

Assessment of development effects of long-term project finance in developing countries

Results of GPR rating of DEG´s portfolio

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Abstract

DEG is a German Development Finance Institution to promote the private sector development in developing countries. As a public enterprise, founded in 1962 and member of KfW Bankengruppe since 2001, DEG finances investments of private companies in developing and transition countries. Its corporate objective is to establish and expand private sector activities and thus to contribute to sustainable economic growth and poverty reduction. The following article describes and analyzes the development effects of DEG´s portfolio using Ex-Post measurement results from the rating tool GPR. A short review of development bottlenecks and the role DEG can play in long-term project finance explains the framework of assessment of development effects. The rating tool mechanics are presented by using two DEG case studies. The article mainly discusses GPR-Ex-Post-measurement results of DEG´s overall portfolio as per January 2006, including correlations between profitability, development effects and DEG´s profitability. Profitable investments and development impact is not contradictory – there is a positive correlation. The success rates of Ex-Post-Ratings are naturally below expected ex-ante-Ratings as country- and project-risks and net losses occur. Finally, the strength and weaknesses of the rating tool which is becoming more and more a standard among European development finance institutions are covered.



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