

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

From Additionality to Subsidiarity – Different Approaches to Harmonize the Roles of International Finance Institutions (IFI) and Commercial Banks in Project Finance

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Our business is developing.



I. Some introductory remarks on DEG



Mandate and working method

- German development finance institution for the private sector
- Specialist for entrepreneurial development in all sectors of the economy
- Long-term investment capital for private enterprises
- Financing of investments with a positive developmental impact
- Market-oriented conditions
- Agribusiness, finance sector, infrastructure, manufacturing industries, services
- Ecological and social acceptance according to international guidelines
- Contributions to sustainable economic growth and poverty reduction

DEG – Promoter of entrepreneurial development cooperation



Corporate data

Founded: 1962
Employees: 436
Seat: Köln
Shareholder: KfW, Frankfurt

Equity 2010: EUR 1.5 billion
Total assets 2010: EUR 3.9 billion

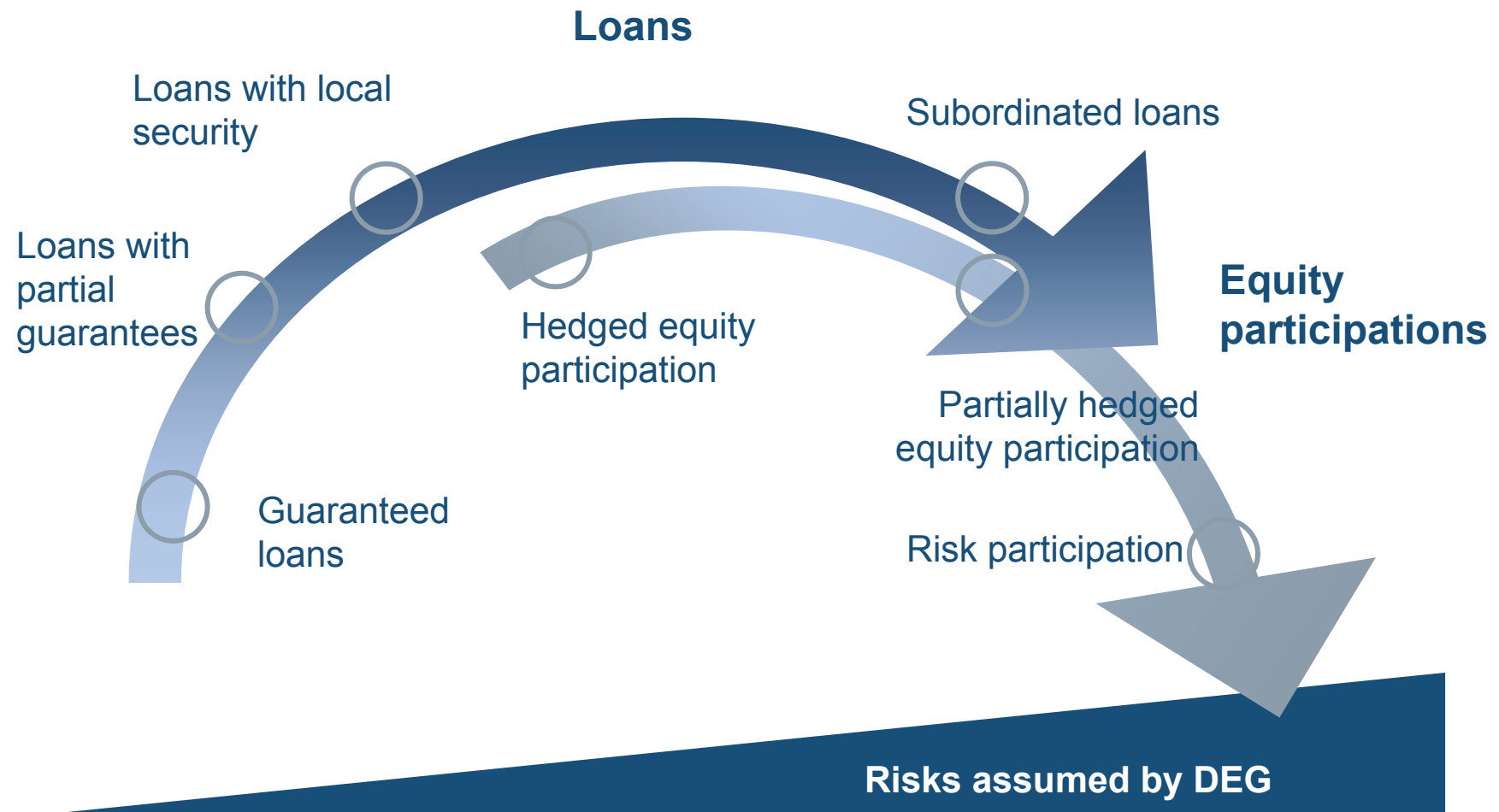
New commitments in 2010: EUR 1.2 billion
Portfolio 2010: EUR 5.2 billion



