Investment Guide: Development finance institutions

Development finance institutions (DFIs) create impact in Emerging Markets and Developing Economies (EMDE) by providing financial support through debt, equity and grant financing, as well as providing credit-enhancing facilities. DFIs also provide non-financial support through ecosystem development and technical assistance packages. This guide includes an overview of DFI investment, where DFI investment is focused, and how to attract it.

Investment landscape overview

The investment landscape includes a spectrum of investor types, from those that seek to realize impact returns first to those that primarily seek to gain financial returns, as set out in Figure 1.

Impact focused investors, such as DFIs, target businesses or projects that generate positive, measurable social and environmental impact. They may trade off commercial financial returns for impact gains and provide either financial or non-financial support.

Financial support may be in the form of grants, equity, quasi-equity, and debt, as set out in the “Debt financing” guide. It can also include concessional financing, providing funding at “non-market” rates through lower interest rates, longer tenors and grace periods, or flexible collateral requirements. In addition, financial support may be invested alongside non-financial support through technical assistance packages to support a business in achieving its growth plans. Further details on the investment landscape for early stage businesses can be found in the “Angel and Impact Investors” commercialisation guide.

The SDG financing gap

![Figure 1: Investment Landscape overview](https://via.placeholder.com/150)
The SDGs are a call to action consisting of 17 goals and 169 targets adopted by all UN member states. They address fundamental challenges facing global economies, including hunger, climate change, equality, and poverty.

Significant investment is required to reach SDG targets. For instance, it has been estimated that to achieve SDG 7 on access to “Affordable and Clean Energy” by 2030, additional investment of USD $890 billion is needed each year to close the current financing gap, as highlighted in Figure 2.

**Figure 2: SDG 7 financing gap**

Closing the SDG financing gap will require the mobilisation of private and public capital both domestically and internationally. Domestic private capital includes a country’s private sector resources while international private capital typically consists of foreign investments. Similarly, public capital includes a country’s public resources, such as those generated from taxation, whilst international public capital is mobilised through aid, grants, and concessional financing.

**The role of DFIs**

DFIs typically provide international public capital to foreign governments and businesses focused on addressing social-economic issues in EMDEs. They provide critical financing and technical assistance in markets where commercially focused, private sector capital may be less willing to invest. This could be the result of perceived high market risk, or lack of market knowledge.

DFI investment supports the de-risking of markets to ‘crowd in’ other private sector investors. This type of investment, known as blended finance, combines concessional financing alongside non-concessional financing to mitigate the perceived market risk, or early-entrant risks.

A principle-based approach with a strong governance framework is leveraged by some DFIs to minimise the risk for market distortion as a result of their investment. For instance, The International Finance Corporation (IFC) uses five key principles that stipulate blended finance should be commercially sustainable, with a clear rationale for its use, and should strictly reinforce markets and promote high standards through corporate governance and environmental impact.

An additional benefit of DFI investment in EMDEs is the ability to deploy capital in periods of economic weakness as a form of counter-cyclical investing. This includes investing when other, local private investors may be reducing investment, or when local public financing is reduced. An example is the creation of specialist Covid-19 facilities to shelter economies from downturn cycles and stimulate economic growth.

DFIs may also provide technical assistance alongside financial investments to develop markets, introduce best practices, and improve the efficiency and effectiveness of deployed capital. For example, through a joint initiative called ‘Lighting Africa’, IFC and the World Bank provide financing, technical assistance, and ecosystem support to off-grid energy businesses. This includes access to market intelligence, quality assurance and business development support.

Similarly, working closely with the Department for International Development (DFID) through ‘CDC Plus’, CDC Group developed a technical assistance and support facility seeking to address persistent market failures and build on emerging trends. For example, the ‘CDC Plus market shaping project’ partnered with GOGLA, the global association for the off-grid solar energy industry, to test and develop the off-grid sector consumer protection principles and guidelines to support market development. These have been adopted by more than 25 off-grid solar (OGS) businesses to date.
Financial investments

When deploying capital, DFIs make both direct and indirect investment through debt, quasi-equity, equity, grants, concessional finance, and blended finance instrument types.

Direct investments, typically managed by the DFI’s own investment team, are channelled directly into businesses. In general, this will apply to larger ticket sizes in key focus sectors where they have a clear assessment of potential investment risks.

Indirect investments by DFIs are channelled through other fund managers. These specialist fund managers aggregate funds from several investors, known as Limited Partners (LPs), and deploy capital into focused areas, such as specific industries and geographies, typically at smaller ticket sizes.

As such, DFIs may leverage the expertise of these funds to effectively deploy capital into smaller businesses and drive the growth of local markets. Similarly, DFIs may also lend to financial institutions and governments to support lending into businesses whose risk may be perceived to be high by other commercial investors.

Credit-enhancement facilities

Credit-enhancement facilities de-risk investments, enabling businesses to access commercial capital which would otherwise not have been available. Examples include guarantees, output based aid, and first loss capital, as detailed in Error! Reference source not found..

