# Aligning blended finance to development effectiveness: where we are at

Research Paper – 2018 1

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**This publication, as well as supporting studies, are available for download at:**
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# Aligning blended finance to development effectiveness: where we are at

TUDCN-RSCD

CSOPartnership for Development Effectiveness

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# LIST OF ACRONYMS

BIO – Belgian Investment Company for Developing Countries

COFIDES – Spanish Development Finance Corporation

DEG – German Investment and Development Corporation

DFI – Development finance institution

EDFI – European Development Finance Institutions

EIB – European Investment Bank

FMO – Entrepreneurial development bank of the Netherlands

GPEDC – Global Partnership for Effective Development Cooperation

IDB – Inter-American Development Bank

IFC – International Finance Corporation (a member of the World Bank Group)

ITF – the European Union's Infrastructure Trust Fund

KfW – German development bank

LDC – Least developed country

LIC – Low-income country

MSMEs – micro, small and medium enterprises

NorFund – Norwegian Investment Fund for Developing Countries

ODA – Official development assistance

OECD – Organisation for Economic Cooperation and Development

OFCs – Offshore financial centres

PPP – Public-private partnership

SwedFund – State-owned risk capital company (Sweden)

UN – United Nations

# EXECUTIVE SUMMARY

**This report explores how donor countries are engaging with the private sector in the context of development cooperation.** Despite much debate, it is still unclear what working with the private sectors means in the context of development cooperation (i.e. which private sector actors to engage and how) and to what extent it might affect other forms of support. There is also limited information on the existing tools and practices to ensure donor countries' engagement with the private sector is effective and contributes to achieve the SDGs. This report aims to shed some light on these issues. This report builds on the previous work conducted by the Trade Union Development Cooperation Network (TUDCN).[1]

## FINDINGS

The latest TUDCN report on this topic, published in 2016, highlighted a number of issues with the way Development Finance Institutions (DFIs) operate. Since then, there has been little progress on addressing these issues and on aligning the DFIs' work with the development effectiveness principles. More substantial changes have been observed in the policy framework that guides' donor development cooperation and private sector engagement in developing countries. Updated donor policy frameworks show an increased interest in the private sector, underpinned by the belief that supporting the private sector can benefit both developing and donor countries.

**DFIs are likely to channel increasing amounts of ODA and development finance in support of the private sector in the future.** They have a development mandate and have significant experience with using financial instruments to support the private sector. However, new methodological rules in ODA reporting are also likely to bring other institutions, which have remained on the margins of the development debate, onto the scene, especially when ODA flows have been concerned. Export credit agencies for instance, which provide guarantees and other services to companies investing in other countries, including developing countries, are likely to be increasingly solicited.

**DFIs are currently not well equipped to support developing countries in line with the development effectiveness principles.** DFIs have adopted too few measures to ensure compliance with this set of principles and, in some cases, DFI practice can undermine key areas of the development effectiveness framework. This report examines the performance of DFIs in three key areas: ownership, development results and accountability. A summary of the results is presented in the table below.

**Compliance with the principle of ownership is one of the biggest challenges identified in this report.** There are obstacles at several levels. Firstly, many DFIs have a preference for donor-country companies. Secondly, developing countries do not have access to decision-making procedures and only in a handful of cases, consultation with developing country governments is explicitly required. Nonetheless, some **good practices have been identified**. Certain DFIs have developed some form of criteria to direct investments towards companies or countries with fewer investments opportunities, namely MSMEs or lower income countries.

When it comes to development results, all DFIs in the sample use similar performance standards and monitoring practices as part of their due diligence procedures. The report finds that DFIs use standards and monitoring to prevent projects from doing harm and avoid reputational risks, but **more impact could be achieved if they covered the supply chain, were less reliant on self-reporting and reacted promptly in case of breaches**.

Due diligence,[2] including timely remedy, should be fully implemented by DFIs and the companies they support to ensure compliance with social and labour standards in their supply chain, where abuses currently occur. For example, labour standards used by DFIs are limited to the workers directly involved in the core business activities, and/or to specific labour standards like child/forced labour.

**Summary of DFI's performance against selected aid effectiveness principles**

| DFI | Ownership | | | Development results | | Mutual accountability | |
|---|---|---|---|---|---|---|---|
| | Preference for donor-country companies | Restrictions in access to dev. finance | Stakeholder participation | Performance standards | Monitoring | Transparency | Complaint mechanism |
| Bio Invest (Belgium) | above average | above average | average | average | average | poor | poor |
| CDC Group (UK) | poor | above average | average | average | average | average | above average |
| Cofides (Spain) | poor | poor | poor | average | average | poor | poor |
| DEG (Germany) | poor | above average | poor | average | average | average | above average |
| EIB (EU) | above average | average | average | average | average | average | above average |
| FMO (Netherlands) | poor | average | average | above average | average | poor | above average |
| IFC (World Bank) | above average | average | average | average | average | above average | above average |
| IFU (Denmark) | poor | poor | poor | average | average | average | above average |
| Norfund (Norway) | poor | above average | poor | above average | average | average | poor |
| Proparco (France) | average | above average | poor | average | average | average | poor |
| Swedfund (Sweden) | above average | average | poor | above average | average | poor | poor |

■ poor performance ■ average performance or some good features ■ above average good performance

See section on methodology for more information

1 See Pereira, J (2014). Understanding donor engagement with the private sector in development; in Business Accountability for Development: Mapping business liability mechanisms and donor engagement with private sector in development. CPDE in cooperation with ITUC-TUDCN and EURODAD; and Pereira, J. (2016). The development effectiveness of supporting the private sector with ODA funds. CPDE and ITUC-TUDCN.

2 Due Diligence as enshrined in the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. In this sense, companies should implement due diligence to avoid and address adverse impacts in their operations, supply chains and business relationships. When adverse impacts occur, companies should provide remedy.

**Many DFIs fail to provide many of the essential building blocks required to ensure accountability towards project stakeholders.** Complaint mechanisms are a crucial tool for accountability, yet only six out of the eleven DFIs in the sample have some form of complaint mechanisms in place. Transparency is generally deficient, and project level information is generally very basic.

## RECOMMENDATIONS

The first and most important step needed is for donors -and DFIs- to **adopt a set of criteria to engage the private sector in development cooperation**. Certain steps have been taken by DFIs in this respect, but initiatives such as the OECD DAC Blended Finance Principles[3] are very generic and difficult to operationalise due to the lack of detailed suggestions. The criteria should address the following aspects.

### Increase the ownership of development projects implemented by DFIs:

- Remove DFIs' preferences for donor-country companies through the following actions: amend the mandate of the institution or the overall development cooperation framework; ensure that the allocation of voting rights to donor-country companies does not affect project decisions (e.g. by giving the government a final vote); and open up access to facilities (instruments or pools of funds) currently restricted to donor-country companies.

- Adopt policies and approaches to project selection that prioritise investments in companies, countries and activities with a higher development dividend. Some examples include the use of methodologies encouraging investments in difficult situations (such as the case of CDC Group) and/or requiring a minimum share of investments in local companies and lower income countries.

- Create structured processes for stakeholder engagement both at donor-country and developing country levels. Donor-country stakeholder engagement should focus on the institutional level (e.g. when developing new policies). Engagement with stakeholders from developing countries should happen in the early stages of project development. In both cases, participation should be open to government, local authorities, CSOs, trade unions and others.

- Demonstrate how projects align with and support developing-country development strategies. In order to ensure the coherence of the projects with their development mandate and due diligence procedures,[4] DFIs should avoid supporting projects in countries where the ILO has concluded that core labour standards are severely and repeatedly violated, and where there is a lack of political willingness from the government to ensure the enforcement of these rights. Exemptions could be granted for projects that contribute to improving respect for labour standards. Similarly, DFIs should only grant support to companies that respect labour standards.

### Focus on delivering and maximising development results:

- Review DFIs' procedures to ensure full implementation of due diligence by investors and include effective monitoring and complaints procedures. This must be in line with the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. These actions should be accompanied by the possibility of suspending or terminating financial support to borrowers that are not in compliance.

- Maximise the amount of tax revenue captured by partner countries by adopting and implementing responsible tax policies that reduce the use of tax havens and intermediary jurisdictions. The use of such jurisdictions should be justified and explained in order to raise awareness of existing constraints with a view to addressing them in the longer term.

- Reform the decision-making structures to formalise the participation of different stakeholders in donor and partner countries, including trade union representatives to balance the different interests and ensure a more comprehensive view of their development mandate.

### Ensure project stakeholders have all necessary tools to hold project partners and DFIs accountable for their activities:

- Extend the disclosure of project information to include at a minimum ex-ante project evaluations, environmental and social impact assessments and management plans, ex-post evaluations. A historical database of projects should be available at least during the projected lifetime of the underlying investment, instead of the financial exposure (i.e. if a power plant is expected to run for 30 years, information should be available throughout its lifetime).

- Create an independent complaint mechanism, which is free and easily accessible for all pertinent stakeholders. This includes, but should not be restricted to, explaining criteria used to evaluate complaints, providing online and offline complaint forms, making a local address available for information and complaint purposes, accepting complaints made in local languages and ensuring some form of support for pertinent representatives and independent organisations who want to make a complaint.

3 OECD (2017). OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals. OECD DAC. It is also important to consider the following documents developed by a set of multilateral DFIs in 2017: DFI Working Group (2017). DFI Working Group on Blended Concessional Finance for Private Sector Projects.

4 See footnote 2 above.

# INTRODUCTION

> *"Blended finance instruments […] serve to lower investment-specific risks and incentivize additional private sector finance across key development sectors led by regional, national and subnational government policies and priorities for sustainable development. For harnessing the potential of blended finance instruments for sustainable development, careful consideration should be given to the appropriate structure and use of blended finance instruments. Projects involving blended finance, including public private partnerships, should share risks and reward fairly, include clear accountability mechanisms and meet social and environmental standards."*
>
> Addis Ababa Action Agenda

**This report explores how donor countries are engaging with the private sector in the context of development cooperation.** It builds on previous work by the Trade Union Development Cooperation Network (TUDCN).[5]

The private sector is on the ascent. Over the past few years, international, regional and national policies, conferences and agreements have shown that donor countries are increasingly keen to target the private sector in the context of sustainable development. This is also the case of the UN Sustainable Development Goals (SDGs), the ambitious set of objectives aimed at advancing social, economic and environmental development by 2030.[6] However, it is still unclear what working with the private sector means in practice (i.e. which private sector actors to engage and how). Nor is it clear to what extent other forms of development cooperation will be affected. Furthermore, there is limited information on the existing tools and practices to ensure donor countries' engagement with the private sector is effective and contributes to achieving the SDGs.

This report responds to the need to shed some light on these unresolved issues. It starts by mapping how donors are engaging or planning to engage with the private sector. In this exercise, the report explores the content of existing donor policies, instruments and institutions to assess how they engage or plan to engage with the private sector.

Having set the broader policy and institutional framework, this report then focuses on Development Finance Institutions (DFIs). DFIs are increasingly involved in donors' efforts to target the private sector. In addition to their traditional role in financing private sector projects in developing countries, DFIs are now at the centre of "innovative" finance mechanisms, including blending (i.e. the combination of traditional development finance with concessional finance). When looking at DFIs, this report examines their policies, governance structure, project portfolio and financial tools. This contributes to understanding how DFIs work for development within existing national contexts, including their mandate and operational models. In a second step, this report uses the development effectiveness principles as an analytical framework to provide a comparative analysis of the performance of DFIs in the research sample. In this regard, this report also updates and complements previous reports by the TUDCN.

5 See Pereira, J (2014). Understanding donor engagement with the private sector in development; in Business Accountability for Development: Mapping business liability mechanisms and donor engagement with private sector in development. CPDE in cooperation with ITUC-TUDCN and EURODAD; and Pereira, J. (2016). The development effectiveness of supporting the private sector with ODA funds. CPDE and ITUC-TUDCN.

6 See, for example, the Financing for Development Conference in Addis Ababa; the Sustainable Development Goals Summit in New York; the New European Consensus on Development, the EU External Investment Plan or a range of national policies discussed in this report.



## APPROACH AND METHODOLOGY

The analytical sections of this report explore the extent to which donors have transposed and integrated development effectiveness criteria in their operations targeting the private sector. Donors, developing countries and other development actors have committed to implement a number of principles to ensure aid is effective which the international community has developed, based on lessons learned over decades.[7] This report reviews the performance of all eleven DFIs in the research sample against a set of indicators of performance on three key development effectiveness principles. The methodology was developed in an earlier report by CPDE and TUDCN released in 2016.[8] Some small changes have been made to adjust the methodology to additional evidence, incorporate new lines of enquiry and make it more accessible to the reader:

- Ownership: defined in this report as the ability of DFIs' to align their operations with recipient countries' development strategies and industrial policies developed through inclusive consultative processes.
- Development results: defined as the ability of DFIs to monitor and measure the impact of investment projects on development and prevent harmful effects.
- Mutual accountability: defined in this report as the existence of the basic pre-conditions to ensure DFIs can be held to account by stakeholders with a particular focus on beneficiaries in developing countries.[9]

Development cooperation is a complex process and this report focuses on one aspect of it: the level of inputs, processes, tools.[10] The impact of development actions depends on a number of overlapping elements: the context, the inputs (including processes and tools), the activities, the outputs and the outcomes. This report does not look at the activities of donors themselves or their results (outputs and outcomes). While acknowledging that certain limitations exists in this approach, there are a number of reasons that help explaining why it has been adopted in this report. Firstly, the level of inputs is still highly relevant as it provides the framework and tools within which donors' actions will be implemented. Without the right framework, processes and tools, it is difficult to consistently maximise the contribution of donors to sustainable development. It is possible for donors to implement projects with a positive development impact, but without the right processes and tools. However, it is difficult to ensure a good average performance across all projects. Secondly, with the resources available, it is not possible to evaluate the impact of donors' activities, as it requires access to detailed project level data and contacts. This information is not generally available in the public domain.

7 See the Rome Declaration for Harmonisation, the Paris Declaration on Aid Effectiveness, the Accra Agenda for Action and the Busan Partnership for Effective Development Co-operation. The Paris Declaration includes a total of five main principles: ownership, alignment, harmonisation, managing for results and mutual accountability. The Busan Partnership regrouped the different elements into four principles: ownership, focus on results, inclusive development partnerships, transparency and accountability.

8 Pereira, J. (2016). The development effectiveness of supporting the private sector with ODA funds. CPDE and ITUC-TUDCN

9 Consequently this report focuses on downwards accountability (towards the beneficiaries) rather than upwards accountability (the check an balances donors have to ensure money is well spent).

10 From a theoretical point of view and generally speaking, the ability of development actions to achieve some form of impact depends on a number of factors: the context, the inputs (including processes and rules), the activities, the outputs and the outcomes.

The sources of information for this report consist of existing legislation, policy documents, strategic guidelines, interviews, and research and policy reports. All sources of information are referred to throughout the report. In addition, four case studies have been conducted as part of this project in Cameroon, Chile and Philippines. The case studies look at blending or equivalent operations.[11] The case study information further illustrates the analysis and provides real examples of some of the challenges identified in the report.

The contents of this report are based on the analysis of a sample of 11 donors and their corresponding national or multilateral DFIs: Belgium (BIO Invest), Denmark (IFU), the European Union (EIB), France (Proparco), Germany (KfW-DEG), Netherlands (FMO), Norway (NORFUND), Spain (COFIDES), Sweden (Swedfund), the UK (CDC Group) and the World Bank Group (IFC).