(supporting investments worth EUR 7.8 billion)

(supporting investments worth EUR 34.1 billion)

Scope of DEG financings



II. Considerations on a macro economic level



- **Uncertainties in the wake of the present financial crises and further regulatory constraints may diminish the appetite of commercial banks for long term project finance in developing countries**
- **IFI's concepts to cope with diminishing market failures in emerging market countries**
 1. Shifting corridors – describing a tendency of IFI to move away from BRIC-countries to least developed countries
 2. Graduation – process by which countries considered developed disappear from lists of eligible countries
 - Examples: South Korea, Trinidad and Tobago

- **Different approaches by three important IFIs**

1. The International Finance Corporation (IFC) has developed a special strategy within its concept of additionality in Middle Income Countries (MIC)
 - Focusing on innovation and inclusiveness
 - Selective filters are applied which exclude “normal” projects
2. CDC has carried the concept of shifting corridors and graduation even further
 - concentrating on Sub Sahara Africa and only the poorest states in India
 - where its capital is not needed CDC will not finance

3. DEG has special constraints on a account of its tax status

- avoidance of competition with commercial bank as laid down in § 65 (3) German Tax Code (Abgabenordnung)
- no interference with saturated financial markets were competition with commercial banks could arise (Subsidiarity)

III. Illustrations on the micro economic level



- **In syndications a blending occurs with mutually beneficial outcome in mega projects (investment volume more than USD 500 Million). IFIs and commercial banks are dependent on each other and together with export credit agencies are indispensable for a successful project.**

- **Two examples from my professional practice can testify this:**
 1. The financing of an aluminum smelter in Mozambique ten years ago would not have occurred with IFI-lenders

The commercial banks under the umbrella of the French export credit agency also played an important role in the project

2. In the financing of a container terminal in the Dominican Republic the commercial bank as arranger played the decisive role but the involvement of IFIs was also crucial to mitigate political and commercial risk of the project

- **The A-/B-loan structure exemplifies another way of successful cooperation between IFI and commercial banks**

1. In a B-loan structure as developed already in the 60's of the last century by the IFC the IFI provides the A-loan for its own account and under its own main and the B-loan for the account of the participating commercial bank but also under its own name

2. Attractiveness for commercial banks lies in the preferred creditor status of IFI
3. Abuse may occur when the IFI as lender of a record is used for “fronting” to obtain tax advantages for the commercial bank.

IV. Outlook to the future



- **Reversal of roles will occur with the change of economic powers in the world which is best illustrated by the composition of G20 group**
- **The IFIs of the BRIC-countries will play an ever increasing role and will cause new patterns in economic cooperation.**
- **The foundation of the International Development Finance Club (IDFC) at this year's World Bank Meeting in Washington D. C. with members as BNDES of Brazil and the China Development Bank is an important proof of this change**