Role of DFIs in Development

Henry Chingaipe

IPRSE
Outline

- What is a DFI?
- Typology (Taxonomy) of DFIs
- Roles of DFIs in development
DFIs

• DFI is a financial institution that provides risk capital for economic development projects.
• DFIs occupy an intermediary space between public aid and private investment, ‘facilitating international capital flows’
• They are often established by governments or charitable institutions to provide funds to projects that would otherwise not be able to get funds from commercial lenders.
• DFIs often provide finance to the private sector for investments that promote development and to help companies to invest, especially in countries with various restrictions on the market
• Governments often use DFIs/development banks to form part of their international development aid.
Typology

- DFIs are of many forms, including:
  - Multilateral development banks,
  - Bilateral development banks,
  - Microfinance institutions,
  - Community development financial institution and revolving loan funds
- DFIs are typically backed by countries with developed economies.
Roles

• They apply stringent investment criteria aimed at safeguarding financial sustainability, transparency, and environmental and social accountability

• The financial support they bring to relatively high-risk projects helps mobilising the involvement of private capital, bringing in such diverse actors as commercial banks, investment funds or private businesses and companies

• Promotion of inclusive business models
• Investing in under-served project types and settings such as small and medium enterprises, agribusiness and post-conflict settings;
• Investing in undercapitalized sectors such as energy and infrastructure;
• Mobilizing other investors by sharing knowledge and setting standards.
• Knowledge production through commissioned research (Knowledge banks)
Success Criteria for Successful DFIs

- Additionality – counterfactual assessment for development outcomes
- Catalytic effect - creating a conspiracy FOR development (Upstream and downstream as well as horizontal linkages in supply chains!)
- Project sustainability