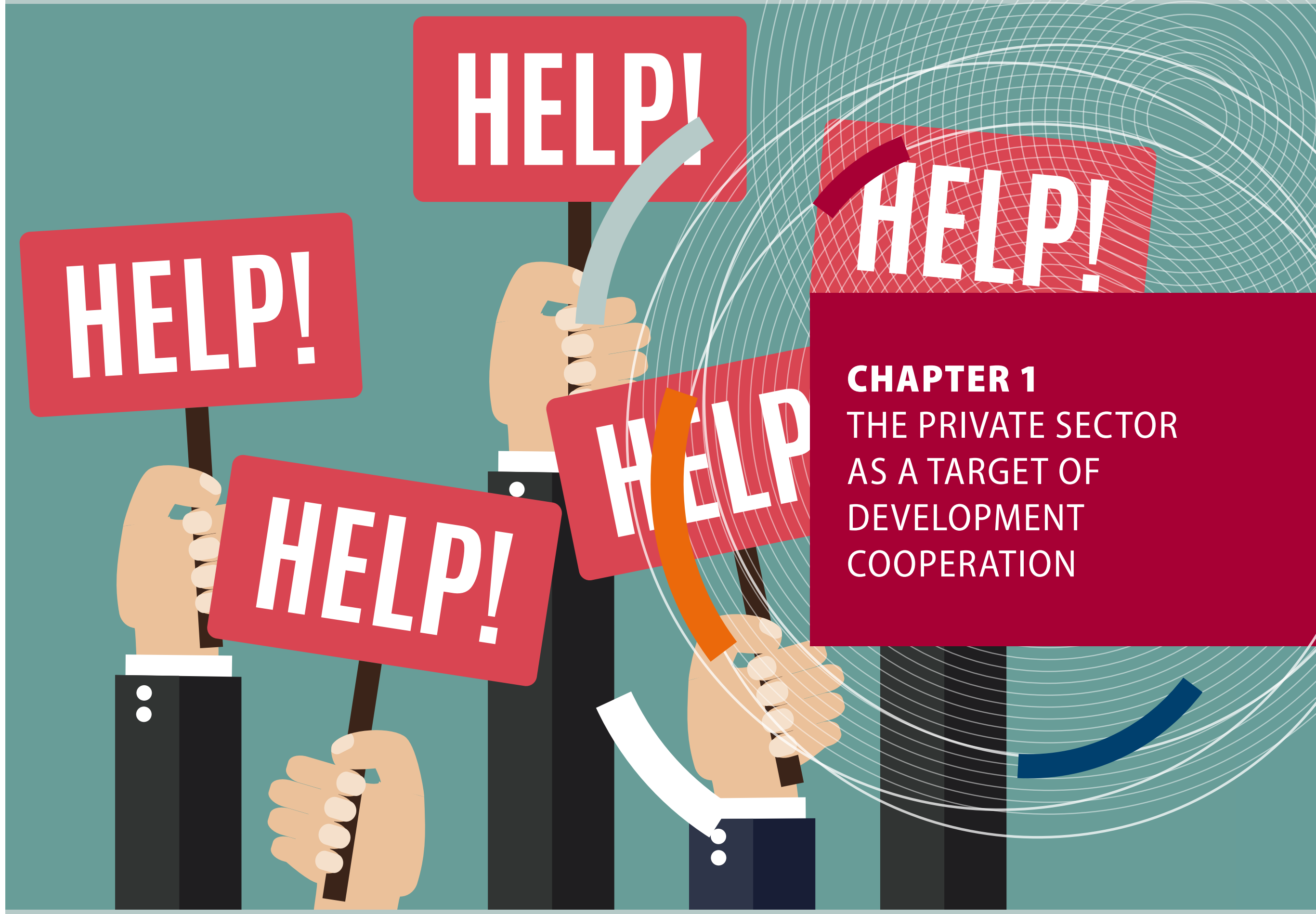
The analytical chapters contain some c**olour coded tables**. These tables have been compiled based on the criteria explained in each of the chapters and summarised just before the table. The tables are provided for purely illustrative purposes and to ease communication. They do not represent an objective and absolute measure of individual's DFI performance in any given area. The colours indicate how well DFIs comply with the criteria used in this report (positive results are coloured in green).

## STRUCTURE OF THIS REPORT

This report is divided into six chapters. The **first chapter** reviews how a sample of donors engage with the private sector based on existing policy and strategy documents. The **second chapter** explores the role of DFIs within this framework, including key governance, functional and financial aspects. The chapter ends by introducing and describing the sample of DFIs reviewed in this report. In general, chapters one and two provide the background information required to understand how DFIs fit into the current and future development framework and provides the building blocks for the analysis conducted in the following chapter. **Chapters three to five** focus on assessing the performance of the sample of DFIs against key development effectiveness principles. As mentioned above it builds on and provides an update to previous research efforts in this area. The **sixth and final chapter** summarises the main conclusions of this report and provides a number of policy recommendations to increase the alignment between donors' private sector support channelled through DFIs and the development effectiveness principles.

11 So far, the number of blending projects which have been implemented across the world and which could be assessed by partners is limited. As a consequence, some equivalent operations have been assessed in the Philippines.






# CHAPTER 1
THE PRIVATE SECTOR AS A TARGET OF DEVELOPMENT COOPERATION

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> *"Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation. We acknowledge the diversity of the private sector, ranging from micro-enterprises to cooperatives to multinationals. We call upon all businesses to apply their creativity and innovation to solving sustainable development challenges. We will foster a dynamic and well-functioning business sector, while protecting labour rights and environmental and health standards in accordance with relevant international standards and agreements…"*
>
> Transforming our world: the 2030 Agenda for Sustainable Development

This chapter explores the role of the private sector in donor countries' development agendas and the tools they use to engage with it. It reviews donors' development policies and strategies and describes the objectives, tools and instruments in relation to the private sector. It also describes international and regional policy trends that might affect existing policies in the medium term.

Recent estimates suggest that support to the private sector represents around 4% of ODA flows (approximately €5.4bn), which is relatively small.[12] However, this figure is affected by some reporting weaknesses and,[13] more importantly, it is based on 2016 data and does not reflect emerging policy trends (such as the increased emphasis on the private sector and blended finance in the context of development assistance). The discussion below reviews indications that ODA flows are likely to increasingly target the private sector in the coming years.

## 1.1 MAPPING DONOR GOVERNMENT POLICIES ON PRIVATE SECTOR ENGAGEMENT

Table 1 below maps private sector engagement in existing donor policies. The table is based on the analysis of donors' private sector strategies. When no private sector strategy was available, the general/global development policy has been examined. In our sample of 11 donors, 5 have dedicated private sector policies or strategies (Belgium, EU, Germany, Norway and Spain). Sometimes it is difficult to ascertain whether specific aspects and principles are restricted to the private sector or not. In these cases, a non-restrictive interpretation has been used.

**Existing policies provide an appearance of neutrality when engaging with the private sector and defining target areas**. The only exception is the Dutch policy, which openly makes Dutch SMEs a target of development cooperation.[14] However, the strategies fail to provide a full picture of how donors plan to engage with the private sector. To do so, one must consider how development cooperation is conceived. This often requires examining higher level policies, including foreign affairs policies.

**When the broader context is considered many donors see development cooperation, including private sector engagement as an activity that can benefit both developing and donor countries**. For example, Denmark recognises that "Growth in developing countries opens up new market and investment opportunities for Danish businesses and Danish investors."[15] Starting by the title (*UK aid: tackling global challenges in the national interest*), the UK development strategy describes development cooperation in similar terms: "global growth directly benefits the UK, creating new trade and investment opportunities for UK companies and helping to create prosperity and jobs around the world to help reduce poverty".[16] The Netherlands propose to "combine aid and trade activities for mutual benefit".[17] Finally, Belgium's 'Global Approach' defines development cooperation as a tool at the service of Belgian interests and values.[18]

There are multilateral initiatives and policies which provide an additional layer of evidence in support of the previous paragraph. The best example is probably the New EU Consensus on Development, approved in mid-2017.[19] The Consensus was negotiated by EU institutions and EU Member States, which apply it on a non-binding basis. The Consensus sees development cooperation as one of the different dimensions of EU engagement with Middle-Income countries (MICs). This engagement seeks to "promote mutual interests and identify common priorities, partnerships and principles". Thus, the European vision of the relationship with MICs is increasingly aligned with the "mutual benefit" policies described in the previous paragraph. The creation of the European Fund for Sustainable Development (EFSD), part of EU's new External Investment Plan (EIP), clearly illustrates the increasing importance of the private sector in development cooperation. The EFSD includes dedicated tools targeting the private sector and supporting investments in developing countries (e.g. the EFSD Guarantee Fund).

In addition, the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD-DAC) is developing a **new methodology for reporting 'Private Sector Instruments' (PSIs) as Official Development Assistance (ODA)** as part of the modernisation of the DAC statistical system.[20] **This is likely to lead to an increase in the amounts of ODA targeting the private sector**, with two different effects:[21] firstly, the introduction of the methodology would lead to a re-assessment of existing development finance portfolios that did not qualify as ODA before (such as guarantees); secondly, such a methodology might provide unintended incentives to increase the use of such instruments. In the longer term, the second effect is likely to be more important. Through substitution effects, it could also lead to a reduction of traditional forms of ODA (i.e. ODA grants). This might happen for example if donors can report a similar amount of ODA through private sector instruments (e.g. using guarantees), but the actual cost or financial exposure is lower than in ODA grants.[22]

12 DI (2018). Final ODA data for 2016 an initial analysis of key points. Development Initiatives.
13 There are certain inconsistencies in the way donors report to the OECD-DAC and not all contributions to the private sector might be labelled as such, especially those that are channelled through intermediary institutions (e.g. DFIs, Funds, Multilateral Institutions, etc.).
14 MoFA Netherlands (2013). A World to Gain A New Agenda for Aid, Trade and Investment.
15 MoFA, Denmark (2017). The World 2030 Denmark's strategy for development cooperation and humanitarian action.
16 MoFA Netherlands (2013). A World to Gain A New Agenda for Aid, Trade and Investment; MoFA, Norway (2015). Working together: Private sector development in Norwegian development cooperation. Meld. St. 35 (2014 – 2015) Report to the Storting (white paper); MoFA, Spain (2011). Estrategia de Crecimiento Económico y Promoción del Tejido Empresarial. Dirección General de Planificación y Evaluación de Políticas para el Desarrollo; MoFA, Sweden (2016). Policy framework for Swedish development cooperation and humanitarian assistance; UK Treasury (2015). UK aid: tackling global challenges in the national interest
17 MoFA Netherlands (2013). A World to Gain A New Agenda for Aid, Trade and Investment.
18 Belgium (2014). Note stratégique Approche Globale (nota au Conseil des ministres).
19 EU (2017). The New European Consensus on Development. 'Our World, Our Dignity, Our Future'.
20 PSIs are loans, investments, or guarantees aimed to support private sector actors operating in developing countries, from either the donor or developing country.
21 For more evidence on this and the following statements, see: Pereira, J. (2017). Blended finance for development. Background paper for the Intergovernmental Panel of Experts on Finance for Development. UNCTAD
22 If the methodology is not carefully tuned, the possibility of reporting certain financial flows such as guarantees, which might entail a smaller financial cost on the donor side or for which costs can be recovered through litigation, could provide an incentive to reduce the amount of ODA grants -and increase the amounts of ODA going to blended finance initiatives (e.g. when for the same ODA reportable amount, a guarantee has a lower financial cost than a grant).


CHAPTER 1

The push for increasing support to the private sector can also be seen within the World Bank Group. It has adopted a new strategy document that calls for increasing the use of resources to leverage private sector investments.[23] This shows that the stronger focus on the private sector is also present in multilateral institutions, which also feature developing country representation.

Table 1 below shows that there is some **diversity when it comes to the guiding principles/criteria for engaging with the private sector in development cooperation**. Donors with a dedicated private sector strategy tend to include concepts specific to private sector engagement (e.g. additionality).[24] The criteria or framework for engaging with the private sector are developed to a greater extent by the EU, Germany and Belgium (in the 2014 document, see table below). The private sector strategy developed by Norway and Spain provides a very weak framework in this regard. The engagement criteria of donors without a dedicated private sector strategy are more difficult to evaluate as they generally refer to broader and more general aspects (aid effectiveness, international standards, etc.). In relation to the key actors, all donors consider a similar set of stakeholders for engagement. In order to provide a more detailed analysis, bilateral donors are discussed individually after the table.

**Table 1 — Donor development policies and engagement with the private sectore**

| Donor | Type of policy (year) | Target areas | Instruments/ Actors | Principles/ Criteria |
|---|---|---|---|---|
| **Belgium** | Private sector policy (2018 and 2014) | - Provide investment capital to enable companies to contribute to achieving the SDGs<br>- PSD enabling environment<br>- Strengthen and supporting services to the private sector<br>- Develop inclusive and sustainable market systems<br>- Stronger focus on: agriculture and agri-business, renewable energy, ports and logistics as well as D4D<br>- Strong language on SMEs | - DFIs (Bio): investment project finance<br>- Bilateral cooperation: business environment, technical assistance, projects<br>- NGOs and academia | From the 2014 strategy:<br>- Additionality: both financial and developmental<br>- Measurable development impact<br>- Respect and compliance with international standards (human rights, labour, environment, governance)<br>- Gender mainstreaming<br>- Aid untying and aid effectiveness |
| **Denmark** | General development cooperation strategy (2017) | - Framework conditions: business environment; sustainable production, consumption and trade; and well-functioning labour markets based on workers' rights and social dialogue<br>- Responsible investments and market-based solutions | - Bilateral and multilateral cooperation<br>- DFIs, including IFU<br>- Partnerships (public, private and civil society) | - Respect and compliance with international standards on human rights, labour, environment, good governance<br>- Effectiveness, social responsibility and additionality |
| **European Union** | Private sector strategy (2014) | - Traditional development cooperation to support business environment, MSMEs, women and access to finance<br>- Leveraging private sector investments in developing countries<br>- Engaging with the private sector: CSR, investment guidelines, etc. | - Blending facilities (involve DFIs)<br>- Bilateral/multilateral cooperation<br>- Political dialogue<br>- PPPs | - Measurable development impact<br>- Additionality both financial and developmental<br>- Neutrality: The support given should not distort the market<br>- Shared interest and co-financing<br>- Demonstration effect<br>- Adherence to social, environmental and fiscal standards |
| **France** | General development cooperation strategy (2018) | - Enabling environment and development of inclusive, sustainable and responsible financial systems<br>- Partnerships with actors in the private sector with focus on start-ups and SMEs<br>- Promote partnership initiatives for an inclusive and social economy, meaningful investment and fair trade<br>- Thematic priorities: gender equality, education, health and food security | - DFIs (PROPARCO, other)<br>- Bilateral/multilateral cooperation, including EU external investment plan<br>- Partnerships (public, private, civil society, …) | - Unclear, language is very general |

23 See the document entitled "Maximizing Finance for Development: Leveraging the Private Sector for Growth and Sustainable Development" prepared by the World Bank Group for the October 14, 2017 Development Committee Meeting.

