus on opportunities that best leverage national public and private sector strategies. There needs to be a virtuous circle between public and private undertakings to maximize development impact and ensure inclusive growth.

## Annex: Profiles of International Finance Institutions with Private Sector Operations

<b>Institution</b>	<b>Asian Development Bank (ADB)</b>
Headquarters	Manila, Philippines
Geographic Coverage in Developing Countries	Asia and the Pacific region, including the Central Asian republics and some countries in the Caucasus
Key Private Sector Focus Areas	Infrastructure, capital markets, and financial sectors, with an increasing focus on clean and renewable energy, frontier markets, and underserved economies
Annual Private Sector Commitments, 2010	\$4.3 billion in support of private sector development, of which \$1.9 billion was approved for direct assistance to private sector companies and projects
Total Annual Operations (public and private sector), 2010	\$17.5 billion
Major Products	Loans, equity, guarantees, advisory services, and syndications
Summary of Other Key Characteristics	ADB is owned by 67 member countries, including 48 from the region. ADB envisages an Asia and Pacific region free of poverty and pursues this vision through the promotion of inclusive economic growth, environmentally sustainable growth, and regional integration. ADB's long-term strategy includes support for the development of the region's private sector by increasing the combined share of private sector development and private sector operations in ADB's annual operations to 50% by 2020.

<b>Institution</b>	<b>African Development Bank (AfDB)</b>
Headquarters	Abidjan, Côte d'Ivoire; temporarily relocated to Tunis, Tunisia
Geographic Coverage in Developing Countries	Africa (Sub-Saharan and North Africa)
Key Private Sector Focus Areas	Infrastructure, financial sector, industries, agribusiness, services, regional integration, and inclusive growth
Annual Private Sector Commitments, 2010	\$1.9 billion (fiscal year ending December 31, 2010)
Annual Public Sector Commitments, 2010	African Development Bank, \$2.1 billion; African Development Fund, \$2.25 billion; trust funds (Nigeria Trust Fund, African Water Facility, etc.), \$95 million
Major Products	Loans, equity, commercial and political risk guarantees, syndications, and technical assistance
Summary of Other Key Characteristics	The AfDB supports both public and private sector clients. Between 2008 and 2010, 36% of total new commitments (in volume terms) were approved to support operations that promote regional integration and 65% in low-income countries and fragile states. In 2010, over 70% of total AfDB commitments and 43% of private sector commitments were channeled to the infrastructure sector. The Bank is the coordinator of the African Financial Partnership, a cofinancing platform for the continent. It leverages partnerships with commercial banks, DFIs, including regional DFIs, and equity funds as well as its public sector financing arm to catalyze additional resources. Against the background of the successful conclusion of its sixth General Capital Increase and the 12th replenishment of the African Development Fund, the AfDB is currently developing a new corporate strategy to enhance the impact of all its operations and programs on development through the private sector.

<b>Institution</b>	<b>Belgian Investment Company for Developing Countries (BIO)</b>
Headquarters	Brussels, Belgium
Geographic Coverage in Developing Countries	Less-developed countries, low-income countries, and lower-middle-income countries
Key Private Sector Focus Areas	Financial sector, SMEs, and infrastructure
Annual Private Sector Commitments, 2010	€331.1 million (net commitments, fiscal year ending December 31, 2010)
Annual Public Sector Commitments, 2010	None
Major Products	Loans, equity, guarantees, and subsidies for technical assistance
Summary of Other Key Characteristics	<p>BIO is a development finance institution (DFI) established in 2001 in the framework of the Belgian Development Cooperation to support private sector growth in developing and emerging countries. BIO finances the financial sector, enterprises, and private infrastructure projects. Endowed with a capital worth of €465 million, BIO provides tailored long-term financial products (equity, quasi-equity, debt, and guarantees) and finances technical assistance programs and feasibility studies. BIO also encourages its business partners to implement environmental, social, and governance standards. BIO operates as an additional partner to the traditional financial institutions and looks for projects with a balance between return on investment and development impact. BIO is a member of EDFI (European Development Finance Institutions).</p> <p>Website: <a href="http://www.bio-invest.be">www.bio-invest.be</a>. E-mail: <a href="mailto:info@bio-invest.be">info@bio-invest.be</a></p>