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<tr>
<th>Facility</th>
<th>Overview</th>
<th>Outcomes</th>
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<tr>
<td>Partial Guarantee</td>
<td>A binding agreement provided by a third party to pay a lender a proportion of debt if the original borrower defaults</td>
<td>De-risks investments to the lender enabling them to provide capital to businesses that they would otherwise consider too risky</td>
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<tr>
<td>Output based aid</td>
<td>A binding agreement provided by a third party to pay a lender a proportion of debt once the borrower achieves agreed milestones e.g. sales targets</td>
<td>The aid provided which is set to agreed milestones, results in a reduced loan obligation to the borrower and acts as a form of security to the lender</td>
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<tr>
<td>First loss capital</td>
<td>Investors agree to bear the initial equity or debt losses (if they occur) as a means of crowding-in other investors that would consider the investment too risky</td>
<td>De-risks investments by bearing pre-defined losses incurred, thus giving comfort to commercial capital providers to co-invest</td>
</tr>
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Examples of DFIs

DFIs are either bilateral or multilateral institutions. Bilateral DFIs are established by one country with an aim to implement their government’s foreign development and cooperation policies in key focus countries, while multilateral institutions are established by more than one country to mainly support the private and public sectors in member countries.

Error! Reference source not found. gives an overview of both bilateral and multilateral DFIs and some of the funds or programmes that businesses may be able to leverage. Funds or programmes financed by DFIs typically provide direct financing through smaller-ticket size instruments including grants, debt and equity that are more relevant to the investment needs of smaller businesses.
The role of development banks

Development banks (DBs) are DFIs that position themselves as state owned, regional or multilateral development banks. They are typically non-deposit taking institutions and focus on socio-economic development in underserved sectors and markets.

Typically, DBs provide medium to long-term capital both on commercial terms, e.g. debt to mature businesses, as well as concessional terms to social enterprises in partnership with private players.

A business can attract development bank investments by aligning its mission and strategy of growth and socio-economic transformation to the goals of a development bank.

State-owned DBs are established and typically owned by individual governments, while regional DBs are established and owned by members of a certain region, e.g. African Union members. Multilateral DBs are

Table 2: Examples of DFIs

<table>
<thead>
<tr>
<th>DFI</th>
<th>Asset base</th>
<th>Focus areas</th>
<th>Examples of funds/programmes</th>
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<tr>
<td><strong>Bilateral DFIs</strong></td>
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<tr>
<td>CDC Group (United Kingdom)</td>
<td>Over USD 5.3B</td>
<td>Invests in regions such as Africa &amp; Asia in multiple sectors e.g. energy</td>
<td>Energy Access Relief Fund – USD 109M concessionary debt fund that invests directly in SSA &amp; Asia OGS businesses during Covid-19</td>
</tr>
<tr>
<td>Norfund (Norway)</td>
<td>Over USD 2.5B</td>
<td>Focuses on Africa, SE Asia &amp; Latin America in multiple sectors such as healthcare and energy</td>
<td>Clean Energy Program – Provides direct debt, grants, and equity investments &amp; indirect investments through Private Equity funds in SSA, Asia &amp; Latin America</td>
</tr>
<tr>
<td>Proparco (France)</td>
<td>Over USD 5.8B</td>
<td>Focuses on Africa, Asia &amp; Latin America in energy, agriculture, and healthcare</td>
<td>Metier Sustainable Capital Fund II – Over USD 113M Private Equity fund that provides direct investments to energy businesses in SSA</td>
</tr>
<tr>
<td>SwedFund (Sweden)</td>
<td>Over USD 667M</td>
<td>Invests in Asia &amp; Africa among other regions in financial inclusion, energy, and climate</td>
<td>Frontier Energy Fund – Over USD 200M fund that invests directly in early-stage renewable energy businesses in East Africa</td>
</tr>
<tr>
<td>Swiss Investment Fund for Emerging Markets (SIFEM) (Switzerland)</td>
<td>Over USD 958M</td>
<td>Focuses on Africa and Asia in sectors such as agriculture and energy</td>
<td>Armstrong South East Asia Clean Energy Fund – USD 164M Private Equity fund that invests directly in small-scale renewable energy projects in Asia</td>
</tr>
<tr>
<td>U.S. International Development Finance Corporation (DFC) (United States)</td>
<td>Over USD 10.2B</td>
<td>Works in Africa, Asia, Latin America &amp; Middle East in energy and infrastructure</td>
<td>Solar Energy Transformation (SET) Fund – USD 85M fund that provides direct debt to high-impact solar energy projects and companies in emerging markets</td>
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<tr>
<td><strong>Multi-lateral DFIs</strong></td>
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<tr>
<td>International Finance Corporation (IFC) (Over 185 member countries)</td>
<td>Over USD 19B</td>
<td>Works with the private sector to provide financing aimed at achieving the SDGs in developing countries</td>
<td>Scaling solar – An initiative that provides direct finance including concessional loans to energy projects alongside technical assistance in SSA</td>
</tr>
<tr>
<td>Multilateral Investment Guarantee Agency (MIGA) (Over 181 member countries)</td>
<td>Over USD 23B in total guarantees</td>
<td>De-risks investments by providing political risk insurance and guarantees in developing countries</td>
<td>Private Sector Window (PSW) – USD 2.5B fund that provides direct financing through local currency, guarantees and political risk insurance</td>
</tr>
</tbody>
</table>
established and owned by members globally. **Error! Reference source not found.** provides an overview of examples of development banks, their focus areas, and funds/programmes that they offer.

