

# A Tale of Three Cities

A CDFS Slightly Longer Read – February 2026

Bilateral DFIs Governance Models & Why They Matter

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**Without governance, some say, vision is just chaos with better stationery. As the development system increasingly relies on DFIs and MDBs to address the challenges of sustainable development, not only through their financing capacity but also as engines of private capital mobilisation, and as they grow in scale, complexity, and influence, it is timely to redress the relative lack of literature dedicated to their governance and organisational structures. It is this knowledge gap that this paper seeks to begin bridging, by studying the governance models that link three European bilateral DFIs to their respective owners.**

Governance is more than administration; it is the vital mechanism through which institutions translate strategic intent into concrete action. In a world of moving tides and evolving challenges, it should not be seen as a settled matter, but as a domain requiring continuous attention and thoughtful adaptation. Even when effective, governance can be improved and strengthened. Few organisations are perfect, but almost all have lessons to learn and wisdom to share.

Building on the approach developed for the analysis of [“The Funding Models of Bilateral Development Finance Institutions”](#) written in collaboration with the OECD, this paper seeks to build a practitioner-led assessment of the capacity of the specific features of each model to optimally position DFIs for mission delivery.

Drawing on publicly available documentation and interviews with senior representatives, it presents an initial foray into the governance across three bilateral development finance systems in three cities where time, people and administrative culture have led to the development of three clearly differentiated models.

The United Kingdom’s British International Investments (BII) provides a case study in balancing an arm’s-length governance model which grants operational independence to its board and management with a framework of accountability to government and parliament, alongside an extensive network of informal engagement channels with its shareholder, the Foreign, Commonwealth and Development Office (FCDO).

In stark contrast, France’s Proparco is governed through deep institutional integration and strategic coordination with the Agence Française de Développement (AFD). As its largest shareholder, AFD provides Proparco with expert guidance while acting as a conduit for strategic ministerial instructions. Proparco’s history delivered a unique shareholding structure, offering a valuable

perspective on the opportunities and challenges of a diversified ownership.

Of the three institutions, Swedfund is the only one to be fully governed under a national framework for state-owned enterprises, which emphasises clarity and operational autonomy. Its governance is codified through the State Ownership Policy, offering predictability and stability. Crucially, it has over the last decade undergone a threefold growth in its asset base. At a time when governments are rapidly expanding the financing capacity of their bilateral DFIs, the adaptation of governance arrangements and the corresponding increase in supervision resources this may require are of specific interest.

Governance arrangements reflect distinct administrative cultures, historical events and political choices. No single model can therefore be deemed as universally superior. They do however share the common imperatives of balancing oversight with independence, ensuring governance capacity keeps pace with institutional growth, and maintaining clear accountability while preserving flexibility. Examining differentiated approaches should provide valuable insights for governments seeking to strengthen the effectiveness of their development finance efforts.

It is a robustly codified demand on any research report that it should end with recommendations. This Slightly Longer Read will resist. Its purpose is not to chart a path to reform, but to encourage national development finance stakeholders to recognise the importance of governance arrangements for the ability of their institutions to deliver on their objectives.

Governance creates incentives, incentives shape behaviours, behaviours affect results. The development finance community would benefit from treating governance as a dynamic, evolving domain as the scale, complexity, and expectations of these important institutions continue to evolve.



# 1. What

## ***Governance in a time of growth***

In recent years, bilateral development finance institutions (DFIs) have emerged as increasingly important instruments for donor governments seeking to advance sustainable development. Many of these institutions have seen their assets multiply and their teams expanded accordingly. Yet, despite their growing prominence, the governance of these institutions remains uncharted territory for most observers, often familiar only to a handful of national stakeholders.

We consider it important to bridge this knowledge gap - not to expose potential shortcomings of individual institutions, but to shed light on different governance models, illustrate how they operate and provide a basis on which DFI and government stakeholders can make informed decisions, drawing on the experience of several systems and practices.

This appears all the more relevant as recent studies<sup>1</sup> indicate that institutional quality significantly impacts development outcomes, highlighting the importance of robust governance frameworks.

These studies suggest that the expanding mandates of DFIs call for a holistic reassessment of their roles, ecosystem-wide reflection and corresponding governance reforms.

In a world where we are going to need to do more with less, governance efficiency is going to be one of the keys through which development finance institutions could scale up their activities and become the catalysts of change they seek to be.

