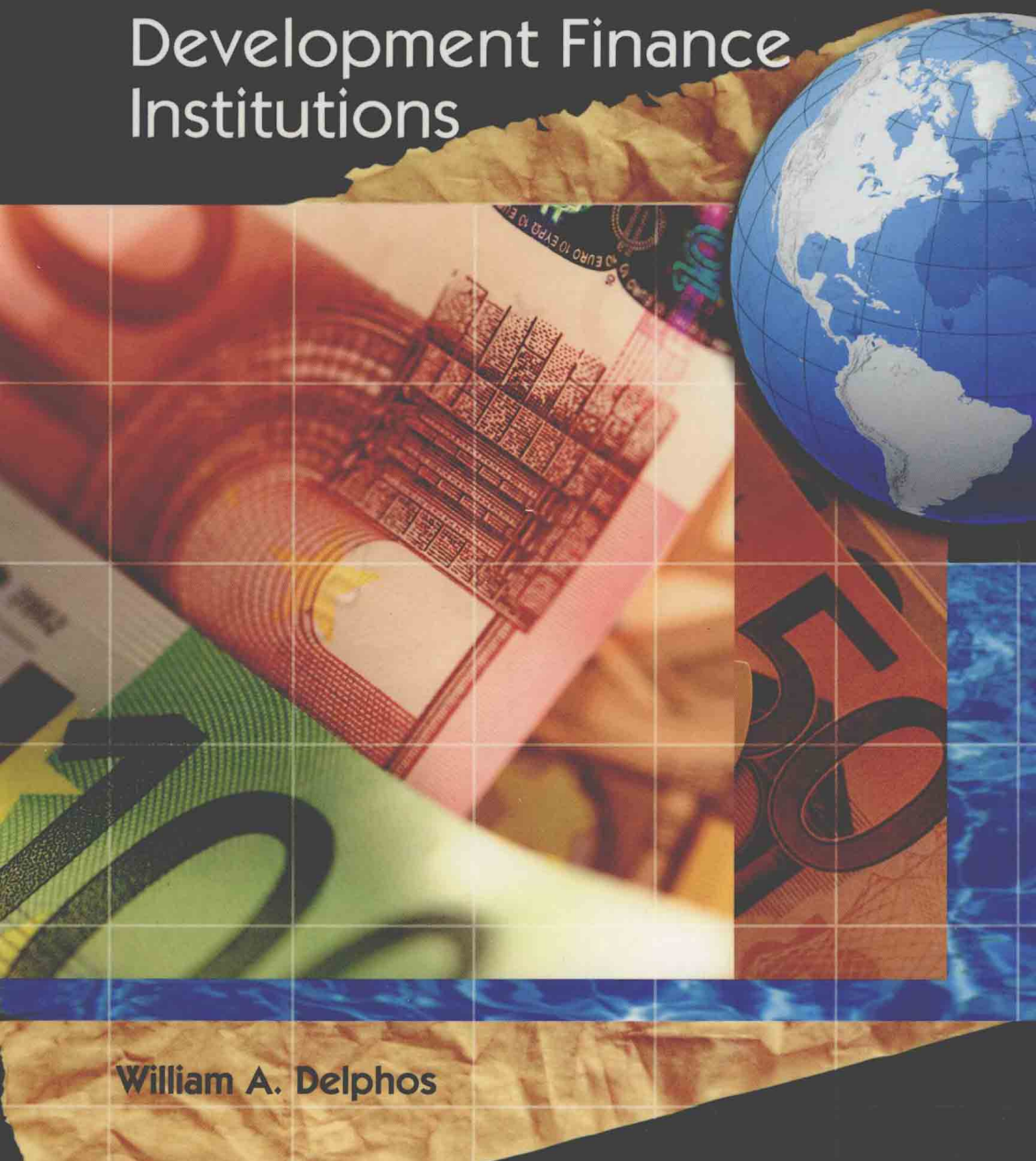


# *Inside* The World's

Development Finance  
Institutions



William A. Delphos

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**Inside The World's Development Finance Institutions**  
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*William A. Delphos*  
November 2003  
Washington, DC

## PREFACE

While the 1990s ushered in a global trade and commercial environment that dramatically affected the way many companies operated, the following decade is filled with even more international opportunities for companies that know and understand the many facets and intricacies of the global economy. As the international business world grows smaller and economies become more closely tied, companies must take advantage of opportunities in “emerging markets.” The developing world poses endless possibilities to companies willing to make investments in underdeveloped regions. As a result, development finance institutions (DFIs) willing to facilitate, finance, and support these endeavors continue to grow. DFIs offer a variety of financial products and services and actively work with private businesses to create sustainable growth. Technical assistance, training, and improved procurement procedures also make projects funded by these organizations a multi-billion dollar opportunity few companies can afford to pass up.

