

The Strength of bilateral DFIs

Under the umbrella of EDFI (European Development Finance Institutions), 17 bilateral DFIs (Development Finance Institutions) with a current total portfolio of EUR 15.1 billion in nearly 4000 projects are investing in private sector companies in developing countries and emerging markets. DFIs provide important input to these markets, such as long-term loans, mezzanine finance, equity and technical assistance - products not always available from commercial banks operating in these countries. The activities of DFIs support the functioning of the private sector, even stronger in times of crisis, when commercial banks are driven out by risk factors or liquidity shortages and the correspondent prevention from entering into long-term partnerships with private companies. Once departed, it takes considerable time before commercial banks return to operate in these markets again. Following their mandate, DFIs continue to be engaged during crises, therefore being capable of sustaining private sector activities critical to development. As EDFI members are majority owned or their investment risks are covered by European Governments, their support may be helpful for private companies. The current financial crisis, which is to a large extent about to affect the developing world as hard as the industrial world, is an example where DFIs gradually have replaced or will replace the facilities from commercial banks. By doing so, DFIs enable private sector enterprises to continue to operate or even to survive.

Bilateral DFIs are best described by both their individual as well as joint activities and the ability to respond rapidly to changing market and risk environments:

1) Specialization

Bilateral DFIs carry specialized knowledge and specific expertise on countries, sectors, financial products and investment partners while operating with relatively low transaction costs. In addition, they have a proven track record in the structuring and financing of smaller projects in poorer countries - often ignored by larger institutions. In Africa, bilateral DFIs have been active for decades and have shown proven superior development impact on the continent across all sectors and regions.

2) Long-Term Customer Relationship

While DFIs are globally active, their origin lies in the economies of their European home countries. As a result, bilateral DFIs have firm and long-lasting relations with national SME-companies and know their needs. DFIs are therefore in the best position to structure their offers and products accordingly.

3) Flexibility

Bilateral DFIs are characterized by quick decisions and efficient approval procedures. Organizational structures can be rapidly changed to be in line with focus areas in response to market demands. The bilateral DFIs have been instrumental in the development of local financial markets by gradually involving local and international commercial banks, primarily with short term credit, by accepting subordination to the security provided to the commercial banks.

4) Innovation

Within their business models, DFIs have brought a number of innovative ideas to the market, such as specific private equity funds and local currency funds as well as new methods of monitoring and measurement of effects. Innovative ideas create an environment of benchmarking; ideas can nonetheless be combined and harmonized in their complementarity.

5) Cooperation

Bilateral DFIs are marked by a willingness to share knowledge and expertise among themselves and other players in the market. Spreading risk through co-financing and drawing upon the respective expertise is of additional advantage, enabling them to operate in developing countries - also during times of crisis. The cooperation among them goes as far as having joint financing facilities (e.g. European Financing Partners-/EFP) and strategic targets for co-financings - also to enable the engagement in the financing of larger undertakings. In addition, in co-financings bilateral DFIs may offer bundled political support when necessary.

6) Harmonization

Over time, project appraisals, monitoring and the assessments of social and environmental standards have been harmonized within EDFI, resulting in improvements in cost-efficiency with a correspondent reduction of related costs for their customers. The measurement of developmental impact and standards of cooperation thus offer the clients of bilateral DFIs streamlined financial products and standards.