Examining how these organisations are structured and governed therefore appears both timely and relevant.

This paper seeks to initiate this exploration by studying the governance models of three European DFIs: Swedfund (Sweden), Proparco (France) and BII (United Kingdom).

## ***Methodology***

This study is based on a detailed review of publicly available documentation, complemented by interviews with senior representatives within the selected DFIs and government ministries.

It does not seek to prescribe how a DFI should be governed, nor to comparatively judge the merits of each governance model. Instead, it aims to offer a factual overview, drawing attention to the distinctive characteristics and constraints of each model. The exercise is intended as a precursor to future studies of governance models in other DFIs and multilateral development banks.

The following methodology was used to develop this paper: (a) selection of a sample of institutions for assessment, (b) review of publicly available information, (c) collection of stakeholder testimony.

## ***Sample selection***

A focused sample of bilateral DFIs was selected from the outset to allow for a thorough assessment of each. The institutions were chosen for the diversity of their governance arrangements with their shareholders, providing a basis for broader insights:

- BII is owned by the UK government, through the Foreign, Commonwealth & Development Office (FCDO), and is managed separately from the UK's portfolio of state-owned enterprises.

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<sup>1</sup> UNIDO, *Development Finance Institutions for Sustainable Industrial Development*, 2023.

AFD, *Development Finance Institutions: New Directions for the Future*, 2024.

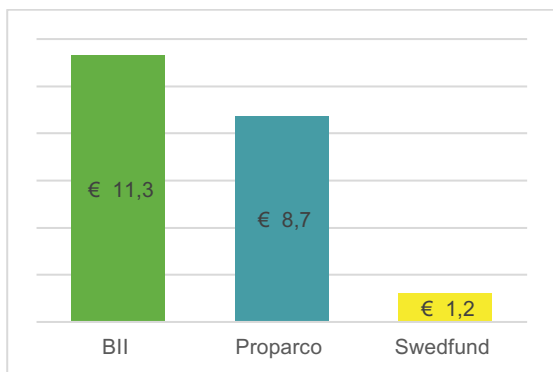


- Proparco has a mixed public–private ownership structure, with the French Development Agency (AFD) holding 85% of the capital.

- Swedfund is wholly owned by the Swedish state and managed as a state-owned enterprise according to a standardised approach. Responsibility is divided between the Ministry of Finance and the Ministry of Foreign Affairs.

### ***Size as a governance matter***

It must be remembered that the complexity of governance systems and the resources dedicated to their implementation cannot be scrutinised without reference to the complexity and size of the entities they are meant to govern. Growth trajectory is equally relevant to the need to adjust and resource governance structures.



**Figure 1 Assets size in billions of Euros (December 2024)**

### ***Desktop research and human overlay***

The research methodology was based on an extensive review of publicly available documents on governance, including annual reports, board meeting minutes, ownership instructions and policies, strategy plans, as well as reports from national accountability institutions. Depending on the quality of this material, it was possible to reconstruct the governance models and to understand how they function formally.

To address the gaps left by desktop research, and to understand how the governance arrangements operate in practice and are perceived by those within the system, direct interactions with key stakeholders were undertaken. Interviews were conducted with senior representatives within all three DFIs and their respective shareholders.

These representatives were also given the opportunity to review the factual underlying of the paper prior to publication, underlining the collaborative spirit of a study whose purpose is to be of practical value to the development finance community. The analysis of the governance arrangements is the sole responsibility of the CDFS.



## 2. London

### ***Ye olde DFI***

British International Investment (BII) is the world's oldest DFI, founded in 1948 as the Colonial Development Corporation, and previously operated as the Commonwealth Development Corporation and CDC Group.

BII is entirely owned by the British Foreign, Commonwealth and Development Office (FCDO) since the 2020 merger of the former Department for International Development (DFID) and the Foreign Office.

BII's operations are funded through annual capital allocations from the UK government, supplemented by returns generated from its investment portfolio. Over recent years, BII has accounted on average for around four per cent of the UK's annual Official Development Assistance budget.

BII's core activities comprise direct investments through equity, loans, and other forms of debt, as well as indirect investments via financial intermediaries such as private equity funds, banks, and microfinance institutions.

In 2024, financial commitments consisted of 62% loans, 18% direct equity, 11% guarantees and 10% intermediated equity.