Finance is the lubricant of commerce. Without financing, in all of its varieties (i.e., project finance, short-term trade credit, letters of credit, medium- and long-term capital equipment loans, equity investments, political risk insurance, and so on), companies would have difficulty capitalizing on most international ventures. Often times, private sector companies find that a commercial infrastructure must be put in place before a private physical infrastructure project can be contemplated. Financing forms a bridge allowing innovative dreams to become a viable business reality.

This book is a practical guide to the institutions providing these essential services. *Inside the World's Development Finance Institutions* provides a resource on who these organizations are, what products and services they offer, and how they can be contacted. In addition, a number of case studies are included throughout the main text of the book to help you take full advantage of business opportunities worldwide. Many business executives are unaware of the numerous resources available for development in emerging markets. All too often programs are underutilized because companies are generally unaware of the types of assistance at their disposal. The goal of this book is to make information about private sector financial assistance more accessible to the international business community.

While it would be an exaggeration to suggest that this publication is comprehensive, every effort has been made to include

## PREFACE

detailed descriptions of each of the major DFIs existing at the time of publication. We also provide specific contact information so interested executives can follow up directly with the agencies for next-step advice. If your company is actively operating in emerging markets, we are confident this book will become a valuable one-stop shop for financing sources.

*William A. Delphos*  
November 2003  
Washington, DC

# INTRODUCTION

DFIs, ECAs, bilaterals, multilaterals, aid, tied-aid, sovereign and subsovereign loans, grants, technical assistance, private sector initiatives, and so on, sound like the kind of gobbledygook you would expect to come out of Washington, DC. Certainly, the typical U.S. business executive wouldn't think that this esoteric world could have any application to the world of business. However, as the globalization of the world's economies continues, choosing to limit business opportunities to the so-called safe markets of the United States, Euroland, Japan, and Korea is no longer a realistic option for dynamic growth-oriented businesses. This book is designed to expose executives to funding sources and risk mitigation tools for direct foreign investment in emerging markets. Furthermore, it serves as a guide for negotiating the maze of acronyms and new terms.

## BACKGROUND

Countries' efforts to rebuild after World War II resulted in the genesis of institutions that today help to carry aid from rich countries to poor countries. In the United States, the Marshall Plan had a far-reaching and timeless impact in establishing how governments thought about aiding other countries. Although the Marshall Plan was self-described as an interim plan for rebuilding Europe after the War, "an emergency tool for assistance," it did spawn at its conclusion in 1951 the Mutual Security Agency, in 1953 the Foreign Operations Administration, and in 1954 the International Cooperation Administration. All of these institutions were established with the goal of consolidating economic and technical assistance on a worldwide basis, but none were given the autonomy necessary to effectively execute a coordinated global development plan. It wasn't until 1961 and the passing of the Foreign Assistance Act under President John F. Kennedy that U.S. foreign aid was revised and refocused toward nonmilitary aid. It was then that the United States Agency for International Development (USAID) was born. USAID unified already existing efforts and organizations, but more importantly, it embodied the U.S. recommitment to overseas development through programs and risk capital that could help countries become self-supporting. To focus on supporting private investment in developing economies, the Overseas Private Investment Corporation (OPIC) was established within USAID and then later spun off in 1975.

Organizations similar to USAID and OPIC were established in all parts of the world throughout the latter half of the twentieth

century, and new ones are created every year. Some of these so-called development agencies were born of post-war development theories, and some were based on post-colonization concepts. All are surprisingly similar in mandate, however, seeking to support the economic and social development of their global “neighborhood” by providing risk capital and transferring business and technical know-how.

Prior to the creation of the International Bank for Reconstruction and Development, the original institution of the World Bank Group, in 1946, there were no multilateral organizations—and only a handful of bilateral (or one-country) agencies—focused on economic development through the financing of enterprises and projects in the world’s lower- and medium-income countries. Indeed, some institutions included in this book were established as early as 1921. Three of these frontrunners focused on social progress and economic development through financial assistance within their own borders, but one serves as the first true global development finance institution—Agence Française de Développement (AfD). Established a full 5 years prior to IBRD, AfD was established as, and remains today, a bilateral institution providing loans, equity, and technical assistance to public institutions and private companies in an effort to increase per capita income in less-developed countries. AfD continues to make its mark on the international finance scene, funding approximately 130 projects per annum from its network of 45 offices in 60 countries. In the 62 years since AfD was established, the field of development finance institutions (DFIs), has grown exponentially.