### Table 3: Examples of Development banks

<table>
<thead>
<tr>
<th>DBs</th>
<th>Focus areas</th>
<th>Investment instruments</th>
<th>Examples of funds/programs</th>
</tr>
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<tbody>
<tr>
<td><strong>State owned</strong></td>
<td></td>
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<tr>
<td>British Business Bank (BBB) (United Kingdom)</td>
<td>Works with UK based businesses across sectors including manufacturing and infrastructure</td>
<td>Typically provide debt financing and credit guarantees</td>
<td>Covid-19 Business Interruption Loan Scheme – Provides a partial guarantee to 40 financial institutions on loans to UK business affected by Covid-19</td>
</tr>
<tr>
<td>FMO Entrepreneurial Development Bank (Netherlands)</td>
<td>Focuses on Africa and Asia in multiple sectors such as energy and health care</td>
<td>Typically offer debt and equity</td>
<td>Evolution II fund – USD 216M fund that offers direct investments to SSA energy businesses and projects</td>
</tr>
<tr>
<td><strong>Regional</strong></td>
<td></td>
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<tr>
<td>European Bank for Reconstruction &amp; Development (EBRD) (69 countries from North America, Africa, Asia, and Australia)</td>
<td>Invests in member countries in multiple sectors including energy and infrastructure</td>
<td>Typically offers debt, credit guarantees, equity and technical advisory services</td>
<td>Morocco Sustainable Energy Financing Facility (MorSEFF) – USD 120M credit line to lend to renewable energy projects and businesses indirectly through Financial Institutions</td>
</tr>
<tr>
<td>European Investment Bank (EIB) (27 member states of the European Union)</td>
<td>Supports investments in Europe, Asia and Africa in key priority areas including health, energy, and infrastructure</td>
<td>Typically offers equity and debt, credit guarantees and technical advisory services</td>
<td>Green for Growth Fund (GGF) – USD 554M fund which offers direct investments to energy businesses and indirectly through financial institutions in Europe and North Africa</td>
</tr>
<tr>
<td>Asian Development Bank (ADB) (68 member states mainly in Asia)</td>
<td>Works primarily in Asia on key priority areas in including energy and healthcare</td>
<td>Typically offers equity, debt and grants</td>
<td>Global Environment Fund South Asia Clean Energy Fund (GEF-SA) – USD 200M fund that invests directly in energy projects in Asia</td>
</tr>
<tr>
<td>African Development Bank Group (AfDB) (Over 80 member countries mainly from Africa)</td>
<td>Invests in Africa in key focus areas including energy access and infrastructure</td>
<td>Typically provides debt financing</td>
<td>Facility for Energy Inclusion (FEI) – USD 500M debt financing facility for small-scale energy access projects directly through FEI Off and On-Grid Funds</td>
</tr>
<tr>
<td><strong>Multi-lateral</strong></td>
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</tr>
<tr>
<td>World Bank (189 member countries globally)</td>
<td>Works with governments and businesses globally to support socio-economic development</td>
<td>Typically provide loans and grants</td>
<td>Africa Renewable Energy Access Program (AFREA) II - Over USD 20M fund that invests directly in SSA energy businesses</td>
</tr>
</tbody>
</table>
References and further reading

What are SDGs?

Policy Brief III – Financing SDG 7
https://sustainabledevelopment.un.org/content/documents/24090pb3_cover.pdf

Structured and Securitized Products
https://www.ifc.org/wps/wcm/connect/7fe2e2ba-f580-4eed-9985-da61cfbd3da0/PCG.pdf?MOD=AJPERES&CVID=jgework4Ns

Global Off-Grid Solar Market Trends Report
https://www.lightingglobal.org/resource/2020markettrendsreport/

European Development Finance Institutions
https://www.edfi.eu/members/meet-our-members/

Blended finance At IFC

DFI Working Group on Blended Concessional Finance for Private Sector Projects
https://www.ifc.org/wps/wcm/connect/3aa1c1a-11a8-4f21-bf26-e76e1a6bc912/201810_DFI-Blended-Finance-Report.pdf?MOD=AJPERES&CVID=mpvbN7c

Providing Energy Access through Off-Grid Solar - Guidance for Governments, Global association for the off-grid solar energy industry

The role of Development Banks in Developing Countries

The role of development banks in promoting growth and sustainable development in the South

Credit enhancement facilities
Useful contacts

Energy Access Ventures Fund (EAVF)
Loiyangalani Dr Road
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https://eavafrica.com/

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