By the end of 2024, the institution employed approximately 657 staff and operated 15 offices worldwide. It was active in 70 countries, with total assets valued at over £9.9 billion, up from £3.4 billion in 2014, representing an increase of 190% over the past decade.

### ***Governance under the arm's-length model***

BII's governance is shaped by the British government's arm's-length model. Although not formally codified in a single document, the arm's-length model is a long-standing feature of UK state ownership, under which the government sets the strategic direction and the accountability framework of state-owned enterprises while granting the board and

executive management full operational independence.

In contrast to most state-owned companies in the UK, which fall under the Treasury and are managed through UK Government Investments (UKGI), BII is owned by the Foreign, Commonwealth and Development Office (FCDO). It does not operate under a standardised governance framework, but according to its own institutional logic, shaped by its history and its relationship with FCDO.

Under this model, FCDO agrees BII's five-year strategic objectives, appoints the chair and two board directors, and ensures accountability through regular reporting and oversight meetings. The board and executive management retain full responsibility for operational and investment decisions, while remaining accountable to the government and Parliament.

### ***Shareholder leverage***

Every five years, FCDO enters a period during which it can exercise significant influence over BII's strategic direction. During this time, it negotiates three principal governing documents: the [Investment Policy](#), the [Policy on Responsible Investing](#), and the [Technical Strategy](#). This process typically lasts around 18 months and involves government officials, Ministers, BII's board and management, and a range of external stakeholders.

The Investment Policy is the cornerstone of BII's operations. It defines strategic objectives, investment criteria, and the framework for monitoring performance. Complementing this, the Policy on Responsible Investment sets out the environmental, social, and governance (ESG) standards expected from BII's investees after an investment. Building on these policies, BII's management develops a Technical Strategy to deliver the stated objectives, which also requires FCDO approval.

Beyond these documents, two instruments formalise the BII-FCDO relationship: the



Memorandum of Understanding (MoU) and the Annual Chair's Letter<sup>2</sup>. The MoU clarifies mutual responsibilities, reporting lines, and coordination mechanisms, and is typically reviewed alongside the five-year strategy. The Chair's Letter, issued each November by the Minister for Development, sets high-level expectations for the Chair and highlights Ministerial priorities for the year ahead. While the Chair is not obliged to follow these instructions, the letter provides guidance and ensures alignment with broader UK development objectives. Annexes within the Chair's Letter further define governance relationships, counterpart roles, and the schedule of oversight meetings, providing a structured framework for accountability.

This layered approach, spread across multiple documents, reflects the non-standardised nature of governance and BII's long history.

### ***The board***

BII's Board is, at the time of writing, composed of nine members: the Chair, the CEO, the Chief Financial Officer, and six non-executive directors.

Reflecting the arm's-length model, FCDO does not sit on the Board. It does, however, appoint the Chair and two non-executive directors. Once appointed, these Board members act independently and do not represent the government. All appointments - whether made by FCDO or by the Board itself - are conducted through an open recruitment process.

The Board's primary responsibilities include strategy, risk management, accountability, and governance. It independently appoints the CEO and other senior executives.

Investment decisions, however, are delegated to the Investment Committee. This committee functions as an independent body, separate from the Board, with no Board members sitting on it. Its membership includes both independent experts and senior members of BII's management, combining external professional insight with internal experience. A Delegated Authority Framework allows lower-level decisions to be made outside the

Committee, enabling executive management to act more swiftly.

A distinctive feature of BII's governance is the absence of FCDO representation on the Board and its subcommittees, in contrast to many European development finance institutions. This arrangement has been questioned on several occasions, notably by the UK House of Commons' International Development Committee in its [2023 report](#), which recommended that the shareholder should enhance its oversight to ensure that BII's activities align more closely with the UK's development agenda, specifically by taking a place on the board.

This recommendation remains a matter of ongoing debate. To date, both FCDO and BII have opposed it, arguing that the existing arm's-length model provides robust governance while safeguarding key principles. They maintain that such a change would blur lines of accountability and risk sending negative signals to the market, implying that political considerations might influence investment decisions.

### ***Mechanisms of oversight***

FCDO has established a range of mechanisms to oversee BII's management and performance, ensuring that the priorities set out in the five-year strategy are delivered and that BII's activities remain aligned with UK foreign policy. These mechanisms include regular meetings and a structured reporting framework, as set out in the annexes to the Chair's Letter.