24 Additionality can be defined in the context of blending as the unique inputs and services that the use of blended finance provides in addition to those delivered by market and non-market institutions (i.e. the added value of blended finance compared to other forms of finance). These unique inputs and services come in two broad categories: financial additionality (blended finance is necessary to ensure the project is financed and can be implemented); and developmental additionality (blended finance helps the project achieve better development results).

| Donor | Type of policy (year) | Target areas | Instruments/ Actors | Principles/ Criteria |
|---|---|---|---|---|
| **Germany** | Private sector strategy (2014) | - Improving business environment<br>- Competitive and sustainable economic structures (value chains, sustainability, innovation)<br>- Promoting pro-development investments and sustainable practices (CSR, etc.)<br>- Focus on MSMEs | - Bilateral and multilateral cooperation<br>- DFIs (KfW/DEG)<br>- Private sector, civil society, trade unions | - Systemic approach, aid effectiveness principles and results orientation<br>- Subsidiarity (support only when services not in the market), demand driven and market oriented<br>- Economic, social and environmental sustainability: gender, environmental and social standards, good governance) |
| **Netherlands** | General development cooperation strategy (2014) | Not entirely clear, includes:<br>- Improving access to markets<br>- Promoting equal opportunities and CSR<br>- Focus on Dutch SMEs | - Bilateral and multilateral cooperation<br>- DFIs (FMO)<br>- Private sector, civil society | Unclear, strategy mentions CSR, international guidelines and standards (OECD, UN Guiding Principles, Decent Work Agenda) |
| **Norway** | Private sector strategy (2015) | - No clear priorities, mentions three levels: i) global and regional (trade, markets, etc.) ii) national (infrastructure, technology, legislation, tax, etc.); iii) private sector (financing, partnerships, knowledge, etc.)<br>- Focus on energy, technology, agriculture, fish/marine resources and maritime sectors | - Bilateral and multilateral cooperation<br>- DFIs (NORFUND)<br>- Private sector, civil society, trade unions | Language on sustainability, marginalised groups, CSR, women equality, good governance and results focus |
| **Spain** | Private sector cooperation strategy (2011) | - Economic infrastructure (infrastructure, financial services, sustainability)<br>- Institutional framework (rule of law, business environment, etc.)<br>- Increase participation of the poorest (training, decent labour, informality)<br>- Dialogue and coordination | - Bilateral and multilateral cooperation<br>- DFIs (mainly COFIDES)<br>- Political dialogue<br>- Private sector, civil society, trade unions | Unclear, document refers to aid and development effectiveness principles only |





| Donor | Type of policy (year) | Target areas | Instruments/ Actors | Principles/ Criteria |
|---|---|---|---|---|
| **Sweden** | General development cooperation strategy (2016) | - Productive employment, decent work and sustainable business<br>- Free and fair trade and sustainable investment: trade integration, regulations. Focus on agriculture, fisheries and poverty, especially women | - Bilateral and multilateral cooperation<br>- DFIs (mainly Swedfund)<br>- Private sector, civil society, trade unions | Unclear, document emphasises development effectiveness principles |
| **United Kingdom** | General ODA strategy (2015) | Unclear, strategy mentions: business climate, competitiveness and operation of markets, energy and financial sector reform, and corruption.<br>The following sectors are mentioned: energy, infrastructure, urban development, commercial agriculture, and financial inclusion. Focus on Africa, Middle East and Asia | Unclear, but in addition to traditional aid channels (bilateral and multilateral cooperation), DFIs are also expected to play a role | Unclear, transparency and value for money are discussed in the strategy |
| **World Bank Group** | General development cooperation strategy (2017) | - Serving All Clients: focus on countries with the greatest financing needs<br>- Creating Markets: integrated approach including enabling environment and domestic resources<br>- Leverage the private sector<br>- Leading on Global Issues: climate change, conflict, crisis<br>- Improving the WB business model to increase effectiveness and efficiency | Unclear in the context of the private sectors, at least: DFIs; Multilateral development institutions and private sector | Not clearly indicated, the document refers to international standards and updated environmental and social safeguards and procurement reforms approved in 2016. |

Source[25]

25 Belgium (2018). Belgian international development policy for private sector development (PSD): framework and strategies; the document updates Belgium (2014). Note stratégique : Coopération belge au développement et secteur privé local : un appui au service du développement humain durable; MoFA Denmark (2017). The World 2030 - Denmark's strategy for development cooperation and humanitarian action; EC (2014). A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. COM (2014) 263 final; France (2018). Interministerial International Cooperation and Development Committee (CICID): Statement of Conclusions, 8 February 2018; Germany (2013). Sector Strategy on Private Sector Development. BMZ Strategy Paper 9, 2013; MoFA Netherlands (2013). A World to Gain: A New Agenda for Aid, Trade and Investment; MoFA Norway (2015). Working together: Private sector development in Norwegian development cooperation. Meld. St. 35 (2014 – 2015) Report to the Storting (white paper); MoFA Spain (2011). Estrategia de Crecimiento Económico y Promoción del Tejido Empresarial. Dirección General de Planificación y Evaluación de Políticas para el Desarrollo; MoFA Sweden (2016). Policy framework for Swedish development cooperation and humanitarian assistance; UK Treasury (2015). UK aid: tackling global challenges in the national interest; World Bank Group (2017). Forward Look: a Vision for the World Bank Group in 2030 – Progress and Challenges. Washington, DC.

## 1.2 INDIVIDUAL DONOR POLICIES ON PRIVATE SECTOR ENGAGEMENT

**Belgium** has a dedicated strategy to support the private sector in developing countries in the context of development cooperation. The strategy was approved in 2014 and updated in 2018, though both documents remain applicable. It proposes a comprehensive approach to private sector development spanning the business environment (e.g. institutions, access to finance) and access to markets. It also proposes 4 sectors (down from 5 in 2014): agriculture and agribusiness, renewable energy, ports and logistics, as well as D4D. Basic criteria for decision-making are explained in the 2014 document (the 2018 document does not address this issue) and include: additionality (both financial and developmental); development impact; respect and compliance with international standards (human rights, labour, environment, governance); gender mainstreaming; aid effectiveness; and aid untying. The strategy is to be implemented using the whole range of development tools (including: bilateral aid and grants provided by government or channelled through other actors such as NGOs; multilateral cooperation; and DFIs). The strategy identifies the key actors, but it does not assign specific roles to them. It is also important to mention, as indicated above, that the overarching Belgian policy on foreign relations defines development cooperation as a tool at the service of Belgian interests and values.

**Denmark** has a general development cooperation strategy aligned with Agenda 2030. The strategy was released in 2017. Being a general strategy, it is not very detailed when it comes to working with the private sector. The strategy proposes to work on framework conditions to enable private sector development, including: business environment; sustainable production, consumption and trade; and well-functioning labour markets based on workers' rights and social dialogue. The strategy also proposes to make responsible investments and promote market-based solutions to development challenges. The document also recognises that there are important opportunities for Danish companies in developing countries. The guiding principles for Denmark's approach are: respect and compliance with international standards on human rights, labour, environment, good governance; and effectiveness, social responsibility and additionality. The strategy foresees delivering support and engaging with the whole range of development actors (bilateral and multilateral cooperation, DFIs, partnerships with public institutions, private actors and civil society).

**France** has a general development cooperation strategy approved in 2018. The document is rather broad in scope and addresses several strategic questions. In relation to the private sector, the documents mentions the following areas of work: an enabling environment, including financial systems; partnerships with a focus on start-ups and SMEs; social economy and fair trade. The strategy also identifies 4 main thematic priorities for France's development cooperation: gender equality, education, health and food security. The document does not refer to a clear set of guiding principles and the language is very general when it comes to those applicable to the private sector. In the section on the private sector, the document refers to another strategy document "*Innover Ensemble*".[26] This is not a private sector strategy per se, but rather a workplan or roadmap to promote alternative models of development.

26 MoFa France (2016). Innover Ensemble. Stratégie de promotion des nouveaux modèles de l'économie sociale et inclusive à l'international.





**Germany** adopted a sector strategy on private sector development in 2013. The strategy identifies the following priorities: improving the business environment; development of competitive and sustainable economic structures (value chains, sustainability, innovation); promoting pro-development investments and sustainable practices (CSR, etc.). It also identifies MSMEs as a priority area of work. The following principles underpin the strategy: aid effectiveness principles and a results orientation; subsidiarity (support only when services are not in the market); support should be demand driven and market oriented; and economic, social and environmental sustainability (reflected in a commitment to gender equality, environmental and social standards, and good governance standards). As in other countries, the strategy is to be implemented through the whole range of cooperation tools and actors (bilateral and multilateral cooperation, DFIs, partnerships with public institutions, private actors, civil society, academia and trade unions). The strategy identifies the key actors, but it does not assign specific roles to them.

**The Netherlands** approved a new general development cooperation strategy in 2014. The agenda connects or builds on aid, trade and investments to achieve its objectives. As in other general strategies, the private sector elements are more difficult to isolate. Focus areas in relation to the private sector include improving access to markets in developing countries; promoting equal opportunities; and corporate social responsibility (CSR) among private sector actors active in development. The strategy also has a very strong focus on Dutch SMEs and makes it very clear they have a lot to gain from developing markets. Among the guiding principles, the strategy mentions CSR and international guidelines and standards (e.g. OECD, UN Guiding Principles, Decent Work Agenda). The following actors and tools are mentioned in the strategy, but no specific roles are allocated to them: bilateral and multilateral cooperation, DFIs, partnerships with public institutions, private actors and civil society.`

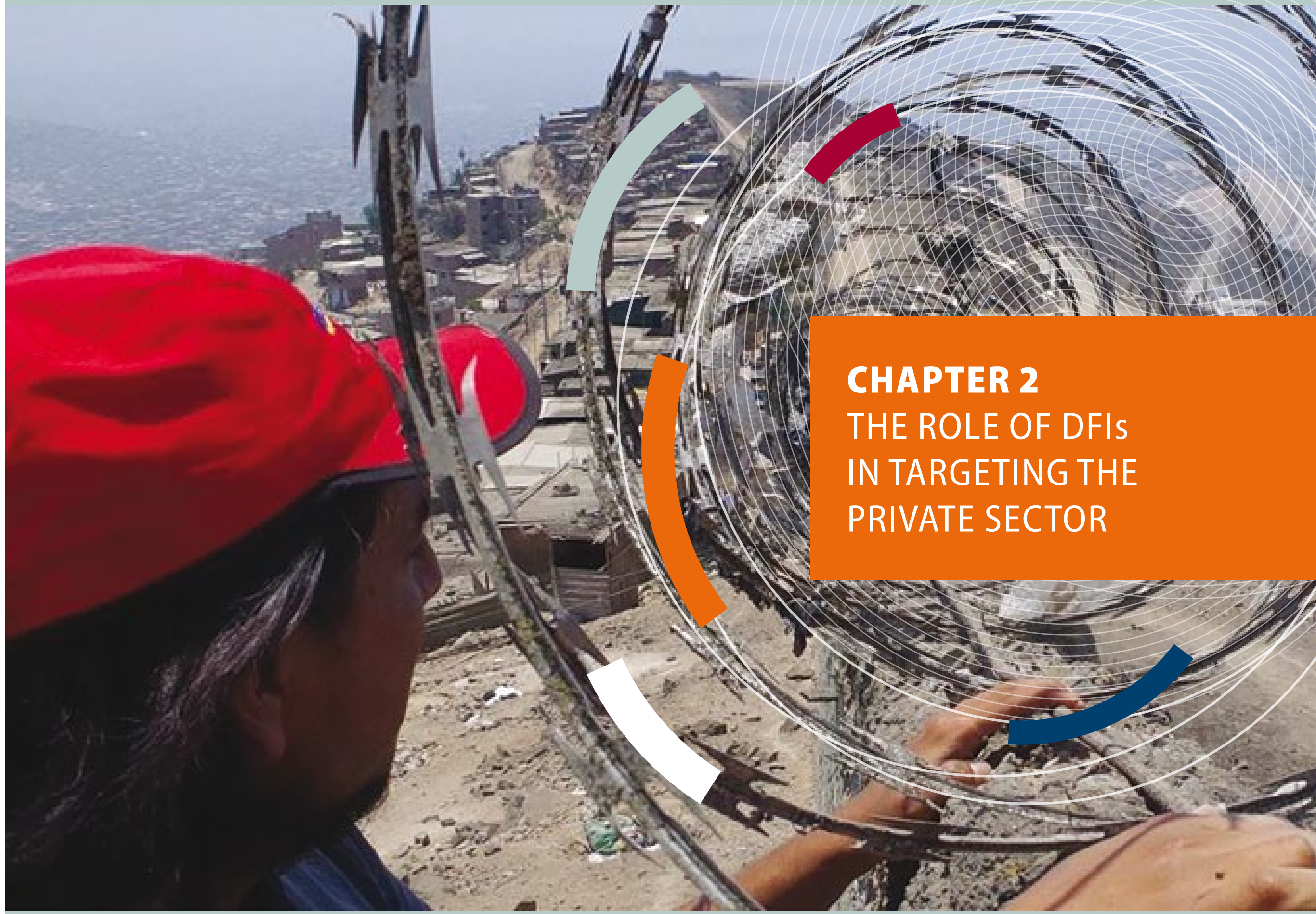
**Norway** adopted a dedicated private sector cooperation strategy in 2015. The strategy does not identify priorities in a traditional way. Instead it proposes to work at three levels: i) global and regional (trade, markets, etc.); ii) national (infrastructure, technology, legislation, tax, etc.); iii) private sector (financing, partnerships, knowledge, etc.). It also proposes to focus on the following sectors: energy, technology, agriculture, fish/marine resources and maritime sectors. Regarding the guiding principles, the strategy does not articulate a clear framework, but includes language on sustainability, marginalised groups, CSR, equality for women, good governance and a focus on results. As in previous cases, the strategy recognises the importance of working with a wide range of actors and tools (bilateral and multilateral cooperation, DFIs, partnerships with public institutions, private actors, civil society and trade unions), but it does not allocate specific roles to these.

**Spain** has a dedicated cooperation strategy on economic growth and the business environment. The strategy dates from 2011. The document proposes several different actions in different domains: economic infrastructure (infrastructure, financial services, sustainability); institutional framework (rule of law, business environment, etc.); increase participation of the poorest (training, decent labour, informality); and dialogue and coordination with government and other relevant actors. In relation to guiding principles, the strategy only refers to aid effectiveness principles. As in other strategies, the Spanish document also identifies a large range of development actors and tools (bilateral and multilateral cooperation, DFIs, partnerships with public institutions, private actors, civil society and trade unions). Interestingly, the strategy also recognises political dialogue as an important tool to achieve its objectives.

**Sweden** has a general development cooperation strategy approved in 2016. The strategy recognises the role of the private sector in promoting sustainable development. The priorities in this regard are set at a rather strategic level and include two broad sets of goals: productive employment, decent work and sustainable business; and free and fair trade and sustainable investment. The document also identifies a number of priority sectors: agriculture, fisheries and poverty (with a focus on women). The strategy does not present a clear set of guiding principles, but it places emphasis on development effectiveness principles. Sweden also recognises the importance of engaging with a large range of development actors and tools to achieve its objectives (bilateral and multilateral cooperation, DFIs, partnerships with public institutions, private actors, civil society and trade unions).

**The United Kingdom** has a general aid strategy adopted in 2015. The document makes it very clear that there are important potential benefits for UK businesses, and by extension the UK, in developing countries. The strategy does not propose a specific approach for engaging the private sector, but it does include some priorities, which are closely related to this area: business climate, competitiveness and operation of markets, energy and financial sector reform, and corruption. The following sectors are also mentioned: energy, infrastructure, urban development, commercial agriculture, and financial inclusion. In geographic terms, the strategy focuses on Africa, the Middle East and Asia. The strategy does discuss some guiding principles from a UK perspective. In this regard, UK aid is required to meet certain transparency and value for money requirements. There is no clear description of key actors in the strategy. In addition to traditional aid channels (bilateral and multilateral cooperation), DFIs are also expected to play a role.







# CHAPTER 2
# THE ROLE OF DFIs IN TARGETING THE PRIVATE SECTOR

> *"We acknowledge the importance for international financial institutions to support, in line with their mandates, the policy space of each country, in particular developing countries."*
>
> Transforming our world: the 2030 Agenda for Sustainable Development

As seen in chapter 1, DFIs play an important role in donor countries' development strategies. Their main task is to support private sector operations in having a positive impact in developing countries. Support is generally provided in the form of finance, but many DFIs also provide some form of advisory service (technical assistance). Despite some common aspects across DFIs, there are some differences in their structure and operational models that are worth exploring in greater detail. Table 2 below provides an overview of the ownership structure, mandate and main governance bodies for the 11 DFIs in the research sample. Section 2.1 provides a brief analysis of each of the bilateral DFIs.