## WHAT IS A DFI?

For purposes of this publication, DFIs are defined as the multilateral or bilateral institutions providing the risk capital (debt and equity) guarantees, technical assistance, and/or insurance and that enable flows of foreign direct investment into less-developed or emerging markets. It is important to note from this definition the focus on *private investment*. Certainly, quite a few of the major DFIs, such as the International Bank of Reconstruction and Development (IBRD), the Inter-American Development Bank (IADB), and the Asian Development Bank (ADB), exist primarily to provide governments with capital. However, even though the dollars dedicated to private funding are small, the impact is often of similar magnitude to public funding dollars. This is because private sector activities typically focus on playing



a catalytic role—investing the first dollar (or peso or baht), guaranteeing against political risks, and being paid back last so private sector players are entering as opposed to leaving their money on the sidelines or more often in investment-grade countries. This book focuses on the role DFIs play in relation to the private sector and their involvement in emerging markets. So although IBRD, IADB, and ADB programs are discussed at length, their public sector activities are not addressed.

## COMMONALITIES OF DFIS

DFIs, multilateral and bilateral alike, described in this book are widely disparate in terms of capitalization, membership base, breadth of mandate, location, age, and revenue. However, there are also many similarities, as follows.

- DFIs have an interest in a “greater good.” Although programs vary in “packaging,” all focus largely on reducing unemployment, improving the environment, enhanced trade flows, and social and economic development.
- DFIs play a catalytic role in increasing capital flows. Although they lend on market terms, they work very hard not to compete with, but rather complement, private capital. Most DFIs invest in projects that meet their individual investment criteria but that cannot get financing and/or technical expertise elsewhere at reasonable terms.
- Transactions benefit from the halo effect that a DFI, as a government-owned or government-supported institution, offers. A DFI’s presence in a transaction is beneficial from a financial as well as a technical and political standpoint. Foreign investors seek DFI participation because of their business expertise in developing countries and because of their excellent relationships with developing-country governments. A DFI’s status as an independent international organization reassures both foreign investors and host countries and can provide added comfort by helping companies and sponsors negotiate with host governments.
- DFIs have an appetite for supporting venture and greenfield transactions and are accustomed to the inherent risks. To mitigate risks, DFIs have a structured way of lending and are rigorous in the due diligence they perform. Most lending to venture or greenfield projects is done as project financing with a long-term loan being made to a special purpose vehicle (SPV) whose cash flows in and out are very predictable, for example, because of the presence of off-take contracts. Project

finance lenders require a security interest (and assignment of all project contracts) in highly controlled cash mechanisms and as much mitigation as possible of foreign exchange risks.

- DFI's have a clear commercial perspective on risk and return. DFI's rarely offer grants or subsidized loans, but charge market rates for services and capital. The benefits lie in a DFI's ability to consider a 15-year or more tenor and in its ability to attract additional capital into a deal.
- Most DFI's are initially capitalized with government and/or IBRD monies. However, they are expected, over time, to become self-sustaining through their ability to raise large sums in the global capital markets. For this reason, most DFI's maintain investment-grade risk ratings from the major international rating agencies (Standard & Poor's, Moody's, and/or Fitch). Therefore, DFI's must focus on portfolio balance and credit quality. And because they rarely act alone, DFI's must be cognizant of the risks that the rest of the market (i.e., their co-lenders) is willing to undertake on a given transaction.
- DFI's understand and accept political risks, but require compensation for shielding other project participants from them.
- Due to government ownership or sponsorship, many DFI's occasionally use their programs to accomplish the political mandates of their shareholders, but unlike ECAs, are not primarily interested in promoting exports. Even in these isolated cases, however, the loans still have commercial terms and a clear expectation of repayment.

DFI's generally offer great advantages to companies and individuals embarking on projects in less-developed economies, but there are also some drawbacks, or "costs," to doing business with a DFI. They include the following:

- *Timing.* Because of the governmental nature of these institutions and, particularly within a multilateral institution, the number of constituents' objectives that need to be met, it can take a substantial amount of time to close a transaction with a DFI. Companies may consider hiring a consulting firm that specializes in procuring government resources to help run the gauntlet.
- *Policy.* Environmental standards are a good example of policy requirements that DFI's must adhere to that commercial lending institutions often do not. Enterprises supported by a DFI need to comply with the higher of World Bank or local environmental standards and must prove compliance up front and on an ongoing basis.