The most important of these are the quarterly shareholder meetings. At these meetings, BII presents reports on its overall performance, including investment volumes, impact, and financial returns. All senior officials defined in the hierarchy outlined in the Chair's Letter attend these sessions.

In addition to the quarterly meetings, oversight occurs through a series of other interactions at different levels. The Foreign Secretary meets annually with the Chair and CEO, while the Minister for Development meets them

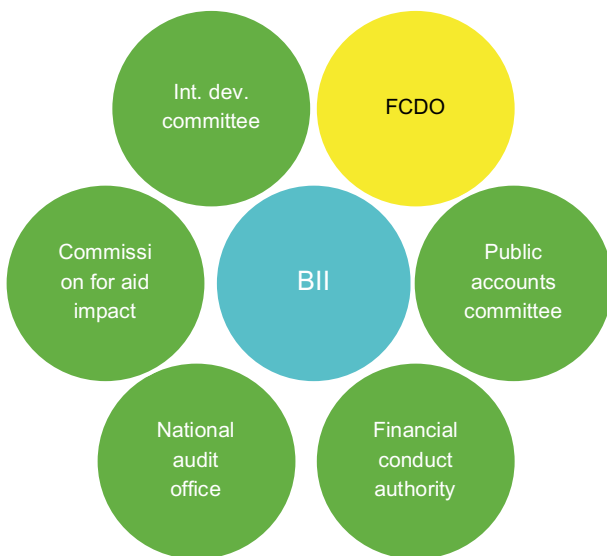
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<sup>2</sup> These two documents are not publicly accessible



quarterly. Complementing these meetings are an annual shareholder meeting, an annual governance meeting, and an annual general meeting.

Oversight is also provided by British state institutions, including the Financial Conduct Authority, the Public Accounts Committee, the National Audit Office, the Independent Commission for Aid Impact, and the International Development Committee, which regularly holds hearings with stakeholders.



**Figure 2 Authorities to which BII is accountable**

Notably, the Independent Commission for Aid Impact and the International Development Committee have played influential roles in shaping decisions of both the shareholder and the company, particularly in governance and transparency.

### **Informal relations**

In addition to formal governance interactions, BII and FCDO maintain extensive day-to-day engagement outside the formal framework.

A team of around ten civil servants at FCDO works directly with BII, serving as the main channel for priority communications. Beyond this team, interactions take place across various policy units and international posts. Illustrating the intensity of this engagement, the

Chair of BII noted during a 2023 International Development Committee hearing that the organisation received 19,000 emails from FCDO in 2022.

Interviews indicate that interactions between policy teams of the two organisations frequently occur and are actively encouraged by FCDO.

Since the merger of DFID and the Foreign Office in 2020, engagement with BII's regional leadership has increased. FCDO's aim is to be mutually beneficial: BII gains insights from British diplomatic expertise, while the UK's diplomatic presence and reputation are strengthened through BII's investments.

Some of the representatives interviewed did, however, caution that this increased engagement can lead to involvement in operational discussions outside the formal negotiation periods, potentially challenging the principles of the arm's-length model.

Looking ahead, FCDO aims to establish clearer expectations and structures to guide collaboration between its policy and overseas teams and BII in priority countries. Stakeholders at FCDO argue that cultivating a more systematic relationship in priority countries would help ensure that more opportunities can be seized.

This challenge extends beyond BII to other major FCDO-backed investment vehicles, including for example PIDG, FSD Africa and UK Export Finance, which currently lack a formally established overarching strategic framework to guide cooperation. Establishing such a framework might allow FCDO to maximise opportunities from enhanced collaboration and minimise overlap between the multiple state-affiliated actors in private sector development.



## 3. Paris

### **La DFI**

Proparco is France's development finance institution, established in 1977 by the French Development Agency (AFD) and serves as its private sector financing arm.

Proparco operates as a public limited company (société anonyme) under a mixed public-private ownership structure. AFD holds a dominant stake of 85.21%, followed by international financial institutions (7.07%), French financial institutions (6.18%), private investors (1%), and ethical funds and foundations (0.53%).

Proparco employs a financing model comprising approximately 80% debt and 20% equity. Its equity is contributed by over 20 diverse shareholders, while the debt component is provided almost exclusively by AFD, which raises funding on the financial market for the whole AFD Group.

