Development Financing Defined

ADFIAP’s Official Definition*

“Development financing is providing access to financial and support services for the underserved, the strategic and priority areas of a country in order to achieve sustainable growth of the economy and thereby assure a more equitable distribution of the benefits of progress and a better quality of life for its people.”

*Approved by the Board of Directors on November 13, 2012 in Johannesburg, South Africa and ratified by the General Assembly on May 22, 2013 in Ulaanbaatar, Mongolia.

Definition Contributions from Members

LANDBANK OF THE PHILIPPINES

“providing timely and adequate financial and technical services (loans, deposits, investments, remittances, insurance, payment services, marketing linkages) to identified priority sectors whose developmental projects and economic activities create positive impact on the overall welfare of the poor and socio-economic conditions of the community.”

DEVELOPMENT BANK OF THE PHILIPPINES

For DBP, development is initiating the nation’s development process or wealth creation through meaningful public-value LENDING/INVESTING/ASSISTANCE in order to attain its objective of ultimately seeing a developed Philippine economy with better-equipped Filipino citizenry who are enjoying a high quality of life while at the same time giving utmost concern/ respect for ecology.

Initiating means taking the lead or being a VENTURE BANKER in FINANCING/LENDING/ INVESTING/ASSISTANCE to areas highly-averted by commercial banks and assuming the following roles:

1) Initiator/drumbeater of the country’s various big infrastructure projects (roads/ports, utilities, transportation; communication; housing; schools and hospitals) especially in the Super Regions as identified in the SONA and 10-pt Agenda;

2) Microfinance and SME advocate (microfinance banks, development banks, rural banks) and lender to cooperatives, NGOs, people’s organizations, other grassroots organizations and barangays (villages);

3) Development Partner of local governments especially in lower-income and lesser-developed municipalities in the provision of electricity, water supply and other basic necessities.
   - Lending Partner to pioneer/preferred industries of DTI/BOI/DOT/DA;
   - Provider of technical assistance to borrowers to make them credit worthy;
   -Advocator in preservation of environment;
   -Advocator of good governance ;
   - Promoter and trailblazer of special projects along the lines of Corporate Social Responsibility (CSR) such as the DEEP, etc.

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**CGC MALAYSIA**

Development Financing is the provision of access to financing to priority sectors or target groups with an aim to bridge service gaps and create additionality within the market while promoting sustainable positive value to the overall economy and quality of life.

Details of the terminology used in the definition are as follows:

1. **Priority sectors/target groups**: people who need it/ recipients of government focus.
2. **Bridge service gaps**: currently underserved by commercial-driven FIs
3. **Create additionality**: not only plugging holes in the financial system but expanding the system as well.
4. **Sustainable positive value**: creating not only impactful but also long-lasting benefit
5. **Overall economy and quality of life**: apart from benefiting the nation in terms of gross domestic production (GDP) but also the quality of life of impoverished groups of deserving people who receive financing.

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**FSM DEVELOPMENT BANK**

At FSMDB the definition of "development financing" is financing of businesses, mainly private sector businesses that would generate long-term employment for the nation’s population and create additional tax revenue to finance social projects of the government. Development financing also address export promotion and import substitution.

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**VNESHECONOMBANK** Moscow, Russia

As a rule we use in our practice the following definitions:

**Development financing** is an accumulation and a redistribution of financial, human and intellectual resources to solve social and economic problems of development and modernization of the economy.

National Development Bank - Financial institution primarily concerned with offering long-term capital finance to projects generating positive externalities and hence underfinanced by private creditors (an informal background document for the Ad Hoc Expert group Meeting on “Rethinking the Role of National Development Banks” (New York, 1-2 December 2005).
PEOPLES CREDIT FINANCE CORPORATION (PCFC)

PCFC, in the context of microfinance, defines development financing as something that relates to the way financial services improve the lives of the poor and their families and widen the range of opportunities for communities.

Development financing is aimed at serving the increasing number of poor in a sustainable way both by broadening and by deepening outreach; improve the quality and appropriateness of the financial services available to target clients through the systematic assessment of their specific needs; create benefits for microfinance clients and their families and communities that are related to social capital and social links, assets, reduced vulnerability, income, insurance, access to services and the fulfillment of basic needs; and improve the social responsibility of the MFIs towards its clients, employees and the community it serves.

BANK OF BHUTAN LTD.

Our definition of development financing is using innovative ideas to promote development in the region through boost in economic growth with focus on real estate, agriculture and industries.

INTERNATIONAL FINANCIAL CONSULTING LTD.

DFI: “a publicly-backed institution, with one or more shareholders, that provides long-term resources in order to facilitate projects and operations, sometimes at concessional rates, that can be justified based on the twofold purpose of financial self-sustainability and development impact, quantified according to the contributing entity's specific mandate”. Development financing is therefore the instruments that DFIs provide.