<b>Institution</b>	<b>Black Sea Trade and Development Bank (BSTDB)</b>
Headquarters	Thessaloniki, Greece
Geographic Coverage in Developing Countries	Greater Black Sea region (subregional). Of 11 Member States, 10 are eligible for World Bank financing, of which 5 are IDA eligible.
Key Private Sector Focus Areas	SMEs, financial markets, infrastructure (especially energy and transport), manufacturing and agribusiness
Annual Private Sector Commitments, 2010	\$263.0 million (year ending December 31, 2010)
Annual Public Sector Commitments, 2010	None in 2010
Major Products	Loans, equity, and guarantees
Summary of Other Key Characteristics	<p>BSTDB was established at the initiative of the Black Sea Economic Cooperation Organization (BSEC), and possesses the dual mandate to (1) promote regional cooperation among and (2) support economic development in Member States, principally through the financing of operations in the private and public sectors. The Bank seeks to establish itself as a preeminent partner financial institution for the Black Sea region:</p> <ul style="list-style-type: none"> <li>• Catalyzing regional trade and investment</li> <li>• Attracting external investors</li> <li>• Nurturing regional businesses and financial institutions, and</li> <li>• Contributing to cooperation in the region and to the promotion of common regional perspectives.</li> </ul> <p>A distinctive feature of BSTDB is its explicit mandate to promote trade, mainly through local financial intermediaries, which then provide financing to regional exporting and importing firms.</p>

<b>Institution</b>	<b>CAF (Development Bank of Latin America)</b>
Headquarters	Caracas, Venezuela
Geographic Coverage in Developing Countries	Shareholder countries, i.e. Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Paraguay, Peru, Portugal, Spain, Trinidad and Tobago, Uruguay, and Venezuela
Key Private Sector Focus Areas	Infrastructure with an emphasis on (renewable) energy and public-private partnerships, expansion of local multinationals, agribusiness, financial markets, and SMEs
Annual Private Sector Commitments, 2010*	\$3,844 million
Annual Public Sector Commitments, 2010	\$6,689 million
Major Products	Loans (short, medium, and long term), equity and similar instruments, partial credit guarantees, advisory services, and syndications
Summary of Other Key Characteristics	Public and private sector transactions are dealt with in one single legal entity (CAF). The private sector department provides both finance and advisory services to the private sector. Through the use of its A/B program, partial credit guarantees, and similar products, CAF mobilizes third-party funds, either in U.S. dollars and/or local currency. At the end of 2010, the private sector constituted approximately 20% of CAF's total loan portfolio.

\*Approvals to private sector. Private sector here defined as nonsovereign (guaranteed) transactions..

<b>Institution</b>	<b>CDC Group plc</b>
Headquarters	London, UK
Geographic Coverage in Developing Countries	Low-income and lower-middle-income countries (as classified by the World Bank) in Sub-Saharan Africa and South Asia
Key Private Sector Focus Areas	Agribusiness and food, consumer services, education, extractive industries, financial services, health care, information and communication technologies, industrials, infrastructure, and real estate
Annual Private Sector Commitments, 2010	£231 million (fiscal year ending December 31, 2010)
Annual Public Sector Commitments, 2010	None
Major Products	Intermediated investment via equity funds; and from 2011 onward provision of debt, guarantees, and direct and co-investments
Summary of Other Key Characteristics	Founded in 1948, CDC is the United Kingdom's development finance institution, wholly owned by the U.K. government's Department for International Development. CDC's mission is to be a pioneering investor, stimulating the private sector and demonstrating the power of enterprise and private capital to reduce poverty in the poorest parts of the world. In 2010 CDC had capital invested in 930 businesses that together provide around 800,000 direct jobs in 70 countries.

<b>Institution</b>	<b>COFIDES (Compañía Española de Financiación del Desarrollo)</b>
Headquarters	Madrid, Spain
Geographic Coverage in Developing Countries	Global
Key Private Sector Focus Areas	Infrastructure, industry, agribusiness, and SMEs
Annual Private Sector Commitments, 2010	€554.9 million in developing countries (December 31, 2010)
Annual Public Sector Commitments, 2010	None
Major Products	Equity, quasi-equity, and loans
Summary of Other Key Characteristics	COFIDES is the Spanish development finance institution; it provides cost-effective financial support for projects involving Spanish interests in developing, transitional, and emerging countries. COFIDES operates by investing its own resources and two Spanish Government trust funds (FIEX and FONPYME). Operating since 1990, COFIDES has approved more than 500 investment projects in over 65 countries, where it has committed resources amounting to over €1.4 billion. COFIDES is a member of the European Development Finance Institutions (EDFI).

