

Introduction to Development Finance Institutions: Unlocking Capital for Entrepreneurs in Emerging Markets

Development Finance Institutions, or **DFIs**, are government-backed institutions that provide financing to private sector projects in emerging markets. They **promote sustainable development** by offering long-term, flexible capital with a focus on impact and social responsibility. They sit at the crossroads of public policy and private investment: part bank, part development agency. Unlike traditional aid organizations that focus on grants or humanitarian relief, DFIs invest in businesses, infrastructure, and projects with the aim of promoting sustainable growth **while generating a financial return**.

How DFIs Work?

DFIs rely on a mix of financial instruments such as loans, equity, and credit enhancements; they often **extend financing to private companies** in situations where commercial banks lack the capacity or risk appetite to successfully finance a project. For example, a DFI might provide financing to an agribusiness to set up a new processing facility or to cover working capital needs with longer inventory cycles. DFIs can also finance local financial institutions, enabling them to on-lend to small businesses that are critical for social and economic development.

DFIs also bring commercial banks and investors into deals by offering risk-sharing mechanisms. Through A/B loans, the DFI lends a portion itself and mobilizes other banks to participate, giving them comfort through the DFI's status and safeguards.

Who Are the DFIs?

There are two broad types of DFIs:

- 1) Multilateral DFIs: Owned by multiple countries and focused on a global or regional mandate. Examples include the International Finance Corporation (**IFC**, part of the World Bank Group), the African Development Bank (**AfDB**), and the Asian Development Bank (**ADB**).
- 2) Bilateral DFIs: Owned by a single country to support its development policy. Examples include **Proparco** (France), **DEG** (Germany), or **DFC** (United States).

Real-World Examples

Promoting Sustainable Aquaculture in Asia:

The Asian Development Bank recently structured a **\$150 million A/B loan for Thai Union** in Thailand. The financing will cover working capital needs for the procurement, processing, and export of sustainably farmed shrimp. Beyond financing, the ADB is also providing technical assistance to train representatives from over 500 shrimp farms and to develop three demonstration farms that showcase best practices in sustainable aquaculture. This combination of finance and technical assistance strengthens climate resilience and boosts rural livelihoods.

Strengthening Food Security in Africa:

In 2024, Proparco provided a **€13 million loan to Cadyst Group** in Cameroon to launch its poultry subsidiary, Cadyst Farming. The investment will boost local production of affordable chicken meat at a time of rising inflation and food insecurity, while also generating jobs and training opportunities for the local community.