BUSINESS DEVELOPMENT BANK OF CANADA

For BDC, our role and mandate is clearly defined in our constituting statute – the Business Development Bank of Canada Act – which says that “the purpose of the Bank is to support…entrepreneurship by providing financial and management services. In so doing, BDC must “give particular attention to SMEs” and must be complementary to commercial financial institutions. Since 1995, this has proven to be a strong, yet flexible guiding light for the Bank.

BANK PEMBANGUNAN MALAYSIA BERHAD

The role of development financing is to provide financing to strategic sectors of the economy where funding from the private financial sector is not available. The objective is to fill the gap which had existed in the banking system in terms of providing medium and long-term financing to capital intensive industries.

Characteristics of Development Finance Institution (DFI):

1) A specialized financial institution to support the national development agenda in strategic sectors;
2) It provides medium-term and long-term lending facilities;
3) It provides financial assistance to both private and public sectors;
4) It is a gap filler to channel funding when assistance from other sources is not available; and
5) It has the objective to serve public interest.

PAK OMAN INVESTMENT COMPANY LIMITED

“Development banks are specialized financial institutions that provide medium/long-term financing for sustainable economic growth in economically viable sectors/projects where financing period is either too long or which initially may not be financially attractive for financial institutions because of their perceived high-risks. Development financing generally is employed for the period until the risks/tenor of financing is brought to a level where it becomes commercially viable for conventional financial institutions.”

PAK BRUNEI INVESTMENT COMPANY LIMITED

1) The provision of financing and investment advisory services by general and specialized financial intermediaries for promotion of socially desirable sustainable development outcomes through one or combination of the following modes:

   a. long-term and short-term funded and non-funded finance facilities at market or concessional rates;
   b. subordinated loans and standby facilities;
   c. equity and quasi equity capital;
   d. grants for technical studies and consultancy services.

2) The provision of financial, technical and managerial support on market-based or concessional terms to a broad spectrum of economic entities, through general and specialized financial intermediaries, for fostering regional and national socio-economic developmental goals, which may not be fully catered to by commercial banks.

3) Channeling of financial resources generally combined with technical and managerial support, to a broad spectrum of economic entities which may not qualify for commercial loans on a stand-alone basis, for fostering regional and national socio-economic development priorities.

CENTRE FOR SME GROWTH AND DEVELOPMENT FINANCE (CESMED) India

"Financing entrepreneurial investments promoting viable agricultural, industrial and services ventures leading to sustainable development, economic and social good; environment-friendly innovative projects; and globalisation of private sector with need-based business development services."

This definition I am proposing keeping in view the following cardinal points:

1. It should be relevant to the changes in the economic & financial sectors, globally
2. It should spur innovative, entrepreneurial projects (for tomorrow), which are viable
3. It must be sustainable in the long run with adequate economic returns leading to social good by generating additional employment, income generation and gender bias.
4. It should also render need-based BDS blended with finance to SME clients
5. It must have be guided by environment issues, global warming challenges, etc.
**RURAL DEVELOPMENT BANK OF CAMBODIA**

DFI is a state-owned bank defined as a key mechanism to support and strengthen microfinance and rural credit services and promote small and medium enterprises. Since it is a public and autonomous institution authorized to operate as a specialized bank, RDB is more focused on serving the public interest rather than earning profits by promoting the rural agricultural development and general economic activities in order to take part in poverty alleviation as well as to raise their living standard.

**ESQUIRE FINANCING INC.**

Development financing, in the broader perspective, is the channeling of financial services, including professional entrepreneurship assistance, to initiatives and sectors where other financial institutions invest in but conservatively. It is the designation of resources for the growth of enterprises that require funds for medium and long term capital to undertake expansion and advancement plans, primarily those that have substantial potential for civic, national and socio-economic success.

**AVANTAGE VENTURES**

Development financing refers to a range of banks and non-banks financial institutions such as state-owned development banks, financing arms of international organizations, e.g. IFC of the World Bank, and community-oriented microfinance institutions that provide financial services with a development policy mandate. The policy mandate usually involves intended positive social impact which runs alongside the traditional mission of business financing, where lending decisions are made mainly based on credit scores, project payback conditions and the availability of qualified collaterals.

The value-added by development financial institutions lies in their ability to consider projects and business initiatives that:

1) Suffer from short term capital investment pressure, but are beneficial to the long term development of a country or society e.g. climate change bond; infrastructure financing; and/or

2) Involve social segments that are not attended to by the mainstream financial institutions, e.g., village entrepreneurs and low income individuals.

**DEVELOPMENT BANK OF SAMOA**

DBS was established with functions to promote the expansion of the economy of Samoa for the economic and social advancement of its people by making loans and participating in infrastructure residential and commercial development.

**Datuk Mohamad SALEH bin Mohd. Ghazali, Honorary Member**

After retiring from development banking and getting personally involved in business I would define development financing as follows:
Development financing is defined as "lending money or providing funds and providing consulting services (financial and operational) to fill up the gap and provide access in the financial system, be it in the developed, developing or underdeveloped economies, to any business enterprises at an affordable interest cost for the enterprises’ survival and growth".

Hope this definition would give you some insight on how I think of develop financing after facing the commercial and development financial institutions personally at negotiation during good and bad times.