Proparco provides loans, acquires equity stakes, offers guarantees, and makes indirect investments through funds. It also offers expertise in non-financial areas, such as project structuring and advice on environmental, social and governance issues.

As of the end of 2024, Proparco employed around 480 staff, including around 100 field-based professionals, and had 25 local and regional offices worldwide. The institution was active in 115 countries, with a total balance sheet at €8.7 billion, compared to €3.7 billion in 2013.

In 2024, Proparco announced a record year, committing around €2.8 billion to over 200 projects across its regions of operation. Of these financial commitments, loans represented 70%, guarantees 15%, and equity investments 8%.

### **A piece of the AFD Group**

Proparco's governance is shaped by its close ties to its parent organisation and majority shareholder, the French Development Agency (AFD). Unlike many other development finance institutions, Proparco was not established directly by government or parliament mandate but emerged as an affiliate of AFD - a lineage that continues to shape the governance structure of the company today.

AFD itself is a public agency under the dual supervision of the Ministry for Europe and Foreign Affairs and the Ministry of Finance. Consequently, Proparco is effectively state-owned, though this ownership is exercised indirectly, with AFD acting as intermediary and, in practice, as the governing authority.

Unlike typical state-affiliated companies in France, Proparco does not fall under the supervision of the State Participation Agency (L'Agence des participations de l'État) - the body responsible for managing public corporate holdings. This exception reflects the developmental nature of Proparco's mission, which is considered not aligned with the framework applied to ordinary commercial state-owned companies.

As a result, Proparco doesn't follow a standardised governance model, but rather one defined by its own institutional logic, shaped by its history, shareholding composition, and integration within the AFD Group.

### **Proparco's shareholders – past, present and future**

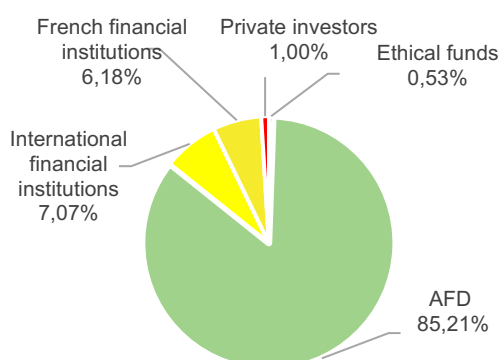
Since its creation in 1977, Proparco's mission and shareholding structure have evolved significantly, shaping both its strategic direction



and governance. Initially, its purpose was not defined in development terms. Rather, the company was conceived to support French private investment in Africa, aiming to demonstrate that the deployment of capital was both feasible and profitable in lower-income countries. In its early years, AFD held full control, guiding strategy and operations.

A significant shift came in the early 1990s, when Proparco opened its capital to private shareholders, including BNP Paribas, GDF Suez, and Coface. This change sparked rapid growth: share capital rose from €3.4 million in 1991 to €142.6 million by 2001. It also reshaped governance as private shareholders gained seats on the board, turning it into a forum for dialogue between AFD and the French private sector.

By the 2000s, Proparco's ambitions began to expand beyond its original mission. Its scope shifted towards broader development objectives, and AFD began steadily increasing its stake in the company. This process accelerated in the 2010s and continues today. As recently as 2019, AFD held 65% of Proparco's shares; today, that figure stands at 85%. This shift largely stems from capital increases financed solely or predominantly by AFD, diluting most of the minority shareholders without requiring divestment on their part.



**Figure 3 Proparco's shareholding structure**

As a result, Proparco finds itself today with a fragmented shareholding structure, marked by one dominant majority shareholder and twenty minority shareholders whose individual stakes are too small to be significantly influential. However, Proparco see continued value in

involving minority shareholders - for the market knowledge, local perspectives, and reputational insights and advantages they can provide. At the same time, the institution recognise that a renewed ownership structure could bring some new perspectives, by engaging stakeholders more closely aligned with Proparco's mission and long-term strategic direction.

### ***L'union fait la force***

Proparco is part of the AFD Group, alongside AFD itself and Expertise France, an agency specialising in technical cooperation. The Group represents a unique arrangement within the European development landscape, uniting France's main public development institutions under a shared strategic and normative framework. This structure, led by AFD's executive management, is designed to strengthen coherence, alignment, and overall effectiveness of French development policy.