All DFIs in the sample have been set up by governments (or groups of governments in the case of the IFC and the EIB), but it is possible to differentiate between **two main ownership models**. Broadly speaking, DFIs can be fully owned by the state or jointly owned by the state and other actors – generally private investors such as banks. In the latter case and as far as the DFIs in the sample are concerned, the government retains control of the DFI by owning a majority stake in the institution.

Eight out of the eleven institutions in the sample are **fully owned by the government**. In the majority of these cases, ownership is held by institutions dependent on the central government (5 out of the 8 cases). In the case of the DEG, ownership is shared between the German central government and the German Länder (regions), while in the cases of the IFC and the EIB, ownership is shared by the central governments of different countries. Three out of the eleven DFIs (FMO, Cofides and Proparco) follow **a mixed ownership model** in which the central government has control over a majority stake, but private and other investors (including international DFIs)[27] own an important volume of shares. The different ownership models are particularly important when it comes to the membership of the main governance bodies.[28]

The **ownership model influences the effective balance of power between the different governance bodies**. In full public institutions, shareholders' meetings become less relevant as there might be just one or two shareholders. In these cases, it is the government who effectively nominates and appoints the board of directors. In comparison, in mixed ownership models, shareholders play a functional role in appointing and selecting directors. In all cases, shareholders are the ultimate authority that all governance bodies are accountable to. In practice, **this means that other institutions, such as national parliaments, have no direct decision-making or oversight role with regard to DFIs**. Nonetheless, insofar as public funds are involved, certain institutions can play some form of control or supervisory role (e.g. court of auditors, ombudsman, etc.). In some cases, parliamentary committees review the annual report and activities and prepare a report to be discussed in plenary (e.g. EIB and Bio).

Regarding their mandate, **ten out of the eleven DFIs in the sample have a clear economic development mandate with a focus on developing countries**. The only exception is the EIB, which predominantly focuses on supporting investments within the EU (approximately 90% of investment volume). EIB support to projects and investments in developing countries represents a small share of the total EIB portfolio and is governed by specific EU policies and agreements (the Cotonou Agreement, EU Neighbourhood Policy, etc.).

Another interesting aspect sometimes reflected in the mandate of certain DFIs is the **focus on the private sector from donor countries**. Four DFIs have included donor-country companies as a target in their mandate (Cofides, Swedfund, IFU and DEG). However, this figure does not reflect the reality as the connection between DFIs and donor-country companies can be built in many different and softer ways (e.g. the broader development policies discussed in the previous section, eligibility criteria, etc.). Similarly, only a handful of DFIs are mandated to align their operations with existing development policies (FMO, Proparco and Swedfund). However, in practice, the link can be established at many different levels, including the governance bodies and detailed instructions provided in management contracts (e.g. Bio) and financial agreements with the government.

**Table 2 — Mandate and governance structure of DFIs in the sample**

| DFI | Ownership | Mandate | Main governance bodies |
|---|---|---|---|
| **Bio Invest** (Belgium) | Public (100%) | Support a strong private sector in developing and/or emerging countries, to enable them to gain access to growth and sustainable development within the framework of the Sustainable Development Goals. | The government appoints a board of directors of 12 members following nominations by the Ministry for Development Cooperation. The head of the Belgian Development Cooperation Ministry attends as an observer. The Budget and the Development Cooperation Ministries appoint two censors (one each) who ensure the conformity of any decision with regulations, statutes, etc. |
| **CDC Group** (UK) | Public (100%) | Support the building of businesses throughout Africa and South Asia to create jobs and make a lasting difference to people's lives in some of the world's poorest places. CDC aims to invest where opportunities for job creation can have the greatest impact. | DFID appoints chair of the board of directors and two directors. They have the power to appoint other directors (minimum of 5 directors and maximum of 15). |

27 For example the Development Bank of Latin America has a 1% stake in Cofides and a 2.5% stake in Proparco.

28 The governance bodies of all DFIs in the sample are very similar both in function and structure, but there are certain operational differences depending on the ownership model (full public ownership or other actors). With the exception of the EIB and the IFC which are owned by multiple governments, all DFIs in the sample have a governance structure that mimics that of private sector companies: i) shareholders have the ultimate decision power with votes proportional to level of ownership (generally in the form of annual meetings/general assembly); ii) a board of directors/supervisory board which adopts financing decisions and policies; and iii) some form of management structure for day-to-day operations (president, management board or similar). In general, the governance structure of national DFIs is imposed by the national company law framework. In comparison, the governance structures of the EIB and the IFC respond to the model used for supranational organisations/institutions. In these cases, voting is also proportional to the level of ownership.

| DFI | Ownership | Mandate | Main governance bodies |
|---|---|---|---|
| **Cofides** (Spain) | Public (53%), private (46%), international financial institutions (1%) | Provide cost-effective medium- and long-term financial support for viable private direct investment projects in foreign countries, where there is a Spanish interest. The aim is to drive forward a profitable business that contributes both to host country development and the internationalisation of Spanish enterprise and the Spanish economy. | Shareholders propose and elect the members of the board of directors (between 4 and 12 members). The board elects the president. Generally, the largest shareholders are represented on the board. |
| **DEG** (Germany) | Public 100% (80% central government and 20% regions) | Promote business initiative in developing and emerging market countries as a contribution to sustainable growth and improved living conditions of the local population. Focuses on partnerships with European and German companies. | Shareholders' meeting in consultation with the Ministry of Economic Cooperation and Development elect the supervisory board (15 members). The Board in consultation with the Ministry appoints two managing directors. |
| **EIB** (European Union) | Public (100%) – EU Member States | Contribute, by having recourse to the capital market and utilising its own resources, to the balanced and steady development of the internal market in the interest of the Union. | Member States appoint members of the Board of Governors (28, usually finance ministers). They are responsible for high level policy and financial decisions. Governors appoint the members of the Board of Directors who approve financing operations and operational strategies (29, 1 per EU Member State and 1 appointed by the European Commission). |
| **FMO** (Netherlands) | Public (51%), Dutch banks (42%), and employers' associations, trade unions and individual investors (7%) | Contribute to the advancement of productive enterprises in developing countries, to the benefit of economic and social advancement of those countries, in accordance with the aims pursued by their governments and the policy of the Dutch Government on development cooperation. | Shareholders appoint the members of the supervisory board (minimum of three). They are nominated by the supervisory board. Supervisory board oversees and appoints the management board which is composed of at least one director. |





| DFI | Ownership | Mandate | Main governance bodies |
|---|---|---|---|
| **IFC** (World Bank Group) | Public (100%) | Further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas. | Board of governors (one per member). They are responsible for high level decisions. The board of directors is responsible for operational management and is compose of the Executive Directors of the World Bank. The board of directors appoints the president of the IFC. |
| **IFU** (Denmark) | Public (100%) | For the purpose of promoting economic activity in developing countries, IFU has been created to promote investments in these countries in collaboration with Danish trade and industry. | Board of directors appointed by Ministry of Development Cooperation. Day to day operations are the responsibility of the managing director. |
| **Norfund** (Norway) | Public (100%) | Invest in profitable and sustainable enterprises in poor countries to promote business development and contribute to economic growth and poverty alleviation. | Shareholders elect the members of the board of directors. The board is responsible for the management of Norfund and appoints the managing director. |
| **Proparco** (France) | Public (65%), private (24%), international financial institutions (11%) | Further the development of the private sector and the competitive productive sector in developing countries and in France's overseas territorial communities, in the context of French cooperation. | Shareholders appoint the members of the board of directors (between 12 and 16). They are responsible for the company's operations and for appointing the management of the company. |
| **Swedfund** (Sweden) | Public (100%) | The company shall contribute to the objective of Sweden's policy for global development. The objectives of the company's operations are the goal of Sweden's international aid, to contribute to the creation of conditions for improved standards of living for people who live in poverty and oppression. | Shareholders appoint the board of directors (6-9 members) and the chairman. |

Source[29]

29 Consolidated version of Loi du 3 novembre 2001 relative à la création de la Société belge d'Investissement pour les Pays en Développement ; CDC Group Memorandum of Association (2005); Gesellschaftsvertrag der DEG – Deutsche Investitions – und Entwicklungsgesellschaft mbH (2017); Informe de Gobierno Corporativo 2016. Compañía Española de Financiación del Desarrollo, COFIDES, S.A., S.M.E.; Article 309 of the Treaty on the Functioning of the European Union; The Governance of the European Investment Bank (2015); IFC Articles of Agreement (2012); Danish Parliament (1967). The Act on International Development Co-operation; Articles of Association of: Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (2009); Act 26 of 1997 Relating to the Norwegian Investment Fund for Developing Countries; Articles of Association of PROPARCO (2017); Swedfund Articles of Association (2014); EIB (2017). 2016 The EIB outside the EU. Delivering on EU policies; reporting on results; IFC (2017). Annual Report 2017. Creating Markets. IFC, Washington DC.

**Table 3 — Key figures on the DFIs examined in this report**

| DFI | Total portfolio (€m)+ | Portfolio structure | | | | Other |
|---|---|---|---|---|---|---|
| | | Equity, quasi-equity | Loans | Guarantees | # of projects | |
| **Bio Invest** (Belgium) | 692 | 31% | 69% | - | 152 | Technical assistance grants |
| **CDC Group** (UK) | 6,756 | 79.7% | 15.3% | 5% | 237 | - |
| **Cofides** (Spain) | 895 | 48% | 52% | - | 236 | - |
| **DEG** (Germany) | 7,731 | 44% | 56% | - | 578 | Technical assistance grants |
| **EIB** (European Union)* | 8,046* | <1%* | 99%* | <1%* | 87* | - |
| **FMO** (Netherland) | 9,778 | 44% | 53% | 3% | 948 | Technical assistance grants |
| **IFC** (World Bank Group) | 11,854 | 14% | 81% | 5% | 342 | Technical assistance |
| **IFU** (Denmark) | 590 | 65% | 34% | 1% | 212 | Technical assistance (funded by DANIDA) |
| **Norfund** (Norway) | 1,845 | 85% | 14% | 1% | 123 | Technical assistance grants |
| **Proparco** (France) | 5,889 | 20% | 78% | 2% | 513 | Technical assistance grants |
| **Swedfund** (Sweden) | 429 | 53% | 47% | - | 97 | Technical assistance grants |

Source[30] *Total portfolio as of the date of the documents indicated in the footnote.

30 EDFI Member profiles based on 2017 data, available at: https://www.edfi.eu/members/meet-our-members/; EIB (2017). 2016 The EIB outside the EU. Delivering on EU policies; reporting on results; IFC (2017). Annual Report 2017. Creating Markets. IFC, Washington DC.





## 2.1 ADDITIONAL INFORMATION ON THE BILATERAL DFIs ASSESSED IN THIS REPORT

This section provides more detailed information on bilateral DFIs and expands on the information presented in table 2. By exploring the individual features of DFIs in more detail, it helps to further understanding and add nuance to the discussion in the previous section.

**Bio Invest** is a public DFI owned by the Belgian government. The institution is specifically mandated to support the private sector in developing and emerging countries. Bio is one of the smallest DFIs in the sample with an active portfolio of EUR 692 m (see table 3 above). Bio generally provides loans and makes equity and quasi-equity investments. It currently does not hold any guarantees in its portfolio. As a public institution, decision-making is vested in a board of twelve members. All of them are appointed by the Ministry for Development Cooperation. There are also two 'censors'; one appointed by the Budget Ministry and another by the Development Cooperation Ministry. The mission of the censors is to ensure decisions comply with the legal and regulatory framework as well as the statutes and mandate of the institutions.

The **CDC Group** is a public DFI that operates under the aegis of the Department for International Development of the UK (DFID). CDC is mandated to build the private sector throughout Africa and South Asia to create jobs and alleviate poverty. CDC aims to invest where opportunities for job creation can have the greatest impact and it has developed a methodology that prioritises investments in difficult sectors and countries (see chapter 4). CDC has a portfolio of EUR 6.7 bn, mostly in the form of equity and quasi-equity investments. Loans represent approximately 15% of the portfolio, while guarantees are the smallest instrument at 5%. When it comes to decision-making structures, DFID appoints the chair of the board of directors and two directors. Together, these three members of the board have the power to appoint other directors to reach a minimum of 5 directors and a maximum of 15.

**Cofides** is a Spanish DFI. It has a mixed ownership structure. The state owns 53% of the company, while 46% is owned by Spanish companies (Banco Bilbao Vizcaya Argentaria, Banco Santander, Banco de Sabadell and Banco Popular) and 1% by international financial institutions (CAF – Development Bank of Latin America). Cofides is mandated to finance investment projects with a Spanish interest in foreign countries. This mandate means that Cofides generally supports Spanish companies investing abroad, though a Spanish interest is broadly defined and includes projects where a Spanish company might be a technology partner rather than a promoter. Cofides has a portfolio of just under EUR 900 m. The portfolio is evenly distributed among equity/quasi equity investments and loans. The company does not have any guarantees in its portfolio. Shareholders are the ultimate decision-making body. They propose and elect the members of the board of directors (between 4 and 12 members). The board elects the president. Generally, the largest shareholders are represented on the board.

**DEG** is a German DFI jointly owned by the German central government (80%) and the German regions (20%). It is mandated to promote business in developing and emerging market countries in order to contribute to sustainable growth and improved living conditions of the local population. The statutes recognise a specific focus on supporting projects that contribute to building partnerships with German and European companies. DEG has a portfolio of EUR 7.7 bn: 56% of it is in the form of loans and the remainder in equity/quasi equity investments. The company's portfolio does not contain any guarantees. Shareholders are the ultimate decision-making body. Shareholder representatives elect the supervisory board (15 members) in consultation with the Ministry of Economic Cooperation and Development. The Board in consultation with the Ministry appoints two managing directors for day-to-day operations.

**FMO** is a Dutch DFI with a mixed ownership model. The state holds a 51% stake. Dutch banks own 42% of the company. The remaining 7% is owned by employers' associations, trade unions and individual investors (all in all there are over 100 shareholders). The company is mandated to contribute to the advancement of productive enterprises in developing countries, to the benefit of economic and social advancement of those countries. FMO is also required to contribute to the objectives of the Dutch Government on development cooperation. This means that under the current development policy mentioned above, FMO should have a strong focus on Dutch SMEs. FMO is a large DFI with a portfolio of EUR 9.8 bn distributed as follows: loans (53%), equity/quasi-equity (44%) and guarantees (3%). As in other cases, shareholders appoint the members of the supervisory board (minimum of three). Candidates are nominated by the supervisory board. The supervisory board oversees and appoints the management board which is composed of at least one director. The management board is in charge of day-to-day operations.

**IFU** is a DFI owned by the Danish State. It is mandated to promote economic activity in developing countries by investing in collaboration with Danish trade and industry.[31] IFU therefore has strong links with Danish companies. IFU is a small DFI with a portfolio of EUR 590 m distributed as follows: equity/quasi-equity (65%), loans (34%) and guarantees (1%). The board of directors is appointed by the Ministry of Development Cooperation. Day to day operations are the responsibility of the managing director, who is appointed by the board.

**Norfund** is a public DFI owned by Norway. The company is mandated to invest in profitable and sustainable enterprises in poor countries to promote business development and contribute to economic growth and poverty alleviation. Norfund has a portfolio of EUR 1.8 bn with 123 active operations. By type of operations the volume of the portfolio is distributed as follows: equity/quasi-equity (85%), loans (14%) and guarantees (1%). Public shareholders elect the members of the board of directors. The board is responsible for the management of Norfund and appoints the managing director.