<b>Institution</b>	<b>DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH)</b>
Headquarters	Cologne, Germany
Geographic Coverage in Developing Countries	Global
Key Private Sector Focus Areas	Agribusiness, finance sector, infrastructure, manufacturing industries, services, and SMEs
Annual Private Sector Commitments, 2010	€1.2 billion, supporting investments worth €7.8 billion
Annual Public Sector Commitments, 2010	None
Major Products	Loans, equity, mezzanine, guarantees, advisory services, and syndications
Summary of Other Key Characteristics	DEG is the German development finance institution for the private sector in developing and transition countries. As a specialist in entrepreneurial development, DEG provides long-term investment capital for private enterprises under market-oriented conditions. In order to contribute to sustainable economic growth and poverty reduction, DEG finances only projects that show a positive developmental impact and are committed to ecological and social best-practice guidelines. At the end of 2010, DEG's portfolio was €5.2 billion, supporting investments worth €34.1 billion.

<b>Institution</b>	<b>European Bank for Reconstruction and Development (EBRD)</b>
Headquarters	London, United Kingdom
Geographic Coverage in Developing Countries	Central and southeastern Europe, western Balkans, and Central Asia
Key Private Sector Focus Areas	Industry, commerce and agribusiness, natural resources, renewable energies, infrastructure, financial institutions, and SMEs
Annual Private Sector Commitments, 2010	\$8.9 billion (fiscal year ending December 31, 2010)
Annual Public Sector Commitments, 2010	\$3.1 billion (fiscal year ending December 31, 2010)
Major Products	Loans, equity, guarantees, securitized finance, advisory services, and syndications
Summary of Other Key Characteristics	The EBRD is an international financial institution that supports projects in 29 countries across Central and Eastern Europe and Central Asia. With the aim of fostering transition toward open and democratic market economies, the Bank invests primarily in private sector clients whose needs cannot be fully met by the market. The EBRD is owned by 61 countries and two intergovernmental organizations. Each of these is a shareholder in the organization, having contributed a capital subscription.

<b>Institution</b>	<b>European Investment Bank (EIB)</b>
Headquarters	Luxembourg, Luxembourg
Geographic Coverage in Developing Countries	Global within eligibility constraints defined in the relevant External Lending Mandates that the EIB receives from the European Union
Key Private Sector Focus Areas	Infrastructure, energy, climate action, financial markets, SMEs, microfinance, and industry
Annual Private Sector Commitments, 2010	€3.69 billion (fiscal year ending December 31, 2010) outside the European Union
Annual Public Sector Commitments, 2010	€5.10 billion (fiscal year ending December 31, 2010) outside the European Union
Major Products	Loans, equity, guarantees, and technical assistance
Summary of Other Key Characteristics	EIB is the long-term financing arm of the European Union. Its shareholders are the 27 Member States of the EU. It has a mandate to provide long-term financing for projects that contribute to EU priority objectives, both inside and outside the EU. Although its lending activities cover both the public and the private sectors, it has a mandate and manages facilities with the specific objective of supporting and financing private sector development.

<b>Institution</b>	<b>FINNFUND (Finnish Fund for Industrial Cooperation Ltd)</b>
Headquarters	Helsinki, Finland
Geographic Coverage in Developing Countries	Global
Key Private Sector Focus Areas	Frontier markets and IDA countries, manufacturing, renewable energy, forestry, telecommunications, SMEs, and microfinance
Annual Private Sector Commitments, 2010	\$115 million
Annual Public Sector Commitments, 2010	None
Major Products	Loans, equity, and mezzanine finance
Summary of Other Key Characteristics	Finnfund is a Finnish development finance company that provides long-term risk capital for profitable projects in developing countries and Russia. Finnfund finances private projects that involve a Finnish interest. Finnfund is owned by the State of Finland (89.0 %), Finnvera (10.9 %), and the Confederation of Finnish Industries EK (0.1 %).

<b>Institution</b>	<b>FMO (the Netherlands Development Finance Company)</b>
Headquarters	The Hague, the Netherlands
Geographic Coverage in Developing Countries	Global
Key Private Sector Focus Areas	Financial institutions; energy; housing; agriculture, agribusiness, food, and water
Annual Private Sector Commitments, 2010	€ 1.026 billion
Annual Public Sector Commitments, 2010	None
Major Products	Equity, mezzanine, loans, syndicated loans, and guarantees
Summary of Other Key Characteristics	FMO is the Dutch development bank. The Dutch state holds 51% of FMO's shares, and 49% of the shares are owned by commercial banks, trade unions, and other parties. FMO creates access for entrepreneurs in developing countries to financial products, services, and expertise that enable them to drive sustainable development and make a lasting impact in their own communities. FMO focuses on four key sectors (see above) that create the highest development impact, while partnerships allow it to take on projects in other sectors.