- *Eligibility.* All DFIs have certain eligibility requirements that are often above and beyond the typical credit checklist of a pure commercial institution. Requirements often relate to the number of jobs an enterprise can offer or restrictions on certain types of businesses (such as the manufacturing of arms or the operation of casinos). In some instances, whole industries may be ineligible for support because it is perceived that other sources of capital are available or that the business itself is not politically correct.

## HOW TO USE THIS BOOK

This book was created to aid and guide international business executives investing in emerging markets. Because commercial and institutional sources of funding ebb and flow with the changing tides of the world economy and shifting views of credit officers, the constancy of the resources housed within DFIs can be invaluable to those seeking advice, insight, risk capital, and/or technical assistance. This book can also be a useful resource to those seeking procurement opportunities. Many of the DFIs described herein offer online information about projects that are being supported. Each project that receives DFI support creates jobs. Projects require equipment, contractors, consultants, technical advisers, insurance brokers, lawyers, and more in order to be realized. Check out the web sites in a methodical fashion to make sure you don't miss any procurement opportunities, but keep in mind that even if you overlook an opportunity to work for the DFI, the sponsor of a project may still be in need of assistance.

## WHICH DFI IS FOR YOU?

DFI programs can be organized into concentric circles, so those seeking support from institutions must make sure that they approach the correct agency based on industry, region, risk capital type, sponsor nationality, degree of interest, or ability to participate. Remember, not all DFIs have the same policy guidelines.

This book is organized into chapters corresponding to these circles. DFIs with the broadest mandates and, correspondingly, the largest circle is discussed first, followed by those with more refined mandates, and so on. Generally, the size of a DFI's circle is determined by whether its charter restricts it to focusing on particular countries and whether its membership (or ownership) restricts it to considering only "member-sponsored" or "member-benefiting" projects. This is because, for the most part, DFIs do not restrict their support of transactions according to

sectoral criteria. From a policy perspective, DFIs have traditionally been most adept at financing infrastructure projects, but often consider projects in most sectors as long as doing so results in a greater good; that is, more jobs, less pollution, cheaper services to locals, and so on. (See previous section for mention of a few exceptions to this “greater good” rule.)

As a brief introduction to these DFIs, the goal of this Introduction is to accomplish the following:

- Discuss the categories of DFIs that exist in today’s global marketplace
- Briefly introduce each of the DFIs covered in this book
- Highlight the products offered by DFIs
- Enlighten the readers, presumably investors, as to the eligibility criteria for DFI support
- Describe the process for obtaining DFI support

Chapter 1 focuses on multilateral DFIs with a global focus. The large majority of the DFIs in this category are members of the World Bank Group (WBG), which supports investments across sectoral lines in any of the 183 member countries. Institutions covered in this chapter include the following:

- *International Bank for Reconstruction and Development (IBRD)*—IBRD is the largest source of market-based loans to developing countries and is the original institution of the WBG.
- *International Finance Corporation (IFC)*—Headquartered in Washington, DC, this member of the WBG promotes development by encouraging the growth of productive enterprise and efficient capital markets.
- *United Nations Development Program (UNDP)*—As the global development network of the United Nations, UNDP aims to reduce global poverty by providing financing, development advice, and advocacy.

Chapter 2 covers bilateral DFIs (BDFIs). These single-member development financial institutions support projects in most global emerging markets under the philosophy that sponsor countries benefit from a more prosperous global economy. For example, AfD might support a project in Botswana even if there is no apparent direct French benefit—no French sponsor, no French contractor or adviser—and even if there is no existing trade between France and Botswana. Of course, the project must be beneficial to the social and economic development of Botswana and be financially viable taking into account credit supports offered by project participants. Many of these bilateral DFIs

have been in existence for several decades, and they are generally very active in the international finance scene. However, most consider themselves primarily finance participants and prefer to lend to transactions that have World Bank, IADB, ADB, or similar support taking comfort from a “stamp of approval” provided by these other organizations.