**Proparco** is the French DFI jointly owned by the French state (65%), private actors (24%) and international financial institutions (11%). The company is mandated to further the development of the private sector and the competitive productive sector in developing countries and in France's overseas territorial communities. Proparco operations are subordinated to the objectives of the French development cooperation. Proparco has a portfolio of EUR 5.9bn with 513 active operations. By type of financial operations, loans represent 78% of the portfolio volume, followed by equity/quasi-equity investments (20%) and guarantees (2%). When it comes to decision-making bodies, shareholders appoint the members of the board of directors (between 12 and 16). They are responsible for the company's operations and appointing the management of the company.

**Swedfund** is a Swedish public DFI. The company shall contribute to the objective of Sweden's policy for global development. Swedfund is the smallest DFI in the sample with a portfolio of EUR 429m and 97 operations. The portfolio is distributed evenly among equity/quasi-equity investments (53%) and loans (47%). Shareholders appoint the board of directors (6-9 members) as well as the chairman of the board. An evaluation of Swedfund was released in early 2018. Due to limitations in the data available, the evaluators found it hard evaluate the development impact of the institution.[32]

31 Thus, any trade or international export activity is eligible.
32 Spratt, S., O'Flynn, P. and Flynn, J. (2018). DFIs and Development Impact: an evaluation of Swedfund, EBA report 2018:01, Expert Group for Aid Studies, Sweden.



# CHAPTER 3
# OWNERSHIP

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This chapter uses a number of proxies to assess whether DFIs' operations are aligned with the principle of ownership.[33] The analysis shows that most of the DFIs present serious problems with regard to this principle in one or more areas. Over half of the DFIs have some form of preference for supporting donor-country private sector companies (from the same country as the DFI), which could conflict with the interests of developing countries. When it comes to eligibility criteria, performance is better. There are a few DFIs that include mechanisms ensuring investments are pro-poor, such as directing investments to MSMEs, focusing on generating employment or targeting investments to challenging countries or circumstances. The two multilateral DFIs cannot engage with SMEs directly due to the minimum project size. In general, the participation of the government and other actors from developing countries is not required during the identification phase or other stages of the project cycle. Moreover, only three DFIs require consultation with local offices. Similarly, only three DFIs have a structured process to engage with their own donor-country stakeholders.

| DFI | Focus on donor-country companies | Restrictions in access to development finance | Stakeholder participation |
|---|---|---|---|
| **Bio Invest** (Belgium) | No restrictions. | Focus on MSMEs (and other companies) from developing countries. | - No structured process for engaging with donor-country stakeholders.<br>- No requirement to consult local stakeholders in developing countries directly. Requires consultation with local offices or embassies. |
| **CDC Group** (UK) | Preference for donor-country (UK) companies in development policy. | Methodology that aims at prioritising investments in countries with a difficult business climate. | - No structured process for engaging with donor-country stakeholders.<br>- No requirement to consult local stakeholders in developing countries directly. Requires consultation with local offices or embassies |
| **Cofides** (Spain) | Preference for donor-country (Spanish) companies in mandate. Donor-country private sector participates in decision-making. | Benefit of national businesses is a key selection criterion. | - No structured process for engaging with donor-country stakeholders.<br>- No requirement to consult local stakeholders in developing countries directly. |
| **DEG** (Germany) | Preference for donor-country (German) companies in mandate. | No restrictions. | - No structured process for engaging with donor-country stakeholders.<br>- No requirement to consult local stakeholders in developing countries directly. |

33 In the context of the development effectiveness agenda, donors have committed to put developing countries in the driver's seat when it comes to making decisions about their own development. As illustrated by the quotes above, this task not only involves the governments from developing countries, but also other stakeholders such as the parliaments and citizens. The role of donors is therefore to align their support to national policies developed through participatory processes.





| DFI | Focus on donor-country companies | Restrictions in access to development finance | Stakeholder participation |
|---|---|---|---|
| **EIB** (EU) | No restrictions. | Cannot engage with SMEs directly. | - Structured process for engaging with donor-country stakeholders.<br>- No requirement to consult local stakeholders in developing countries directly. Requires consultation with local offices or embassies. |
| **FMO** (Netherlands) | Preference for donor-country (Dutch) companies in development policy. Donor-country private sector participates in decision-making. | Includes facilities dedicated to donor-country (Dutch) SMEs. Non-binding target to invest 70% of its portfolio in LICs and LMICs (35% in each group). | - Structured process for engaging with donor-country stakeholders.<br>- No requirement to consult local stakeholders in developing countries directly. |
| **IFC** (World Bank) | No restrictions. | Cannot engage with SMEs directly. | - Structured process for engaging with donor-country stakeholders.<br>- No requirement to consult local stakeholders in developing countries directly. |
| **IFU** (Denmark) | Preference for donor-country (Danish) companies in development policy. | Benefit of national businesses is a key selection criteria. | - No structured process for engaging with donor-country stakeholders.<br>- No requirement to consult local stakeholders in developing countries directly. |
| **Norfund** (Norway) | Preference for donor-country (Norwegian) companies in development policy. | Prioritises investments in LMICs and LICs, no target. | - No structured process for engaging with donor-country stakeholders.<br>- No requirement to consult local stakeholders in developing countries directly. |
| **Proparco** (France) | Donor-country (French) private sector participates in decision-making. | No restrictions. | - No structured process for engaging with donor-country stakeholders.<br>- No requirement to consult local stakeholders in developing countries directly. |
| **Swedfund** (Sweden) | No restrictions. | Includes facilities dedicated to national SMEs. Prioritises investments in LMICs and LICs, no target. | - No structured process for engaging with donor-country stakeholders.<br>- No requirement to consult local stakeholders in developing countries directly. |

■ poor performance ■ average performance or some good features ■ above average good performance

> *Partnerships for development can only succeed if they are led by developing countries, implementing approaches that are tailored to country-specific situations and needs.*
> *"We recognise the central role of the private sector […]. To this end, we will: a) Engage with representative business associations, trade unions and others to improve the legal, regulatory and administrative environment for the development of private investment; and also to ensure a sound policy and regulatory environment […]."*
>
> Busan Partnership for Effective Development Co-operation

To assess the degree of ownership, this section looks at three different areas. The first two sections explore the flexibility of DFIs to align their projects with developing countries' preferences. It does so by looking at both the strategic level and the actual criteria DFIs use to select projects. The third and final section focuses on the access of stakeholder groups to decision-making and governance structures.

## 3.1 FOCUS ON DONOR-COUNTRY COMPANIES

When DFIs are required to support donor-country companies from donor countries, this can contradict the principle of ownership, especially when there are local companies or companies from other developing countries that could participate in the project. Companies from developing countries can generally provide a double dividend when participating in investment projects. In addition to the project outputs, they are also more likely to reinvest profits and pay more taxes in local markets. In practice, there are different ways in which donors and shareholders can influence the focus of DFIs' investments.

Some **DFIs include some form of preference for donor-country companies in their mandate**. This is the case of Cofides and DEG (see table 2 above). In addition, FMO includes an implicit preference when its mission as defined in its statutes is combined with the ownership structure and overall development strategy (see section on ownership below and table 1 on p.14).[34] Multilateral institutions included in the sample are more difficult to assess. The EIB predominantly focuses on investments within the EU and has a limited development mandate, while the IFC has a more neutral mandate.

DFIs' operations can also be **influenced by national development cooperation policies (policy framework) both at the sector (private sector) and general levels** (see section 1.1 of this report). DFIs are generally required to support donors' development policies. When these policies include a preference for donor-country economic or private sector interests, DFIs are being encouraged to target certain actors over others. For example, Denmark, the Netherlands, UK and Norway openly recognise that they seek a mutual benefit when it comes to private sector operations in developing countries and that growth in developing countries opens up opportunities for donor-country companies.[35]

A **third way in which the focus of DFIs' investments can be influenced is by the nature of the ownership structure and the distribution of voting rights**. Institutions with a mixed ownership structure (with private sector participation) create a space for private sector actors to vote on decisions through representation in governance structures (see section 1.2 above). This effect is likely to be larger in institutions where the donor-country private sector is an important shareholder (Proparco, FMO and Cofides). In the context of this report and with the resources available it is not possible to evaluate the exact impact of the presence of private companies on DFIs' boards.

## 3.2 RESTRICTIONS IN ACCESS TO DEVELOPMENT FINANCE

In some cases, DFIs' mandates and operational instructions may contain directions that restrict the choice of partners or eligible countries, thereby limiting the ability of DFIs to align their operations with the principle of ownership. Often, existing restrictions are simply the transcription of the policy framework by which donors establish a set of priority countries or regions – often based on historical and economic ties – but restrictions can also be embedded in the constitutive documents. Table 4 below provides an overview of DFIs' selection criteria that might affect the type of company or the geographic scope when submitting project proposals. This table does not include the criteria DFIs use to assess investment proposals (e.g. financial criteria, etc.) or the impact of the overall policy framework discussed above.

**Certain DFIs include an explicit preference for donor companies or companies that represent a donor interest** (e.g. job creation in the donor country). This is the case of Cofides and IFU. A number of other DFIs offer a more flexible approach, but they include dedicated funding facilities for donor-country companies (FMO and Swedfund).

**A limited number of DFIs include some form of criteria to directinvestments towards companies or countries with fewer investment opportunities**. Among the first group, it is worth highlighting the case of Bio, which has received clear instructions to focus financial support on MSMEs (and other companies) from developing countries. Both the EIB and the IFC have important limitations in this regard as they cannot target SMEs directly because of their mandate and investments strategy. EIB and IFC only work with large projects and provide support to SMEs indirectly through financial intermediaries.

There are different ways in which DFIs can direct investments to countries with a more difficult business environment. CDC uses a methodology that prioritises investments in countries with a difficult business climate. FMO has a non-binding target to invest 70% of its portfolio in LICs and LMICs (35% in each group). Swedfund and Norfund also aim at prioritising investments in LICS and LMICs, but do not have a specific target.

34 According to the articles of Association of the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (2009), the mission of FMO is "providing financing to or for the benefit of natural persons or legal entities, who conduct or are going to conduct a business or practice or are going to practise a profession in a developing country".

35 MoFA Denmark (2017). The World 2030: Denmark's strategy for development cooperation and humanitarian action; MoFA Norway (2015). Working together: Private sector development in Norwegian development cooperation. Meld. St. 35 (2014 – 2015) Report to the Storting (white paper); UK Treasury (2015). UK aid: tackling global challenges in the national interest; MoFA Netherlands (2013). A World to Gain: A New Agenda for Aid, Trade and Investment.

CHAPTER 3

**Table 4 — Company and geographic eligibility criteria**

| DFI | Company-related criteria | Geographic criteria |
|---|---|---|
| **Bio Invest** (Belgium) | - MSMEs and social economy companies from developing countries.<br>- MSMEs and companies from developing countries working in the following domains: access to energy, climate change, access to digital services, agri-businesses and basic services. | All developing countries (limited to 52) with a focus on Central Africa. Projects can target upper-middle income countries if they focus on inequality and rural areas. |
| **CDC Group** (UK) | Investments follow a methodology that evaluates the propensity of investments to generate employment: High (construction food processing, infrastructure, manufacturing, health and education), Medium (agriculture, trade), Low (business services, communications, financial services, extractives). | Priority to investments in difficult geographical locations, based on: market size, income level, ability to access finance, and the ease of doing business. |
| **Cofides** (Spain) | Unrestricted as long as they contribute to the internationalisation of Spanish enterprise or the Spanish economy. | Developing and emerging economies as long as they provide the conditions (political, legal, economic and administrative) to ensure business can be conducted. |
| **DEG** (Germany) | Promotes partnerships between local companies in target countries and European and German companies with a focus on SMEs. | Developing countries, Central and Eastern European countries (CEE) and New Independence-pending states (NIS), other countries with previous approval of the federal government. |
| **EIB** (European Union) | - Does not work with SMEs directly (direct finance over € 25 m, financial intermediaries for smaller amounts).<br>- Focuses on the following sectors: innovation and skills, infrastructure, SMEs and climate and environment. | Unrestricted, depends on the EU's external and development policies. |
| **FMO** (Netherlands) | - Focus on agribusiness, energy, financial services, infrastructure and manufacturing services.<br>- Dedicated facility for Dutch SMEs | Developing countries except those in conflict. Aims at investing approximately 35% of portfolio in LICs and 35% in LMICs. |
| **IFC** (World Bank Group) | - Special focus on infrastructure, manufacturing, agribusiness, services, and financial markets.<br>- Does not work with SMEs directly, uses financial intermediaries. | Member countries, particularly in the less developed regions. |
| **IFU** (Denmark) | Danish investor or Danish interest in the project in the host country with focus on large and medium-sized Danish companies. Danish SMEs have a smaller dedicated facility. | 146 countries eligible for IFU investments. |
| **Norfund** (Norway) | Focus on clean energy, finance and food and agriculture. Also has funds supporting SMEs. | Focus primarily on LDCs and Sub-Saharan Africa, but also some countries in South East Asia and Central America. |
| **Proparco** (France) | Foreign and donor-country (French) companies. Focuses on the following sectors: infrastructure, agriculture, industry, finance, social services. | Developing countries. |
| **Swedfund** (Sweden) | - All sectors with focus on energy, financial institutions & funds, and manufacturing & services.<br>- Dedicated facility for Swedish SMEs willing to invest in target countries. The rest targets large operations (i.e. non-SMEs). | Invests in LDCs and LMICs in Africa, Asia, Latin America and Eastern Europe. Investments in UMICs in exceptional cases. |

Source[36]

36 Arrêté royal portant assentiment au 1er contrat de gestion entre l'Etat belge et la société anonyme de droit public « Société belge d'Investissement pour les Pays en Développement » dated 2 April 2014 and Avenant du contrat de gestion entre l'Etat belge et la société anonyme de droit public « Société belge d'Investissement pour les Pays en Développement » dated 20 December 2016; CDC's Development Impact Grid; DFIs' websites; Gesellschaftsvertrag der DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH (2017); FMO (2017). General Investment Criteria; IFC Articles of Agreement (2012); NORFUND Strategy 2016-2018; Proparco Strategy 2017-2020; Swedfund's Owner Instructions (2017) and Investment Criteria.

## 3.3 STAKEHOLDER PARTICIPATION

Stakeholder participation can be assessed from two different angles. **Firstly, it is possible to look at the participation of stakeholders at the central or institutional level** (NGOs, trade unions, etc.). The most common form of participation is the 'public consultation', which is generally conducted to inform new institutional strategies, polices and methodologies. Remarkably, **only 3 out of the 11 DFIs have developed structured processes for consulting with stakeholders**, which would include CSOs (IFC, EIB and FMO).[37] It is likely that some form of public consultation is conducted by other DFIs in the sample, but no information has been found in this regard. It is not possible to assess the quality of the consultations in this report (i.e. the extent to which the outcomes of these consultations are taken into consideration in decision-making, related strategies, etc.). In addition, when considering stakeholder participation at the central level it is important to look at the representation of non-shareholder stakeholders in the governance structures (see section on labour rights below).

**Secondly, it is important to assess stakeholder participation at the project level**. The approach of all DFIs to project-level consultations is very similar as all of them generally refer to the benchmark set by the IFC Performance Standards.[38]For EU-based DFIs, consultation with stakeholders is also required in the context of environmental impact assessments.[39] Within this framework, stakeholder consultation is seen as the responsibility of the project partner, that needs to be conducted as part of the project cycle. DFIs in the sample are not required to consult project stakeholders directly. Three DFIs, nonetheless, do require consultation with local offices or embassies (Bio, CDC Group and EIB),[40] which might provide an opportunity for local stakeholders to make their voices heard. No information has been found on the content and extent of these consultations. Some DFIs also provide a complaint mechanism which local stakeholders can use in cases of non-compliance with required standards by the project partners (see section 2.3 for more information).