<b>Institution</b>	<b>Islamic Corporation for the Development of the Private Sector (ICD)</b>
Headquarters	Jeddah, Kingdom of Saudi Arabia
Geographic Coverage in Developing Countries	Middle East and North Africa, Sub-Saharan Africa, West and East Africa, Europe, Central Asia, South Asia, and East Asia regions
Key Private Sector Focus Areas	Mainly supporting SMEs in the following sectors: financial, manufacturing, real estate, oil and gas, transportation, telecom, health care, agriculture, and renewable energy
Annual Private Sector Commitments, 2010	\$235 million
Annual Public Sector Commitments, 2010	None. Public sector operations are managed by the parent institution, the Islamic Development Bank (IsDB).
Major Products	Islamic Financial Products such as Equity, Leasing, <i>Murabaha</i> , Installment Sale, and <i>Istisna'a</i>
Summary of Other Key Characteristics	<p>ICD was established in 1999 with a mandate for carrying out the Islamic Development Bank's (IsDB's) private sector operations. As the first multilateral private sector development financing institution offering Islamic finance products, ICD supports the economic development of its member countries through provision of finance to private sector projects. Currently, ICD has 51 member countries as shareholders, in addition to the Islamic Development Bank and some public financial institutions.</p> <p>By the end of 2010, ICD had approved more than \$1.8 billion worth of projects in 33 member countries. Approvals extend to 14 sectors, and more than 200 projects have been implemented as a result of ICD's intervention in different markets.</p> <p>Furthermore, ICD has recently built a new strategy, which is centered on promoting Islamic financial channels for the development of the private sector in member countries. As part of its new strategy, ICD will also expand its advisory services and will provide asset management, investment banking, and technical assistance to its member countries.</p>

<b>Institution</b>	<b>Inter-American Development Bank (IDB), Nonsovereign Guaranteed Operations</b>
Headquarters	Washington, D.C., USA
Geographic Coverage in Developing Countries	Regional: Latin America and the Caribbean
Key Private Sector Focus Areas	Infrastructure, energy, transport, water and sanitation, industries, agribusiness, natural resources, financial institutions, capital markets, trade finance, health care, education, tourism, corporate governance, corporate social responsibility, and climate change
Annual Private Sector Commitments, 2010	\$1.2 billion (calendar year 2010)
Annual Public Sector Commitments, 2010	\$12.7 billion (calendar year 2010)
Major Products	Loans, guarantees, grants, technical assistance, and syndications
Summary of Other Key Characteristics	<p>IDB is the oldest regional multilateral development bank and the main source of multilateral financing for economic growth and poverty reduction in Latin America and the Caribbean. Comprised of 48 member countries, the IDB provides solutions to development challenges in 26 countries of Latin America and the Caribbean, partnering with governments, companies, financial institutions, and civil society organizations.</p> <p>The private sector arm of the IDB comprises the Structured and Corporate Finance Department (SCF) and the Opportunities for the Majority Initiative under the Private Sector Vice Presidency. The SCF Department of IDB offers tailored, long-term funding sources and risk mitigation products coupled with recognized social and environmental practices to foster sustainable private sector development in the region.</p> <p>SCF provides structured and corporate finance to entities in all sectors of the economy, private utilities and infrastructure operators, banks and financial market institutions, state-owned entities without a sovereign guarantee, and corporations. The IDB private sector clients range from microenterprises to large companies.</p>

<b>Institution</b>	<b>Inter-American Investment Corporation (IIC)</b>
Headquarters	Washington, D.C., USA
Geographic Coverage in Developing Countries	Latin America and the Caribbean
Key Private Sector Focus Areas	SMEs, agribusiness, manufacturing, infrastructure, financial services, health and education, and renewable energy
Annual Private Sector Commitments, 2010	\$342 million (fiscal year ending December 31, 2010)
Annual Public Sector Commitments, 2010	None
Major Products	Loans, equity, guarantees, syndications, technical assistance advisory services, and supply chain financing
Summary of Other Key Characteristics	The IIC is a multilateral financial institution that began operations in 1989 to promote the economic development of its Latin American and Caribbean member countries by providing financing to private enterprises, preferably SMEs. In 2010, the IIC approved \$375 million in direct loans and investments and mobilized another \$536 million in cofinancing operations. In addition, IIC's brand for value-added technical assistance services, FINPYME, approved 21 operations totaling \$5.2 million. A member of the Inter-American Development Bank Group, the IIC is legally autonomous, and its resources and management are separate from those of the IDB. The IIC counts 44 countries as shareholders and maintains staff in 10 countries in Latin America and the Caribbean, in addition to its headquarters in Washington, D.C.