This framework is underpinned by a broader architecture of French development policy. At the highest level sits the Presidential Council for International Partnerships (Conseil présidentiel pour les partenariats internationaux), chaired by the President of the Republic, which defines the [general orientations of France's development policy](#). Its directives are operationalised by the Interministerial Committee for International Cooperation and Development (Comité interministériel de la coopération internationale et du développement), chaired by the Prime Minister, which [defines the operational framework](#) for interventions, coordinates across ministries and identifies priority countries for bilateral aid.

Based on these directives, AFD's Strategic Orientation Council (Conseil d'orientation stratégique), chaired by the Minister responsible for cooperation and composed of representatives from AFD, the Ministry of Foreign Affairs, and the Ministry of Finance, prepares a three-year contract between the State and the AFD Group, known as a Means



and Objectives Contract (Contrat d'Objectifs et de Moyens, or 'COM')<sup>3</sup>.

COMs are a cornerstone of French public-sector governance. It allows the State to align public institutions' activities with national policy goals while preserving their legal and managerial autonomy. In return, the institution commits to delivering measurable outcomes, tracked through performance indicators set out in the contract.

This COM treats the AFD Group as a strategically, operationally and functionally integrated entity. Many of the indicators concerns all three entities while others are specific to each one of the entities.

Before the COM is formally adopted by AFD's board of directors, it is submitted to the Foreign Affairs Committees of both houses of parliament. This step ensures democratic scrutiny and opens space for parliamentary debate. The committees issue a formal opinion and publish detailed reports - documents that, while non-binding, carry significant political weight.

Beyond the COM, the State steers the AFD Group through a "framework agreement" that outlines the relationship between the State and AFD. This agreement<sup>4</sup>, typically renewed every five to seven years, specifies the terms of interaction with the central government and diplomatic missions, as well as the Group's budgetary and financial framework.

Based on this structure, the AFD Group's entities, including Proparco, develop their internal strategies and operational agendas.

### **Le Board**

Proparco's board and its committees reflects the central role of AFD and its executive leadership in the governance of the company. Under the articles of association, the board comprise between twelve and sixteen voting members; currently, it includes fifteen: seven appointed by AFD, generally from its senior

leadership, six representing the minority shareholders, and two independent members. The Board is chaired by AFD's CEO. Both the Ministry of Finance and the Ministry for Europe and Foreign Affairs hold non-voting observer seats, alongside a government commissioner.

The board focuses on strategic direction, risk management, financial control, and governance. Investment decisions are delegated to executive management, which may consult the Investment Advisory Committee. This committee provides non-binding opinions on the alignment of proposed investment operations with Proparco's strategic objectives and the AFD Group's broader mandate. Chaired by AFD's Deputy CEO, the committee includes representatives from both ministries (with voting-rights), five AFD executives selected for their expertise, and five to eight external investment and finance experts.

### **Functional links between AFD and Proparco**

Beyond AFD's predominance on Proparco's board, the nature of their relationship is further underscored by the fact that Proparco's CEO is appointed based on a proposal made by the AFD. This arrangement shows the very strong influence of AFD on Proparco's governance.

This authority is supported by an integrated governance structure that enables AFD's executive management to participate in Proparco's decision-making processes. In this respect, the level of shareholder involvement is unusually high compared to other European development finance institutions. This level of integration is enabled by the close professional alignment between the two entities. Both are regulated financial institutions, and while they do not offer identical services, they share a common language and operational logic - a degree of alignment less common among DFIs whose shareholders are government ministries.

<sup>3</sup> Not publicly accessible

<sup>4</sup> Not publicly accessible



This close relationship is reflected in frequent and structured interactions. EXCOM meetings at AFD Group level are held weekly to discuss decisions affecting Proparco, including its strategic direction, human resources, organisational structure, and financing. These discussions, however, do not extend to individual investments or projects, which are governed by separate procedures. Another sign of the institutions' interconnection is that Proparco's CEO serves on AFD's Executive Committee, further embedding Proparco within the governance of the wider group.

A high degree of human resources integration further characterises the relationship between the two institutions. Sharing a common employment framework, they facilitate regular staff mobility, which promotes institutional continuity and the transfer of expertise.