37 FMO (2016). Sustainability Policy; EIB (2015). European Investment Bank Group Transparency Policy; and the World Bank Group Engagement website at: http://www.worldbank.org/en/about/partners/stakeholder-relations
38 Some DFIs refer to the IFC Standards directly, while EDFI members generally refer to EDFI Standards which are based on the IFC's . See IFC (2012). Performance Standards on Environmental and Social Sustainability and the EDFI Environmental and Social Standards.
39 EU EIA Directive (2011/92/EU amended by 2014/52/EU).
40 Bio Management Contract: Arrêté royal portant assentiment au 1er contrat de gestion entre l'Etat belge et la société anonyme de droit public « Société belge d'Investissement pour les Pays en Développement », Avril 2014; MoU between the European Commission and the EIB in respect of Cooperation and Coordination in the regions covered by the External Mandate.



# CHAPTER 4 DEVELOPMENT RESULTS

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This chapter examines the performance standards and monitoring systems of DFIs to assess whether they allow for measurement of the real impact of the projects they finance. Rather than assessing all performance standards, this chapter focuses on two areas, where it finds that:

- Labour standards are based on the IFC model. However, there is only one DFI with a designated workers' representative in the management structure. Another DFI also includes trade unions among its shareholders (voting rights).
- Policies on the use of OFCs (tax havens) are essentially policies on investments through certain offshore financial centres and not responsible tax policies. Only two DFIs have adopted some measures to promote responsible tax policies among.

Monitoring systems mostly rely on self-reporting, and there is limited public information about how and when DFIs monitor projects and the indicators they use to do so.

CHAPTER 4

| DFI | Focus on donor-country companies | Stakeholder participation |
|---|---|---|
| **Bio Invest** (Belgium) | Good labour standards; no trade union representative on the board; average OFC policy | Little public information about how and when DFIs monitor projects and the indicators they use to do so.<br><br>Strong reliance on self-reporting as the default option for project monitoring. On-site monitoring is always an option for DFIs, but this is generally reserved for higher risk projects. Sometimes, teams are sent to monitor other projects, but this affects a very small share of the portfolio (e.g. Norfund assesses one project every year).<br><br>Additional concerns arise when funding is channelled through financial intermediaries, as there is an additional layer between the DFI and the final beneficiaries. |
| **CDC Group** (UK) | Good labour standards; no trade union representative on the board; average OFC policy; aggregated country-by-country data on taxes paid by investees | |
| **Cofides** (Spain) | Good labour standards; no trade union representative on the board; average OFC policy | |
| **DEG** (Germany) | Good labour standards; no trade union representative on the board; average OFC policy | |
| **EIB** (EU) | Good labour standards; no trade union representative on the board; average OFC policy with relocation policy | |
| **FMO** (Netherlands) | Good labour standards; no trade union representative on the board – but trade unions are represented among shareholders; OFC policy promotes some responsible tax practices | |
| **IFC** (World Bank) | Good labour standards; no trade union representative on the board; average OFC policy | |
| **IFU** (Denmark) | Good labour standards; no trade union representative on the board; average OFC policy; highly aggregated data on taxes paid by investees | |
| **Norfund** (Norway) | Good labour standards; no trade union representative on the board; average OFC policy | |
| **Proparco** (France) | Good labour standards; no trade union representative on the board; average OFC policy | |
| **Swedfund** (Sweden) | Good labour standards; no trade union representative on the board; OFC policy promotes some responsible tax practices; aggregated country-by-country data on taxes paid by investees | |

poor performance · average performance or some good features · above average good performance

> *"Use development finance in blended finance as a driver to maximise development outcomes and impact."*
>
> Principle 1a, OECD's Blended Finance Principles

> *"Promoting high standards. DFI private sector operations should seek to promote adherence to high standards of conduct in their clients, including in the areas of Corporate Governance, Environmental Impact, Social Inclusion, Transparency, Integrity, and Disclosure."*
>
> Principle 5, DFI Working Group on Blended Concessional Finance for Private Sector Projects

The elements examined in this chapter are part of DFIs' due diligence procedures. Due diligence is defined as a series of steps DFIs consider reasonable to take in order to minimise risk. DFIs' approach to due diligence is highly standardised and the actions DFIs require are linked to the risk category of the project.[41] This chapter begins by examining the quality of the **performance standards**, also known as safeguards, used by DFIs in the research sample.

Assessing the entire performance standards framework in the sample of DFIs would require dedicated exhaustive research. Moreover, existing DFI standards are generally quite similar. For example, 9 out of the 11 DFIs in the sample are members of EDFI[42] and have adopted a common framework.[43] In addition, most of them build on a common set of documents (UN Principles, ILO Standards, OECD guidelines and frameworks, IFC standards, etc.).[44]

Instead, this chapter focuses on two specific areas: workers' rights and policies regarding the use of offshore financial centres or tax havens. The first area has been selected because of its relevance to recipient countries and local communities. The ability of DFIs to promote decent work is key to measuring the success and sustainability of their approach to development. The second area has been selected because, given their impact on developing countries, DFIs' policies on the use of tax havens in their operations are an indicator of the coherence between their operations and stated development objectives.

The last section focuses on DFIs' **monitoring frameworks**. It discusses the main features and tries to identify any weaknesses that might prevent DFIs from implementing their standards or identifying any breaches.

41 For example, members of EDFI have adopted a common set of Requirements for Environmental and Social Due Diligence as part of the Rome Consensus. See: https://www.edfi.eu/wp/wp-content/uploads/2017/10/EDFI-Requirements-for-ES-Due-Diligence.pdf. The framework is very similar to the one adopted by the IFC and the EIB in their performance standards.
42 EDFI, the Association of bilateral European Development Finance Institutions, was founded in 1992 and currently represents 15 member institutions. In addition to supporting members to implement their vision, EDFI serves to inform the public and government stakeholders about their role and contribution to development. Further information is available here: www.edfi.eu.
43 The common framework is known as the Rome Consensus. See: https://www.edfi.eu/wp/wp-content/uploads/2017/10/EDFI-Requirements-for-ES-Due-Diligence.pdf
44 See the previous report: Pereira, J. (2016). The development effectiveness of supporting the private sector with ODA funds. CPDE and ITUC-TUDCN.





## 4.1 PERFORMANCE STANDARDS: LABOUR RIGHTS

When it comes to labour and working conditions, the **IFC's Performance Standard 2 (IFC PS2) remains the main framework of reference for DFIs in the research sample except for the EIB**. The IFC uses its own reference framework, while the members of EDFI (all 9 national DFIs in the sample) refer to the IFC framework in their Principles for Sustainable Development.[45] The EIB has developed its own standards, but when it comes to labour and working conditions, the level of protection provided to workers is very similar to the IFC's standard.[46] The reason for this is that both documents essentially build on the same ILO and UN conventions.[47]

On paper, **existing standards on labour and working conditions provide a good level of protection for workers in developing countries, but as discussed below, monitoring is often a problem**.

As discussed in section 3.3, the reliance on self-reporting and the high volume of finance channelled through financial intermediaries mean that companies on the ground often fail to implement the standards.[48] In addition, the standards have some limitations. The client has the responsibility to ensure the standards are applied by outsourced companies, but only when they act as substitute workers (i.e. workers in direct relation with core business processes). It is also difficult to ensure standards are applied all along supply chains.[49] Standards usually have certain impact over a project, but could and should serve as a starting point to improve local legislation. This requires knowledge, organisations (trade unions) and access to complaint mechanisms.

45 See EDFI (2009). Towards Sustainable Development – EDFI Principles for Responsible Financing.
46 EIB (2013). EIB Environmental and Social Handbook.
47 For a list of ILO and UN conventions reflected in the IFC Standard 2 see: IFC (2012). Performance Standard 2 Labor and Working Conditions. See also EIB (2013). EIB Environmental and Social Handbook.
48 ITUC (2017). Scandal: Exporting Greed through the Panama Canal.
49 IFC (2012). Guidance Note 2. Labor and Working Conditions.

Another aspect that is interesting to consider when assessing labour and working conditions is the **appointment of trade union representatives to DFIs' boards**. Having a representative of a trade union can increase the attention paid by DFIs to the correct implementation of labour standards and working conditions. As far it has been possible to ascertain, none of the DFIs in the sample have adopted such a practice. Norfund is the only one that requires, by national law that an employee representative sits at the board.[50] However, from the information collected, this representative is concerned with the staff working conditions, rather than the evaluation of investment projects. Nonetheless, it worth mentioning that in three cases (Bio, DEG and IFU), the board includes representation from CSOs (generally development NGOs). In DFIs with a mixed ownership model, board members are generally elected from among shareholders' representatives. In multilateral institutions (EIB and IFC), the representatives are appointed by member states and workers have no direct representation.

**BOX 2 — THE IMPORTANCE OF INVOLVING TRADE UNION REPRESENTATIVES IN PUBLIC-PRIVATE PARTNERSHIPS (PPPS) PROJECTS IN THE PHILIPPINES**[51]

The Philippine Development Plan (PDP) 2017-2022 acknowledges the importance of accelerating infrastructure development as a major foundation for sustainable development. To achieve this, the PDP specifies a major increase in government spending on infrastructure (at least 5.3 percent of GDP in 2017 to 7.4 percent of GDP in 2022) as well as enhance private sector participation among others. Still, considering the limited resources of the Philippines' government, engaging the private sector in infrastructure projects through blended financing or PPP has become the most viable option.

The private sector gains much from the PPP arrangement as they profit a great deal from delivering vital basic services such as electricity, water, transportation and the like to the public which should be in the first place the responsibility of the Philippine government. Thus, as a representative from a trade union in the Philippines pointed out "*trade unions are the vanguard of workers and the masses not just in terms labor standard implementation, wage, and union rights but in all national issues affecting the people. Hence, it is a major responsibility of all trade unions to look into all PPP projects and elevate it to a national campaign*."

50 Act 26 of 1997 Relating to the Norwegian Investment Fund for Developing Countries. The requirement is part of national regulation for Norwegian Companies. With the current number of employees (69), a majority of employees can request that one third and at least two board members are elected by and from among the employees.

51 See full case study summary here: www.ituc-csi.org/blending-case-studies-2018





## 4.2 PERFORMANCE STANDARDS: OFFSHORE FINANCIAL CENTRES

The **use of offshore financial centres (OFCs) or tax havens is very difficult to reconcile with DFIs' development mandate**. On the one hand, it is widely recognised that the global tax system does not provide equal treatment to developing countries. While all countries suffer from the existence of tax havens, developing countries are especially vulnerable to tax avoidance.[52] On the other hand, the use of some of these jurisdictions is deemed essential by DFIs, and other financial actors, because leaving aside potential tax advantages, they provide legal and political security as well as a financial system, which are sometimes lacking in target countries.[53]

Given the purpose of this report, it does not make much sense to evaluate individual investments. Instead, it is best to start the discussion based on a desired direction of travel. It should not be difficult to agree that in **the long term DFIs should work, in line with their mandate, to maximise their impact on developing countries**. In this regard, how DFIs can move in this direction and the steps they have already taken to make this happen provide a much better framework for comparing DFIs' performance in this area. This section assesses existing tax policies to see whether they include the key elements listed below. If implemented, the measures proposed would help to identify rotten apples in the international tax system and to create awareness among the public and specialised audiences. Moreover, they will minimise the use of offshore jurisdictions, especially the most harmful ones, and promote responsible tax practices among international companies. In the long term, they could contribute to create a fairer global tax system: [54]

- Call to minimise the use of tax havens (last recourse)
- Transparency about the investments made in or through tax havens
- Commit to explain why an intermediary jurisdiction/offshore financial centre is required and the lack of alternative options
- Require investees to adopt and implement responsible tax policies in line with existing performance standards on the environment, labour, etc. The policy should reflect international best tax practices (tax transparency initiatives in different sectors, country-by-country reporting) and require companies to provide - and disclose when legally possible - all necessary information to screen investments to minimise the risk of tax avoidance (company structure, special tax treatment, etc.).
- Information on taxes paid by investees.

52 Cobham, A. & Jansky, P. (2017). Global distribution of revenue loss from tax avoidance. Re-estimation and country results. WIDER Working Paper 2017/55.

53 A good and lengthy discussion on this is available in Carter, P. (2017). Why do Development Finance Institutions use offshore financial centres? ODI report.

54 The list draws from Oxfam (2016). Development Finance Institutions and Responsible Corporate Tax Behaviour. Where We Are and The Road Ahead. Joint Agency Briefing paper.

Table 5 reflects the contents of the policies with regard to the five different elements examined above. Four DFIs appear aggregated at the end of the table because they have not developed policies of their own and instead refer to EDFI's OFCs policy. It is possible that practice is not reflected in the policies in certain cases (e.g. that DFIS disclose information not required in the policy). To the extent possible, the discussion below tries to take into account existing practice, though for practical purposes, it relies on secondary sources.

Most of the policies **are essentially a policy related to investments through certain offshore financial centres and not a responsible tax policy**. In nine out of the eleven cases, the policies essentially regulate investments through non-cooperative jurisdictions (NCJs). In these cases, the criteria used are mainly related to processes and practices that could restrict the ability of DFIs to prevent their involvement in unlawful practices or tax avoidance schemes (Open Forum, beneficial ownership, etc.). Interestingly, NCJs can be defined in different ways. In addition to national lists which are bound to diverge, all definitions generally refer to the process of the OECD-led Global Forum on Transparency and Exchange of Information for Tax Purposes. However, compliance and the regimes applicable to these jurisdictions change from one DFI to another. Swedfund is the strictest in this regard as it discourages investments through non-compliant or partially compliant jurisdictions.[55] In comparison, the EIB is relatively flexible as only non-compliant jurisdictions are prohibited.[56]

**Only three DFIS (FMO, EIB and Swedfund) include some measures aiming at promoting responsible tax practices among investees**. DFIs in the sample have adopted tax policies as a protection against reputational risk instead of an instrument for promoting fairer tax practices with greater potential in developing countries. In general, no tax policy calls for the minimisation of investments through offshore financial centres, though Swedfund's might indirectly push investments in this direction. FMO is potentially the most proactive DFI in this regard as it seems to have developed a methodology to systematically appraise whether its clients show responsible tax behaviour. The methodology is internal and no additional information has been found. The EIB includes a relocation requirement for companies wishing to continue doing business with the Bank.

On **the transparency side, the assessment shows a poor performance across all the sample with some exceptions in the most general areas of enquiry**. DFIs policies in the sample do not require a transparent approach to reporting investments through OFCs. However, this is an area where practice is more advanced. Independent research shows that FMO and Swedfund do not list the country of incorporation of their investees.[57] Proparco, IFU and EIB list the domicile for only some of their investees, usually the funds in which they invest. Two DFIs in our sample (CDC and IFC) list all countries of incorporation. Nonetheless, even in the institutions with best practices it is unclear how they deal with complex ownership structures and partnerships through companies in third countries and OFCs.

In relation to tax payments, **three of the DFIs in the sample provide information on taxes paid, thoough this is generally aggregated**. Swedfund and CDC provide aggregated information on taxes paid by investees on a country by country basis, while IFU does not disaggregate the information. Interestingly no DFI has committed to provide information on the reasons why the use of an OFC is needed.

55 Swedfund (n.c.). Swedfund's Tax Policy.
56 EIB Policy towards weakly regulated, non-transparent and uncooperative jurisdictions.
57 The examples have been extracted from Oxfam (2016). Development Finance Institutions and Responsible Corporate Tax Behaviour. Where We Are and The Road Ahead. Joint Agency Briefing paper.