<b>Institution</b>	<b>International Finance Corporation (IFC)</b>
Headquarters	Washington, D.C., USA
Geographic Coverage in Developing Countries	Global
Key Private Sector Focus Areas	Frontier markets and IDA countries, sustainability, infrastructure, agribusiness, health and education, financial markets, and SMEs
Annual Private Sector Commitments, 2010*	\$12.7 billion (fiscal year ending June 30, 2010) for own account, plus \$5.4 billion of mobilization
Annual Public Sector Commitments, 2010	None, but sister institution, World Bank, had public sector commitments in fiscal year 2010 of \$44.2 billion for IBRD, and \$14.5 billion for IDA.
Major Products	Loans, equity, guarantees, securitized finance, advisory services, and syndications
Summary of Other Key Characteristics	IFC is the private sector finance and advisory arm of the World Bank Group and has shareholders from over 180 countries. It has a global mandate and provides both finance and advisory services to the private sector. It also has a mobilization program, which in 2010 provided an additional \$5.4 billion of financial products to the private sector. Projects in IDA countries accounted for approximately half of IFC projects in 2010.

\*For own account, for projects with majority private ownership without sovereign guarantees or grants. Includes some subsovereign (municipal) finance.

<b>Institution</b>	<b>Investment Fund for Developing Countries (IFU)</b>
Headquarters	Copenhagen, Denmark
Geographic Coverage in Developing Countries	Global (countries with a gross national income per capita below \$6,098)
Key Private Sector Focus Areas	Developing countries, sustainability, corporate and social responsibility, infrastructure, manufacturing, agribusiness, energy, microfinance, and SMEs
Annual Private Sector Commitments, 2010	DKK 559 million (fiscal year ending December 31, 2010)
Annual Public Sector Commitments, 2010	None
Major Products	Loans, equity, guarantees, and advisory services
Summary of Other Key Characteristics	IFU plays a key role in Danish efforts to attract foreign direct investment to developing countries by providing advice to and co-investing with Danish companies and institutional investors. In 2010, 44% of IFU's investments in new projects were made in Africa, and more than half were made with Danish SMEs. It is a requirement that all investments in projects be made with a Danish partner.



<b>Institution</b>	<b>Japan Bank for International Cooperation (JBIC)</b>
Headquarters	Tokyo, Japan
Geographic Coverage in Developing Countries	Global
Key Private Sector Focus Areas	Natural resource development, infrastructure, climate change, and SMEs
Annual Private Sector Commitments, 2010	¥996.4 billion (fiscal year ending March 31, 2011)
Annual Public Sector Commitments, 2010	¥769.4 billion (fiscal year ending March 31, 2011)
Major Products	Loans, equity participation, guarantees, securitized finance, and advisory services
Summary of Other Key Characteristics	JBIC is the international wing of the Japan Finance Corporation, a policy-based financial institution of Japan; it conducts lending, investment, and guarantee operations while complementing the private sector financial institutions. JBIC contributes to the sound development of the Japanese and international economy in four ways: (1) promoting overseas development and acquisition of strategically important natural resources for Japan; (2) maintaining and improving the international competitiveness of Japanese industries; (3) promoting the overseas business for preserving the global environment, such as preventing global warming; and (4) responding to disruptions in the financial order of the international economy.

<b>Institution</b>	<b>Multilateral Investment Fund (MIF)</b>
Headquarters	Washington, D.C., USA
Geographic Coverage in Developing Countries	Latin America and the Caribbean
Key Private Sector Focus Areas	Microfinance, early-stage equity, SME financing, financial services for low-income people, market functioning, business capabilities, job skills, engaging the private sector in the delivery of basic services, and climate change; special focus on Haiti and gender
Annual Private Sector Commitments, 2010	\$116.4 million
Annual Public Sector Commitments, 2010	MIF is focused on private sector development, although it works with the public sector in some cases to implement reforms that can support the private sector.
Major Products	Technical assistance, loans, and equity
Summary of Other Key Characteristics	<p>Established in 1993, as part of the Inter-American Development Bank (IDB) Group, MIF was created to develop effective approaches to increasing private investment and advancing private sector development, improving the business environment, and supporting micro and small enterprises to promote economic growth and poverty reduction in the region.</p> <p>As the largest provider of technical assistance for private sector development in the Latin American and Caribbean region, the MIF has played a distinct role within the IDB Group, in pursuit of innovative ways to build economic opportunity and decrease poverty.</p>