- *Agence Francaise de Developpement (Afd)*—Established in 1941, AfD was one of the first DFIs. It now continues to increase per capita income in less-developed countries by encouraging development projects, supporting trade associations, and participating in the restructuring of financial systems.
- *CDC Capital Partners*—This organization was created by the government of the United Kingdom in 1948 to assist commercial and industrial development around the world.
- *German Investment and Development Company (DEG)*—A subsidiary of Kreditanstalt für Wiederaufbau (KfW), this organization was set up to establish and expand private enterprise structures within developing countries.
- *Netherlands Development Finance Corporation (FMO)*—Established in 1970, FMO provides financing to the infrastructure sector and to projects aimed at promoting micro, small-, and medium-sized enterprises (MSMEs) in developing countries.
- *German Agency for Technical Cooperation (GTZ)*—This German development corporation was founded in 1975 to promote international cooperation through sustainable development around the world.

In Chapter 3, the bilateral DFIs highlighted are those providing assistance when there is a clear linkage to the sponsor’s national interests. This linkage can be established by a citizen of the sponsor country having a minimum ownership interest in the project or by a contractual relationship the project has with a company of the same nationality as the sponsor.

- *Portuguese Agency of Support for Development (APAD)*—Recently established, APAD promotes Portuguese investment, supports social and economic infrastructure, and fosters the private sector in projects with a Portuguese interest.
- *Belgian Corporation for International Investment (BMI-SBI)*—The BMI-SBI provides financing to Belgian companies through the creation of new joint ventures or subsidiaries and the acquisition, restructuring, and development of existing companies.
- *Compañía Española de Financiación del Desarrollo (COFIDES)*—Headquartered in Madrid, Spain, COFIDES encourages

Spanish companies to invest in projects related to transportation infrastructure, capital goods, electronics, and agribusiness in developing countries

- *Ducroire/Delcredere (Delcredere)*—Founded in 1921 after the First World War, this Belgian organization provides financing and insurance products to support the expansion, creation, and improvement of Belgian industry.
- *Export Development Canada (EDC)*—Established in 1995, EDC has grown considerably, having closed more than 100 transactions in over 30 countries by providing trade finance services to Canadian investors and exporters.
- *Finanzierungsgarantie-Gesellschaft (FGG)*—Originally founded in Austria in 1969, FGG bears the risk of long-term financing to Austrian countries.
- *Finnfund*—Headquartered in Helsinki, this Finnish development finance company provides long-term risk capital for private projects in developing countries.
- *Danish International Investment Funds (IFU)*—Through this group of funds, the Danish Parliament supports growth in emerging markets through project financing, loans and guarantees. There are four funds: IFU, IFV, IØ, and MIØ. These funds provide assistance to specific countries based on per capita income and region.
- *Japan Bank for International Cooperation (JBIC)*—Created through a merger of the Export-Import Bank of Japan and the Overseas Economic Cooperation Fund, JBIC was established in 1999 to support development efforts in developing countries, to promote stability in international financial markets, and to promote Japanese export and economic activities overseas.
- *Kreditanstalt für Wiederaufbau (KfW)*—This German organization was created to distribute U.S. Marshall Plan aid. Today it provides loans to finance investment goods and related services, primarily to developing countries.
- *Nordic Development Fund (NDF)*—Established to promote economic and social development in developing countries, NDF provides financial support to activities with an interest in the Nordic region.
- *Nordic Investment Bank (NIB)*—Operating primarily in the Nordic countries, NIB offers services to promote growth in these countries through the long-term financing of projects in the public and private sectors.
- *Overseas Private Investment Corporation (OPIC)*—Established in 1971 by the U.S. government, OPIC provides services to U.S.

businesses looking to expand into foreign countries and emerging markets.

- *Societa Italiana per le Imprese all'Estero (SIMEST)*—Created by the Ministry of Foreign Trade in 1991, SIMEST supports Italian entrepreneurs in all aspects of international business.
- *Swedfund International (Swedfund)*—This investment banking organization was established to help create profitable Swedish companies in order to stimulate economic growth.
- *United States Agency for International Development (USAID)*—for more than 50 years, USAID has been the principal U.S. government agency providing assistance to countries recovering from disaster, trying to escape poverty, and engaging in democratic reforms.

Chapter 4 covers the subset of DFIs that are multilateral organizations whose mission it is to support development by participating in projects in member countries. Often the membership base of these particular DFIs includes a combination of developed capital-providing countries and developing recipient countries. Initial capital is often provided by membership institutions that sit on voting boards, with a goal of maintaining very high credit ratings (A+ and above) so future funding requirements can be met through global debt issuance. Increasingly, these DFIs are involved in providing capital to local financial institutions to broaden their reach. This chapter is organized according to the regions these particular DFIs support.