**Table 5 — Assessment of DFIs' policies on the use of offshore financial centres**

| DFI | Type of policy | Minimisation | Transparent use | Explanation of use | Tax policy required | Other |
|---|---|---|---|---|---|---|
| **CDC Group** (UK) | Institutional. Preference for jurisdictions that comply with OECD Global Forum standards. Tax optimisation structures allowed if they increase development impact | No | No | No | No | Aggregated taxes paid by investees in the country |
| **EIB** (European Union)* | Institutional. Applies to and regulates investments in non-cooperative jurisdictions (NCJs).[58] EDFI (see below) | Limited, includes a relocation policy for future projects | No | No | No | No |
| **FMO** (Netherland) | Institutional. FMO commits to assess tax situation of investees. EDFI (see below) | No | No | No | Some measures: FMO has developed a "methodology to systematically appraise whether its clients show responsible tax behaviour" | No |
| **IFC** (World Bank) | Institutional. Does not allow investments through NCJs.[59] Some transitional measures are allowed | No | No | No | No | No |
| **IFU** (Denmark) | Institutional, does not allow investments through jurisdictions non-compliant with OECD Global Forum | No | No | No | No | Highly aggregated: annually discloses the aggregate amount of tax expenses as reported in the accounts of investees. |

58 Defined as "a jurisdiction classified by one or more Lead Organisations as not aligned to international standards". See EIB (2010). EIB Policy towards weakly regulated, non-transparent and uncooperative jurisdictions.
59 Defined as those for which "(i) a Phase 1 review has been completed and, based on a report publicly issued as part of the Peer Review Process, the Phase 2 review is deferred because the jurisdiction does not have in place crucial elements for achieving full and effective exchange of information; or (ii) a Phase 2 review has been completed and, based on a report publicly issued as part of the Peer Review Process, the overall assessment of the jurisdiction is "partially compliant" or "non-compliant".

| DFI | Type of policy | Minimisation | Transparent use | Explanation of use | Tax policy required | Other |
|---|---|---|---|---|---|---|
| **Proparco** (France) | Institutional. Restricts investments in NCJs.[60] EDFI (see below) | No | No | No | No | No |
| **Swedfund** (Sweden) | Institutional, does not allow investments through NCJs[61] or involving structures that result in the shifting of profits | To a certain extent, some of the measures imply a move away from certain jurisdictions and encourage good practices | No | No | Some measures: encourages investees to "report tax on a country-by-country basis; and (ii) adopt a publicly available tax policy that refrains from aggressive tax planning and unbalanced profit shifting | Swedfund annually reports externally on corporate income tax levied on its portfolio companies, on a country-by-country basis |
| **Bio Invest** (Belgium) **Cofides** (Spain) **DEG** (Germany) **Norfund** (Norway) | EDFI policy, focuses on avoiding jurisdictions that could result in DFIs being associated with harmful practices. Contains a number of minimum requirements about transparency and compliance with OECD standards | No | No | No | No | No |

Source[62]

60 Defined as "(i) les Etats et territoires dont le passage en phase 2 du Forum mondial de l'OCDE sur la transparence et l'échange de renseignements à des fins fiscales est différé, (ii) ceux qui ont obtenu une notation globale non conforme ou partiellement conforme à l'issue des évaluations de phases 1 et 2 du Forum mondial de l'OCDE sur la transparence et l'échange de renseignements à des fins fiscales et (iii) ceux qui figurent dans les arrêtés pris en application de l'article 238-0 A du Code général des impôts.

61 Defined as "intermediary jurisdictions which have been assessed within the framework of the OECD Global Forum Peer Review Process and that have thereby not been approved in Phase 1 or been deemed Partially Compliant or Non-Compliant in Phase 2."

62 CDC (2014). Policy on the Payment of Taxes and Use of Offshore Financial Centres; EIB (2010). EIB Policy towards weakly regulated, non-transparent and uncooperative jurisdictions; IFC (2014). Policy: Use of Offshore Financial Centers in World Bank Group Private Sector Operations; IFU (2015). Tax policy; AFD (2016). Politique du Groupe AFD a l'Egard des Juridictions Non-Cooperatives; FMO (2016). Position Statement on Responsible Tax; Swedfund (n.c.). Swedfund's Tax Policy; EDFI (2011). EDFI guidelines for offshore financial centres.



CHAPTER 4

## 4.3 MONITORING

Monitoring is an important aspect of due diligence procedures as well as the project cycle. It helps to ensure compliance with performance standards and project expectations, detect and prevent negative impacts, and provide the basis for future evaluation and lesson learning efforts. This is an area where no significant progress has been since the previous TUDCN report, where the following findings were made:[63]

- There is very little information about how and when DFIs monitor projects and the indicators they use to do so. When it comes to impact most DFIs have adopted a common framework, which is reflected in the monitoring framework.[64] However, this is a very narrow effort and most of the elements projects have to report on, as well as their frequency and responsibilities, are not clearly explained.

- There is a strong reliance on self-reporting as the default option for project monitoring. On-site monitoring is always an option for DFIs, but this is generally reserved for higher risk projects. Sometimes, teams are sent to monitor other projects, but this represents a very small share of the portfolio.

- Additional concerns arise when funding is channelled through financial intermediaries as there is an additional layer between the DFI and the final beneficiaries.

When self-reporting is combined with the lack of transparency, the result is a very opaque monitoring and results framework at the project level. The case study conducted in Cameroon helps to illustrate some of the challenges (see box below).

In order to ensure compliance, **it is important that DFIs put in place effective monitoring and complaints procedures and accept to suspend or terminate financial support to borrowers that are not in compliance**. The combination of more oversight with a low-tolerance policy to breaches should help to increase effective uptake by companies operating on the ground. In addition, a number of steps could be taken to improve monitoring while increasing DFIs' contribution to promoting sustainable and responsible business practices, in line with the internationally agreed responsible business conduct instruments on due diligence.

**Increasing transparency around project monitoring frameworks including results**. It seems reasonable to make the monitoring framework public, especially when it comes to environmental, social and labour standards, and that information is provided on the number of stakeholders' consultations performed and the actors involved. For example, the EIB seems to require stakeholders' consultations during project monitoring,[65] but there is no information whatsoever on what the monitoring requirements are at the project level. As far as it has been possible to ascertain, the IFC is the only DFI in the sample that consistently provides access to this information through their website (consultations, mitigation measures, environmental and social plans, etc.). Information should also be made accessible to local communities.

63 Pereira, J. (2016). The development effectiveness of supporting the private sector with ODA funds. CPDE and ITUC-TUDCN.

64 See the Memorandum regarding IFIs Harmonized Development Results Indicators for Private Sector Investment Operations.

65 See pages 148-153 in EIB (2013). Environmental and Social Practices and Standards.

## BOX 3 — LACK OF IMPLEMENTATION OF AGREED PROJECT MITIGATION MEASURES IN CAMEROON[66]

In an attempt to accelerate electricity access in Cameroon, the government awarded the Dibamba Power Development Corporation (DPDC), a subsidiary to AES SONEL, the right to develop 86 MW of energy. The project is known as the Dibamba Thermal Power Project. The project was supported with a EUR 240 m finance package involving the DFIs GED, PROPARCO, AfDB, BDEAC, IFC and MIGA. Some of the funds were ODA-eligible.

The Environmental and Social Impact Assessment identified a series of problems and proposed a number of corrective measures. To date, many of the measures have not been implemented and the plans have not been corrected to account for changes in local development. For example, fire prevention measures to protect the local population have not been implemented, the growing local population is building directly under the high-tension line, and a proposed green belt has not been constructed. However, no actions have been taken and there is no clarity about which actors complaints should be addressed to.

This example illustrates the lack of clarity around the individual responsibility of the different actors involved (i.e. who is responsible for monitoring and what is the role of DFIs, the private sector and other actors involved?).

66 See full case study summary here: www.ituc-csi.org/blending-case-studies-2018



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# CHAPTER 5
# MUTUAL ACCOUNTABILITY

Mutual accountability is assessed through a number of indicators related to the transparency of the DFIs' project data and the existence and nature of complaint mechanisms. Project information is generally poor and far from the levels achieved in the case of aid flows. This problem is compounded by the lack of historical project data, as existing databases generally do not contain information for projects over one or two years old. Only four DFIs provide historical project data, though the detail is generally poor. Only three DFIs provide clear instructions on how to submit information disclosure requests. In one of the cases, charges may apply. In relation to complaint mechanisms, six DFIs have created some form of complaint mechanism to deal with project complaints.

| DFI | Transparency | Complaint mechanism |
|---|---|---|
| **Bio Invest** (Belgium) | Poor information. No policy on 'access to information'. No historical data. No information on disclosure request procedures | No complaint mechanism |
| **CDC Group** (UK) | Poor information. No historical data. Disclosure request procedures (charges may apply) | Internal complaint mechanism |
| **Cofides** (Spain) | Very poor information. No policy on 'access to information'. No historical data. No information on disclosure request procedures | No complaint mechanism |
| **DEG** (Germany) | Poor information. No historical data. Limited evaluation information upon request. No information on disclosure request procedures | Independent complaint mechanism |
| **EIB** (EU) | Poor information. Historical data. Free information disclosure request procedure | Internal + independent complaint mechanism |
| **FMO** (Netherlands) | Poor information. No historical data. No information on disclosure request procedures | Independent complaint mechanism |
| **IFC** (World Bank) | Most comprehensive information in the sample. Historical data. Free information disclosure request procedure | Independent complaint mechanism |
| **IFU** (Denmark) | Poor information. Historical data. No policy on 'access to information'. No information on disclosure request procedures | Internal complaint mechanism |
| **Norfund** (Norway) | Very poor information. No policy on 'access to information'. Historical data. No information on disclosure request procedures | No complaint mechanism |
| **Proparco** (France) | Poor information. No historical data. Limited evaluation information upon request. No information on disclosure request procedures | No complaint mechanism |
| **Swedfund** (Sweden) | Very poor information. No policy on 'access to information'. No historical data. No information on disclosure request procedures | No complaint mechanism |

■ poor performance ■ average performance or some good features ■ above average good performance





*"Ensure public transparency and accountability on blended finance operations. Information on the implementation and results of blended finance activities should be made publicly available and easily accessible to relevant stakeholders, reflecting transparency standards applied to other forms of development finance"*

Principle 5d, OECD's Blended Finance Principles

The development effectiveness agenda recognises transparency as the building block of mutual accountability.[67] Transparency is a rather abstract concept. In the context of this research, transparency has been broken down into different elements: proactive transparency on project data, including historical data; existence of mechanisms to request the disclosure of additional data; and transparency about project results and evaluations that enable lesson learning and the identification of best practices. In a separate section, this report assesses the existence of independent complaint mechanisms which enable the exercise of the principle of accountability.

## 5.1 TRANSPARENCY

**There are important limitations in the project information proactively disclosed by DFIs in the research sample**. As shown in Annex I, there are certain differences among DFIs, but the amount of information generally disclosed by DFIs is insufficient to build any sort of accountability. Some DFIs such as COFIDES, Swedfund and Norfund barely provide any information on the investments they make. Others provide some additional information on the investments, but it is generally in the form of very short summaries. The most transparent DFI by far is the IFC which consistently discloses project information, including stakeholder engagement, development results and environmental and social performance. Nonetheless, the IFC and other DFIs still present serious weaknesses in monitoring and reporting operations involving financial intermediaries (see chapter 4). It is also worth noting **that 5 of the DFIs do not have a disclosure or 'access to information' policy** (Bio, Cofides, Swedfund, IFU, Norfund). The case study conducted in Chile helps to illustrate some of the existing weaknesses (see box 3 below).

Another interesting aspect of the information provided by DFIs is that **only four of the 11 DFIs in the sample provide historical data on their portfolio** (EIB, IFC, IFU and Norfund). All other DFIs provide information on active projects or projects closed very recently (see Annex I). Historical data is often less detailed than current data as reporting practices have advanced to a certain degree. In any case, the availability of historical data is important from an accountability point of view as the impact of some of the investment projects by DFIs can last for many years. In addition, historical data also include lesson learning from past projects.

67 See the Busan Partnership for Effective Development Co-operation.

It is **possible that more information can be obtained through information disclosure requests, but there is often no information about the process**. Only three of the DFIs in the sample suggest this option or provide clear information about the exact requirements, mailing address and guidelines that regulate the process (EIB, IFC and CDC).[68] In the case of CDC, fees can also be applied for processing the request and delivering the information. The possibility of being charged can be an important deterrent for actors in developing countries. Other DFIs in the sample might provide the possibility of submitting access to information requests, but the information is not visible on their website.

There is a r**emarkable lack of information on the results of ex-post project evaluations that hinders lesson learning and the identification of best practices**. Out of the 11 DFIs in the sample, only two institutions make information available about the ex-post evaluations in a consistent way (see annex 1). However, this information is very limited. DEG does make available the summary of the evaluations it conducts, while Proparco only discloses it in response to written requests. There is also a **complete lack of information as to how often DFIs conduct ex-post project evaluations**. Moreover, there are claims that the few that are published are subject to a substantial publication bias (only the good examples are released). Despite the reputational risks involved, there is often more to be learned from bad examples than from good ones.

Interestingly, even official evaluations with access to internal data can face difficulties with existing data. An evaluation of Swedfund released in early 2018 could not find conclusive evidence of the DFI's impact due to the lack of historical data and baselines and the size of the portfolio in a number of projects.[69] Some of the challenges faced by these evaluators, who have access to internal data, resonate quite well with the findings of this section and show that some institutions might not have the systems in place to demonstrate the impact of their work.

68 EIB (2015). Guide to accessing environmental and social information/documents held by the EIB. EIB, Luxembourg; IFC (2012). International Finance Corporation. Access to Information Policy. IFC, Washington DC.
69 Spratt, S., O'Flynn, P. and Flynn, J. (2018). DFIs and Development Impact: an evaluation of Swedfund, EBA report 2018:01, Expert Group for Aid Studies, Sweden.





### BOX 3 — LACK OF INFORMATION ABOUT A CONCENTRATED SOLAR POWER PROJECT IN CHILE[70]

The "Chilean Solar Energy Programme" is a project financed with ODA funds from the Latin American Investment Facility (LAIF), and also involves the Chilean Ministry of Energy, the German development bank KfW and the German technical cooperation agency GIZ on behalf of the German government, the Inter-American Development Bank (IDB), Clean Technology Fund (CTF), and the private sector.

The case study conducted in Chile reveals an ongoing lack of access to project information and restricted public consultation during the project design. Weaknesses were identified in three different areas.

Firstly, there is limited information on the project implementation. The last publicly available information is the LAIF Operational Report 2016, which states that the plant financed by the project is "under construction". No mention was found of the interruption of the works following the near bankruptcy of one of the companies involved and the resulting change of ownership of the project.

Secondly, the amount and source of the additional financing required to complete the works has not been made public. Nor has information concerning the amount of funds already executed.

Thirdly, public involvement has been limited. The project was presented to Parliament by the Spanish multinational company Abengoa in 2014. However, participation of stakeholders and the local community has been weak. None of the stakeholders consulted as part of the field work for this case study has taken part in consultations. Stakeholders' only source of information about the project is the news media. Moreover, some stakeholders expressed their concern that the project did not require a full Environmental Impact Assessment. A complete assessment requires public consultation with the local community.

70 See full case study summary here: www.ituc-csi.org/blending-case-studies-2018

## 5.2 COMPLAINT MECHANISMS

The final element assessed in this chapter is the existence of complaint mechanisms. These are specialised units or independent institutions that investigate any complaints they receive about the project and make recommendations to address any violation of standards or unintended impacts. Complaint mechanisms play a key role from a development effectiveness point of view as they facilitate accountability towards project stakeholders. They are also interesting from the DFIs' point of view as complaint mechanisms, unlike legal actions (which require actual violations and proof, can take a long time, etc.) can help identify problems and introduce corrective measures at an early stage. Moreover, they can help DFIs manage potential reputational risks.