<b>Institution</b>	<b>Multilateral Investment Guarantee Agency (MIGA)</b>
Headquarters	Washington, D.C., USA
Geographic Coverage in Developing Countries	Global
Key Private Sector Focus Areas	IDA and conflict-affected countries, infrastructure, and South-South investment projects
Annual Private Sector Commitments, 2010*	\$2.1 billion (fiscal year ending June 30, 2010)
Annual Public Sector Commitments, 2010	None, but sister institution, World Bank, had public sector commitments in fiscal year 2010 of \$44.2 billion for IBRD and \$14.5 billion for IDA.
Major Products	Political risk insurance guarantees
Summary of Other Key Characteristics	MIGA, a member of the World Bank Group, specializes in political risk insurance products with the objective of facilitating foreign direct investment into member countries.

\*Guarantee contracts executed during the fiscal year.

<b>Institution</b>	<b>Nordic Investment Bank (NIB)</b>
Headquarters	Helsinki, Finland
Geographic Coverage in Developing Countries	NIB is active in a limited group of countries of operation.
Key Private Sector Focus Areas	Energy, environmental and transport, logistics, and communications sectors
Annual Private Sector Commitments, 2010	€302 million
Annual Public Sector Commitments, 2010	€218 million
Major Products	Long-term loan financing in the form of corporate loans, sovereign loans to states or against state guarantee, subsovereign loans directly to municipalities or regional entities, public-private partnership financing and financing via financial intermediaries
Summary of Other Key Characteristics	NIB is the common international financial institution of the eight Nordic and Baltic countries. NIB provides long-term financing for projects that strengthen competitiveness and enhance the environment. NIB has operations in its Nordic and Baltic member countries and in a limited group of selected focus countries. NIB has entered into agreements on financial cooperation with the national governments of the nonmember countries of operation. As a rule, such agreements enable NIB to participate in the financing of projects in both the public and the private sectors.

<b>Institution</b>	<b>Norfund (Norwegian Investment Fund for Developing Countries)</b>
Headquarters	Oslo, Norway
Geographic Coverage in Developing Countries	Eastern and southern Africa, Central America, and Southeast Asia
Key Private Sector Focus Areas	Renewable energy, financial institutions, agriculture, and SMEs
Annual Private Sector Commitments, 2010	NOK 844 million; total committed investments by year end, NOK 5844 million
Annual Public Sector Commitments, 2010	None
Major Products	Equity, quasi-equity, and loans
Summary of Other Key Characteristics	The Norwegian Investment Fund for Developing Countries, Norfund, is a Norwegian development finance institution (DFI) that seeks to develop and establish sustainable and profitable businesses in poor countries. The purpose is to promote business development and contribute to financial growth and poverty reduction. As of January 1, 2011, countries with a GDP per capita of less than \$6,885 are eligible for these investments. Norfund will contribute to the realization of viable projects that balance economic, social, and environmental considerations. Norfund was established by the Norwegian Parliament (the Storting) in 1997, under special legislation, as a separate legal entity with limited liability. Norfund invests in four different areas: industrial partnerships, financial institutions, SME funds, and renewable energy. The organization has approximately 45 employees in the head office in Oslo and in the three regional offices in Johannesburg, Nairobi, and San José.

<b>Institution</b>	<b>Oesterreichische Entwicklungsbank (OeEB), Development Bank of Austria</b>
Headquarters	Vienna, Austria
Geographic Coverage in Developing Countries	Global (developing and emerging countries)
Key Private Sector Focus Areas	Recipient countries designated by the OECD's Development Assistance Committee; financial markets, infrastructure, industry, energy generation and supply, agribusiness, services, and manufacturing trade
Annual Private and Public Sector Commitments, 2010	Investment finance, €94.3 million; advisory programs, €25.2 million (technical assistance, grants) (fiscal year ending December 31, 2010)
Major Products	Loans, mezzanine, guarantees, and advisory services
Summary of Other Key Characteristics	The Oesterreichische Entwicklungsbank (OeEB) is the official development bank of the Republic of Austria. It has a national mandate and provides both finance and advisory programs to the private sector. It funds and supports private sector investment in developing and emerging countries that are economically viable and developmentally appropriate.