## AFRICA

- *African Development Bank (AfDB)*—To break the cycle of poverty in the African region, AfDB promotes the flow of external and domestic resources and investment and provides policy assistance and technical service to the region.
- *Banque Ouest Africaine de Developpement (BOAD)*—Established in 1973 by the West African Monetary Union, BOAD promotes regional economic development and integration within its eight member states.
- *Industrial Development Corporation (IDC)*—The South African parliament established the IDC in 1940 to foster economic growth, industrial development, and economic empowerment in the region.
- *Eastern and Southern African Trade and Development Bank (PTA Bank)*—Located in Kenya, the PTA promotes economic prosperity to its members primarily by providing project and trade finance.

## ASIA

- *Asian Development Bank (ADB)*—ADB is dedicated to reducing poverty in Asia and the Pacific region by providing assistance in the form of loans, technical assistance, grants, guarantees, and equity investments.

## LATIN AMERICA

- *Banco Latinoamericano de Exportaciones (BLADEX)*—Established in 1977 in Panama, BLADEX serves the Latin American and Caribbean regions by providing integrated solutions for exports.
- *Central American Bank for Economic Integration (CABEI)*—Located in Honduras, CABEI is committed to improving social and economic development by providing resources and technical assistance to South America.
- *Andean Development Bank (CAF)*—Established in 1970 in Caracas, Venezuela, CAF serves to implement economic integration measures and to coordinate policies among participating countries in the areas of trade, industry, finance, and technical cooperation.
- *Caribbean Development Bank (CDB)*—Created in response to requested assistance from the United Nations Development Program, CDB finances regional development projects that benefit member countries as well as the region as a whole.
- *Inter-American Development Bank (IADB)*—Headquartered in Washington, DC, the IADB is the oldest and largest regional multilateral development institution, financing economic and social development as well as infrastructure projects that serve to reduce poverty and improve social equity, competitiveness, modernization of the state, regional integration, and the environment.
- *Inter-American Investment Corporation (IIC)*—As part of the IADB, the IIC provides financing and consulting services to private Latin American and Caribbean enterprises.
- *North American Development Bank (NADB)*—Spurred by the North American Free Trade Agreement, NADB seeks to facilitate economic and social development through the development of an environmentally sound infrastructure.

## EASTERN EUROPE

- *Black Sea Trade and Development Bank (BSTDB)*—Established in Greece in 1998, BSTDB fosters development and promotes business through the support of regional trade and financing projects.



- *European Bank for Reconstruction and Development (EBRD)*—Located in the United Kingdom, the EBRD is the largest single regional investor in Central and Eastern Europe. It provides financing for banks, businesses, industries, and investments.
- *European Investment Bank (EIB)*—As the multilateral financing institution for the European Union (EU), EIB provides assistance to small- and medium-sized enterprises (SMEs) by offering venture capital, loans, and guarantees.

## MIDDLE EAST

- *Arab Fund for Economic and Social Development (AFESD)*—Created by the League of Arab States in 1974, AFESD eliminates development constraints and fosters economic integration and cooperation among member countries.

Chapter 5 covers the national DFIs (NDFIs), which are government-owned, funded, and supported development institutions that were created to lend or invest in developmental projects within their national boundaries. Almost every developing country has an NDFI, so depending on the location of a project, the resources available from the relevant NDFI should be explored. This chapter provides detailed information on NDFIs in 11 of the largest emerging markets: Brazil, China, India, Indonesia, Korea, Mexico, Poland, Russia, South Africa, Taiwan, and Turkey. In some instances, several institutions provide assistance. Mexico has two and India has four; Argentina, on the other hand, relies on the programs of the IADB and has not established a developmental agency of its own. Appendix B includes information about other NDFIs around the globe.

## BRAZIL

- *Brazilian Development Bank (BNDES)*—Established in 1952, BNDES is the primary source of long-term funding for Brazilian development projects in the private sector.

## CHINA and TAIWAN

- *China Development Bank (CDB)*—CDB is committed to narrowing the economic development gap between China's coast and its central and western regions by providing finance instruments for the construction of an infrastructure and industry.

## INDIA

- *Industrial Development Bank of India (IDBI)*—Established in 1964, IDBI provides financial assistance for greenfield projects, expansion, modernization, and diversification purposes.