Interestingly, **only 6 out of the 11 DFIs in the sample have some form of complaint mechanism in place**. IFC (Compliance Advisor Ombudsman), DEG and FMO have an independent complaint mechanism.[71] The EIB has a slightly more complex mechanism in which an internal unit is in charge of the process and, if no solution is found, the case goes to the European Ombudsman, which is independent.[72] CDC and IFU have an internal mechanism which is in charge of investigating any complaints received.[73] No information on complaint mechanisms has been found for Bio, Cofides, Proparco,[74] Norfund or Swedfund.

71 See the following websites: DEG https://www.deginvest.de/International-financing/DEG/Die-DEG/Verantwortung/Beschwerdemanagement/; FMO https://www.fmo.nl/project-related-complaints; and IFC http://www.cao-ombudsman.org/howwework/filecomplaint/

72 EIB (2012). European Investment Bank Complaints Mechanism Principles, Terms of Reference and Rules of Procedure.

73 See the following two websites: http://www.cdcgroup.com/Get-in-touch/Make-a-complaint/; and https://www.ifu.dk/det-skaber-vi/grievance-mechanism/

74 The French Development Agency (AFD) has introduced a complaint mechanism, but the information available indicated that it does not apply to Proparco operations.



# CHAPTER 6 CONCLUSIONS AND RECOMMENDATIONS

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Compared to the previous report, there has been little progress in the way DFIs operate and their level of alignment with development effectiveness principles. More substantial changes have been observed in the policy frameworks that guide donor development cooperation and private sector engagement in developing countries. Updated donor policy frameworks show increased interest in the private sector, underpinned by the belief that supporting the private sector can have benefits both in developing and donor countries. This trend can be seen in recent policy documents and the development of new initiatives primarily aimed at the private sector, such as the EU External Investment Plan and its European Fund for Sustainable Development (EFSD), and in the OECD efforts to develop methodologies to estimate the grant equivalent (ODA) of development finance flows that currently cannot be counted as ODA.

DFIs are likely to channel increasing amounts of ODA in the future, and they are also the tool of choice to channel support to the private sector in the context of development. They have a development mandate and significant experience and financial instruments to support the private sector. However, new methodological rules in ODA reporting are also likely to bring onto the scene other institutions which have hitherto remained on the margins of the development debate, especially where ODA flows have been concerned. For example, this is the case of export credit agencies that provide guarantees and other services to companies investing in other countries, including developing countries.

**DFIs are currently not well equipped to support developing countries in line with development effectiveness principles**. DFIs have adopted few measures to ensure compliance with this set of principles and, in some cases, DFI practice can undermine the development effectiveness framework in some key areas. This report has examined the performance of DFIs in three key areas: ownership, development results and accountability. A summary of the results is presented in table 6 below.





**Table 6 — Summary of DFIs' performance against selected aid effectiveness principles**

| DFI | Ownership | | | Development results | | Mutual accountability | |
|---|---|---|---|---|---|---|---|
| | Preference for donor-country companies | Restrictions in access to dev. finance | Stakeholder participation | Performance standards | Monitoring | Transparency | Complaint mechanism |
| **Bio Invest** (Belgium) | above average good performance | above average good performance | average performance or some good features | average performance or some good features | average performance or some good features | poor performance | poor performance |
| **CDC Group** (UK) | poor performance | above average good performance | average performance or some good features | average performance or some good features | average performance or some good features | average performance or some good features | above average good performance |
| **Cofides** (Spain) | poor performance | poor performance | poor performance | average performance or some good features | average performance or some good features | poor performance | poor performance |
| **DEG** (Germany) | poor performance | above average good performance | poor performance | average performance or some good features | average performance or some good features | average performance or some good features | above average good performance |
| **EIB** (EU) | above average good performance | average performance or some good features | average performance or some good features | average performance or some good features | average performance or some good features | average performance or some good features | above average good performance |
| **FMO** (Netherlands) | poor performance | average performance or some good features | average performance or some good features | above average good performance | average performance or some good features | poor performance | above average good performance |
| **IFC** (World Bank) | above average good performance | average performance or some good features | average performance or some good features | average performance or some good features | average performance or some good features | above average good performance | above average good performance |
| **IFU** (Denmark) | poor performance | poor performance | poor performance | average performance or some good features | average performance or some good features | average performance or some good features | above average good performance |
| **Norfund** (Norway) | poor performance | above average good performance | poor performance | above average good performance | average performance or some good features | average performance or some good features | poor performance |
| **Proparco** (France) | average performance or some good features | above average good performance | poor performance | average performance or some good features | average performance or some good features | average performance or some good features | poor performance |
| **Swedfund** (Sweden) | above average good performance | average performance or some good features | poor performance | above average good performance | average performance or some good features | poor performance | poor performance |

■ poor performance ■ average performance or some good features ■ above average good performance

See section on methodology for more information

**Compliance with the principle of ownership is one of the biggest challenges identified in this report**. There are obstacles at several levels. Firstly, many DFIs have a preference for donor-country companies that operates through one or more of the following channels: explicit preference in the mandate of the institution; the overall development cooperation framework; allocation of voting rights to donor-country companies; and the existence of dedicated facilities (instruments or pools of funds) for donor-country companies. Secondly, developing countries do not have access to decision-making procedures and consultation with country offices is explicitly required in only a handful of cases.

Having said that, some **good practices have been identified**. Certain DFIs have developed some form of criteria for direct investments towards companies or countries with fewer investment opportunities, namely MSMEs or lower income countries. Bio prioritises SMEs in developing countries, CDC has developed a methodology that prioritises certain investments and FMO has a non-binding target to focus on lower income countries. On the other side of the spectrum are the multilateral DFIS in our sample, the EIB and the IFC, which cannot target SMEs directly because of their mandates and investment strategies.

When it comes to development results, all DFIs in the sample use similar performance standards and monitoring practices as part of their due diligence procedures. **The report finds that DFIs use standards and monitoring to prevent projects from doing harm – and to avoid reputational risks – but more impact could be achieved if they were more ambitious, tended to rely less on self-reporting and reacted promptly in case of breaches**. Due diligence,[75] including timely remedy, should be fully implemented by DFIs and the companies they invest in to ensure compliance with social and labour standards in the supply chain, where limitations currently exist. For example, labour performance standards used by DFIs generally apply to the workers directly involved in core business activities, and/or to specific labour standards like child/forced labour.

In addition, DFIs should include trade union representatives in DFIs' decision-making structures to ensure due diligence is adequately dealt with throughout the supply chains. Similarly, the report has identified weaknesses in existing DFI policies on the use of offshore financial centres. Existing policies are essentially related to investments through certain offshore financial centres and not responsible tax policies, which could have a much greater impact on developing countries by contributing to increase the share of project revenues that stays in target countries. Only two DFIs (FMO and Swedfund) include some measures aiming at promoting responsible tax practices among investees.

**Many DFIs in the sample fail to provide many of the essential building blocks required to ensure accountability towards project stakeholders**. Complaint mechanisms are a crucial tool from the accountability point of view, but only 6 out of the 11 DFIs in the sample have some form of complaint mechanisms in place. Transparency is generally appalling, and project level information is generally very basic. Even if challenges with financial intermediaries remain, the most transparent DFI is the IFC which consistently discloses project information, including stakeholder engagement, development results and environmental and social performance. Another interesting aspect of the information provided by DFIs is that only 4 of the 11 DFIs in the sample provide historical data on their portfolio (EIB, IFC, IFU and Norfund). In most other cases, the project disappears from the database soon after it has been closed.

75 Due Diligence as enshrined in the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. In this sense, companies should implement due diligence to avoid and address adverse impacts in their operations, supply chains and business relationships. When adverse impacts occur, companies should provide remedy.





## RECOMMENDATIONS

The first and most important step needed is for donors and DFIs **to adopt a set of criteria to engage the private sector in development cooperation**. Certain steps have been taken in this direction by DFIs, but initiatives such as the OECD DAC Blended Finance Principles[76] are very generic and difficult to operationalise due to the lack of detailed suggestions. The criteria/principles should address the following aspects:

**Increase the ownership of development projects implemented by DFIs.** This requires:

- Removing DFIs' preferences for donor-country companies by adopting actions in the following areas: amending the mandate of the institution or the overall development cooperation framework; ensuring that the allocation of voting rights to donor-country companies does not affect project decisions (e.g. by giving government a final vote); and opening up access to facilities (instruments or pools of funds) currently restricted to donor-country companies.
- Adopting policies and approaches to project selection that prioritise investments in companies, countries and activities with a higher development dividend. Some examples include the use of methodologies encouraging investments in difficult situations (such as the case of CDC) and/ or requiring a minimum share of investments in local companies and lower income countries.
- Creating structured processes for stakeholder engagement both at the national and the developing country levels. National stakeholder engagement should focus on the institutional level (e.g. when developing new policies). Engagement with stakeholders from developing countries should happen in the early stages of project development. In both cases, participation should be open to government, local authorities, CSOs, trade unions and others.
- Demonstrating how projects align with and support national development strategies. In order to ensure the coherence of the projects with their development mandate, DFIs should avoid supporting projects in countries where the ILO has concluded that core labour standards are severely and repeatedly violated, and where there is a lack of political willingness from the government to ensure the enforcement of these rights. Exemptions could be granted for projects which arguably contribute to improving respect for labour standards. Similarly, DFIs should only grant support to companies that demonstrate the implementation of labour standards.

76 OECD (2017). OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals. It is also important to consider the following documents developed by a set of multilateral DFIs in 2017: DFI Working Group (2017). DFI Working Group on Blended Concessional Finance for Private Sector Projects.

**Focus on delivering and maximising development results. The following actions should help to increase their impact in developing countries:**

- Review DFI's procedures to ensure projects supported comply with due diligence, including effective monitoring and complaints procedures, in line with the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. These actions should be accompanied by the possibility of suspending or terminating financial support to borrowers that are not in compliance.
- Maximise the amount of tax revenues that stay in target countries by adopting and imple-menting responsible tax policies that reduce the use of tax havens and intermediary jurisdictions. The use of such jurisdictions should be justified and explained so awareness is raised about existing constraints and they can be addressed in the longer term.

- Reform the decision-making structures to formalise the participation of different stakeholders in donor and partner countries, including workers' representatives to balance the different interests and ensure a more comprehensive view of their development mandate.

**Ensure project stakeholders have all necessary tools to hold project partners and DFIs accountable for their activities by:**

- Extending the disclosure of project information to include at least: ex-ante project evaluations, environmental and social impact assessments and management plans, ex-post evaluations. A historical database of projects should be available at least during the projected lifetime of the underlying investment, instead of the financial exposure (i.e., if a power plant is expected to run for 30 years, information should be available throughout its lifetime).

- Creating an independent complaint mechanism which is free and easily accessible for all pertinent stakeholders. This includes, but should not be restricted to, explaining criteria used to evaluate complaints, providing online and offline complaint forms, making available a local address for information and complaint purposes, accepting complaints made in local languages and ensuring some form of support for pertinent representatives and independent organisations who want to make a complaint.





# SUPPORTING EVIDENCE ON MUTUAL ACCOUNTABILITY

| DFI | Project informationcriteria | | Historical data | Disclosure of project ex-post evaluations |
|---|---|---|---|---|
| **Bio Invest** (Belgium) | - Name of customer<br>- Target country or region<br>- Economic sector<br>- Year of signature<br>- Volume of Bio's financing in EUR/USD | - Short description of the investment: Who is our customer? What will the financing be used for? Why are we financing the project? | Open projects (i.e. projects with an active financial involvement from the DFI such as a loan that has not been fully repaid) | N/A* |
| **CDC Group** (UK) | - Name of customer<br>- Location or legal domicile<br>- Information about serious incidents at the investee's businesses reported to us by our fund managers<br>- Value of CDC's investment<br>- Whether other development finance institutions have invested | - Focus of each fund<br>- Vintage of each fund<br>- Name, sector and location of investee companies<br>- Additional information might be available upon written request (fees may apply) | Open projects (i.e. projects with an active financial involvement from the DFI) | No evaluations at the project level. Information on specific projects can be restricted |
| **Cofides** (Spain) | - Country<br>- Sector<br>- Name of customer<br>- Sponsor | | Open projects (i.e. projects with an active financial involvement from the DFI) | N/A* |
| **DEG** (Germany) | - Name of customer<br>- Target country or region<br>- Economic sector<br>- Month of signing of the contract with DEG<br>- Volume of DEG's financing in EUR/USD<br>- Environmental and social category (A, B+, B, C) | - Customer website (if available)<br>- Short description of the investment: Who is our customer? What will the financing be used for? Why are we financing the project? | Two years | Summary only |
| **EIB** (European Union) | - Description and project summary<br>- Amount of EIB investment and total costs<br>- Client name<br>- Sector | - Country<br>- Signature date<br>- Summary of environmental and procurement aspects | Historical data goes back to the 1960s | No information, practice shows this is not the case |
| **FMO** (Netherlands) | - Client name<br>- Client's website (if available)<br>- Origin (region and country)<br>- Sector<br>- Signing date<br>- Total FMO Financing<br>- Total project costs | - FMO's financial input<br>- Environmental & social category<br>- Short description of the investment: Who is our customer? What will the financing be used for? Why are we financing the project? | Archived after one year, available on the website until the end of FMO's financial exposure | N/A* only aggregated information has been found |

| DFI | Project informationcriteria | | Historical data | Disclosure of project ex-post evaluations |
|---|---|---|---|---|
| **IFC** (World Bank Group) | - Investment information (company name, region, sector, environmental category, IFC investment and type, total investment, information on investee structure, location of the project)<br>- Information on development results (expected, achieved, IFC role and additionality) | - Environmental and social information and risk mitigation<br>- Contact information for enquiries<br>- Project documents are sometimes available | goes back to 1994 | practice shows this is not the case |
| **IFU** (Denmark) | - Client name<br>- Country and region<br>- Activity/Product<br>- Danish Partners<br>- IFU's participation and type<br>- Total disbursed | - Expected total investment<br>- Expected direct employment (people)<br>- Actual direct employment (people)<br>- Period | Historical data. Database goes back to the 1970s | N/A* |
| **Norfund** (Norway) | - Sector<br>- Country<br>- Date of investment<br>- Committed amount | - Type of instrument<br>- Brief description<br>- Client's website | Data on projects goes back to 1999 | N/A* |
| **Proparco** (France) | - The **operation presentation document (OPD)**: information on the operation AFD has decided to process: context, objectives, activity, social and environmental classification and expected outcomes.<br>- The **operation presentation note (OPN)** discloses information relating to the operation after the operation has been approved and with the client's consent. Contains a summary of the operation and its implementation. It also includes an indicative list of future bid invitations. | - The publicly-available **operation monitoring note (OMN)**. Published on an annual basis and updates the OPN. Information on the implementation of the operation in terms of what was initially planned.<br>- By **written request**: the summary of the feasibility study on the operation; the environmental and social study of the operation when applicable; the summary of final appraisals on operations, a summary of ex-post evaluations when applicable. | Information is available on the website throughout the life span of the project and is archived for one year | Written request required to access the summary |
| **Swedfund** (Sweden) | - Name of customer<br>- Sector<br>- Country | - Date of investment<br>- Type of instrument<br>- Brief description | Open projects mainly | N/A* |

Source[77] *N/A means that no policy or information has been found

77 CDC (2015). Disclosure and Access to Information Policy; DEG's website: https://www.deginvest.de/International-financing/DEG/%C3%9Cber-uns/Verantwortung/Disclosure-policy/; EIB (2015). European Investment Bank Group Transparency Policy; FMO (2017). Disclosure; IFC (2012). International Finance Corporation Access to Information Policy; AFD (2012). Politique de transparence de l'AFD; DFIs' websites.

TUDCN-RSCD

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RÉSEAU SYNDICAL DE COOPÉRATION AU DÉVELOPPEMENT (RSCD)
RED SINDICAL DE COOPERACIÓN AL DESARROLLO (RSCD)

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