<b>Institution</b>	<b>OPEC Fund for International Development (OFID)</b>
Headquarters	Vienna , Austria
Geographic Coverage in Developing Countries	Global
Key Private Sector Focus Areas	Frontier markets , infrastructure, food security, energy access, financial markets, and SMEs
Annual Private Sector Commitments, 2010	\$231 million (year ending December 31, 2010)
Annual Public Sector Commitments, 2010	\$625 million (year ending December 31, 2010)
Major Products	Public and private sector loans, equity, and trade finance
Summary of Other Key Characteristics	The primary aim of OFID is to contribute to the social and economic development of low-income countries. Since its creation in 1976 up to May 2011, OFID has committed \$13.2 billion in development finance to 130 countries in Africa, Asia and the Pacific, Latin America, the Caribbean, and Europe. OFID works through four main financing windows: a public sector facility that makes loans to governments mainly for developing infrastructure and social services, a private sector facility that finances private sector companies in a wide range of sectors, a trade finance facility that targets the trade financing needs of institutions in partner countries, and a grant facility that provides grants for social and humanitarian programs.

<b>Institution</b>	<b>Overseas Private Investment Corporation (OPIC)</b>
Headquarters	Washington, D.C., USA
Geographic Coverage in Developing Countries	OPIC services are available for new and expanding business enterprises in more than 150 developing countries worldwide.
Key Private Sector and Regional Focus Areas	<b><i>Current regional focus:</i></b> Middle East/North Africa, South/Southeast Asia, Central/South America, and Sub-Saharan Africa.  <b><i>Current sector focus:</i></b> Renewable resources, including the sustainable utilization of natural resources such as energy, water, and land; physical infrastructure; housing; microfinance; and small and medium enterprises
Annual Private Sector Commitments, 2010	\$2.35 billion, comprised of \$1.8 billion in investment finance, \$440 million in investment funds, and \$89 million in political risk insurance
Annual Public Sector Commitments, 2010	Not applicable
Major Products	Debt financing through direct loans for SMEs as well as investment guarantees, political risk insurance, and support of private equity investment funds
Summary of Other Key Characteristics	OPIC is the U.S. Government's development finance institution. It mobilizes private capital to help solve critical development challenges and, in so doing, advances U.S. foreign policy. OPIC works with the U.S. private sector, helping U.S. businesses gain footholds in emerging markets, which in turn catalyzes revenues, jobs, and growth opportunities both in the United States and abroad. OPIC achieves its mission by providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds.  Established as an agency of the U.S. Government in 1971, OPIC operates on a self-sustaining basis at no net cost to American taxpayers. To date, OPIC has supported nearly \$200 billion of investment in over 4,000 projects, generated \$74 billion in U.S. exports, and supported more than 275,000 jobs.

<b>Institution</b>	<b>PROPARCO</b>
Headquarters	Paris, France
Geographic Coverage in Developing Countries	Global
Key Private Sector Focus Areas	Finance sector, infrastructure, services, SMEs, and agribusiness
Annual Private Sector Commitments, 2010	€937 million (fiscal year ending December 31, 2010)
Annual Public Sector Commitments, 2010	None
Major Products	Loans, equity, mezzanine, guarantees, and syndications
Summary of Other Key Characteristics	PROPARCO is the French development finance institution for the private sector in developing and emerging countries. In 2009, PROPARCO's geographical coverage was extended to all countries eligible for development aid according to OECD rules. The rationale behind PROPARCO's funding may be summarized by four key terms: long-term involvement, additionality, profitability, and innovation. PROPARCO combines a developmental objective with profit-oriented requirements. At the end of 2010, PROPARCO's portfolio was €3 billion.

<b>Institution</b>	<b>BMI-SBI (Belgische Maatschappij voor Internationale Investerings / Société Belge d'Investissement International)</b>
Headquarters	Brussels, Belgium
Geographic Coverage in Developing Countries	Global / more remote and difficult regions
Key Private Sector Focus Areas	Mainly supporting SMEs, agribusiness, manufacturing industries, and services
Annual Private Sector Commitments, 2010	Portfolio of €23.2 million (fiscal year ending December 31, 2010)
Annual Public Sector Commitments, 2010	None
Major Products	Equity, mezzanine, loans, guarantees, syndications, and advisory services
Summary of Other Key Characteristics	BMI-SBI is a semipublic investment company, having as its main objective the provision of finance and know-how to the international investment projects of Belgian private sector companies. BMI-SBI is active worldwide and provides tailor-made medium- and long-term investment capital under market-oriented conditions to private sector projects that are economically viable and developmentally appropriate.

<b>Institution</b>	<b>SIMEST (Società Italiana per le Imprese all'Estero)</b>
Headquarters	Rome, Italy
Geographic Coverage in Developing Countries	Global
Key Private Sector Focus Areas	Frontier markets and IDA countries, industry and manufacturing, infrastructure, and agribusiness
Annual Private Sector Commitments, 2010	€132 million (only equity)
Annual Public Sector Commitments, 2010	None
Major Products	Equity participation in investment projects with Italian companies; technical assistance to Italian companies for investment projects
Summary of Other Key Characteristics	SIMEST also grants loans to Italian companies to finance market penetration programs in non-EU countries, feasibility studies, and technical support programs connected to investments. At the end of 2010, the portfolio of such loans was €168 million in 508 projects. These loans are not included in the commitments stated above.

<b>Institution</b>	<b>SOFID (Sociedade para o Financiamento do Desenvolvimento, Instituição Financeira de Crédito, SA)</b>
Headquarters	Lisbon, Portugal
Geographic Coverage in Developing Countries	Primarily Lusophone countries (Angola, Mozambique, Brazil, etc.) but also emerging countries
Key Private Sector Focus Areas	Primarily industry and manufacturing, energy, and agribusiness with Portuguese investors (minimum 20% holding).
Annual Private Sector Commitments, 2010	€10 million
Annual Public Sector Commitments, 2010	None
Major Products	Long-term loans, guarantees, mezzanine finance, equity participations, and venture capital funds management
Summary of Other Key Characteristics	SOFID was established in 2007 and is majority owned by the Portuguese state (59.99%). The remaining shareholders are the four major Portuguese banks: Banco Espírito Santo, Banco BPI, Caixa Geral de Depósitos, and MillenniumBCP (10% each) and ELO. Its status allows SOFID to exercise diverse financial operations except for the collection of deposits and reimbursable funds.

<b>Institution</b>	<b>Swedfund International AB</b>
Headquarters	Stockholm, Sweden
Geographic Coverage in Developing Countries	Global
Key Private Sector Focus Areas	Low-income countries and SMEs
Annual Private Sector Commitments, 2010	2,556 SEK million (end 2010)
Annual Public Sector Commitments, 2010	None
Major Products	Direct equity and loans
Summary of Other Key Characteristics	Swedfund provides risk capital, expertise, and financial support for investment in the emerging markets of Africa, Asia, and Latin America, as well as the non-EU countries of Eastern Europe. Swedfund has made 230 investments in more than 40 countries together with industrial partners. Swedfund is wholly owned by the Swedish State and focuses on direct equity and the African continent. Through Swedpartnership, Swedfund also offers financial support for small and medium Swedish enterprises.

<b>Institution</b>	<b>SIFEM (Swiss Investment Fund for Emerging Markets)</b>
Headquarters	Bern, Switzerland
Geographic Coverage in Developing Countries	Global
Key Private Sector Focus Areas	Selected frontier markets and IDA countries, SMEs, financial markets, infrastructure, and clean technology and clean energy
Annual Private Sector Commitments, 2010	\$50–100 million
Annual Public Sector Commitments, 2010	None
Major Products	Mostly equity, some loans
Summary of Other Key Characteristics	SIFEM invests mostly through private equity funds. Direct investments are done only on an exceptional basis and mostly as co-investments with SIFEM's investee funds.

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## Abbreviations and Acronyms

DFI	development finance institution
EDFI	European Development Finance Institutions
e.g.	for example
FAO	UN Food and Agriculture Organization
G-20	Group of 20
GAFSP	Global Agriculture and Food Security Program
ha	hectare
IFI	international finance institution
ILO	International Labour Organization
MDB	multilateral development bank
MDG	Millennium Development Goal
MSEs	micro and small enterprises
NCJ	Non-Compliant Jurisdictions
MW	megawatt
NGO	nongovernmental organization
OECD	Organisation for Economic Co-operation and Development
PPP	public-private partnership
RSBF	Russia Small Business Fund
SCF	Structured and Corporate Finance Department
SME	small and medium enterprise
TA	technical assistance
UN	United Nations

For abbreviations of and information on development finance institutions, see the annex.  
Currency is given in U.S. dollars unless otherwise specified.