Stakeholders at Proparco emphasise that the institution's close integration with the AFD Group is a source of strength. They argue that AFD's role as an intermediary shareholder - with deep expertise in Proparco's areas of activity - facilitates smoother dialogue and decision-making throughout the organisation.

They note that achieving this level of coherence would be more difficult if oversight rested solely with the supervisory ministries.

### ***Les Ministères***

Due to the indirect nature of the state ownership, the Ministries of Foreign Affairs and Finance do not play a leading role in Proparco's governance and generally maintain a non-interventionist stance. The Ministry of Foreign Affairs, in particular, intervenes mainly when a project carries diplomatic sensitivities, or vis-à-vis topics which are directly related to Proparco's mandate and strategic objectives.

The Ministry of Finance approaches Proparco from a financial and prudential perspective. Its primary concern is assessing the potential risks that Proparco's activities might pose to the AFD Group as a whole - a responsibility rooted in the Treasury's role in the financing of AFD. The Ministry of Finance has strong technical expertise in development finance and monetary cooperation, particularly regarding Africa and the CFA franc zone. Nevertheless, it does not have dedicated resources to engage fully in Proparco's activities.



## 4. Stockholm

### ***Sveriges utvecklingsfinansjär***

Swedfund International AB is Sweden's development finance institution, established in 1979 as a foundation (stiftelse) and transformed into a state-owned limited liability company in 1991.

Swedfund is 100 percent state-owned. The Ministry of Finance manages the state's ownership, while the Ministry for Foreign Affairs is responsible for the company's development cooperation mandate. Its operations are primarily funded through capital injections from Sweden's development cooperation budget, complemented by returns from its investment portfolio. Borrowing on the market to finance business operations can be carried out following a decision by the Board of Directors. No such borrowing has taken place to date.

In 2024, Swedfund's capital allocation accounted for 3.1% of the total Swedish aid budget - an increase from approximately 1% in 2013. Between 2020 and 2024, Swedfund received a total of SEK 6.22 billion in capital injections, contributing to an 87% increase in the size of its balance sheet, which now exceeds SEK 13 billion<sup>5</sup>.

Swedfund has two tools to deliver on its mission: investments in the private sector and financing of feasibility studies in the public sector through a 'Project Accelerator'. Swedfund's activities include direct investments through equity, loans, and guarantees (made directly from its own balance sheet), as well as indirect investments via funds and investment platforms. In addition to these investment operations, Swedfund's Project Accelerator works with public actors in developing countries to design, structure, and accelerate the development of sustainable, bankable projects.

In 2024, financial commitments consisted of 53% loans, 27% indirect investments through funds, and 20% direct equity investments.

At the end of 2024, Swedfund had 77 employees at its head office in Stockholm, five employees at its local office in Nairobi, and three at its office in Abidjan. The opening of a new office in Kyiv was announced in 2024.

### ***Just another brick in the Swedish model for state-owned enterprises***

Swedfund's governance is rooted in the Swedish model for state-owned enterprises - a framework that covers thirty-eight companies, ranging from the national railway and postal service to the alcohol monopoly.

At the core of this model lies the State Ownership Policy, which defines a unified governance framework for all state-owned enterprises, characterised by significant operational autonomy and limited formal channels for owner intervention. The policy establishes a clear division of responsibilities between the Parliament, the Government, the boards of directors, and the executive management.

Parliament defines the motives for state ownership; the Government acts as the owner, setting objectives, monitoring performance, and appointing boards; the boards determine strategic direction and appoint chief executives; and management is responsible for implementation.

Within this model, state-owned enterprises fall into two categories. Some operate purely as commercial actors, while others are tasked with public policy assignments. Swedfund belongs to this second category. These companies are expected not only to operate on commercial terms and generate profit but also to deliver benefit to society where market forces alone do not.

For commercially oriented companies, the state's role is generally limited to ensuring professional governance and financial sustainability, without intervening in business

<sup>5</sup> 1 £ = 12,39 SEK – 1 € = 10,80 SEK (1 January 2026)



strategy. Enterprises with public policy assignments like Swedfund, however, introduce a slightly different dynamic. Their mandates give the state a more policy-leading role, exercised through formal ownership instructions.

Oversight of state-owned enterprises lies primarily with the Ministry of Finance, supported by a specialised ownership unit that oversees corporate analysis, sustainable business practices, owner dialogue and board recruitment. Swedfund follows this structure, but with a distinctive feature: given its development mandate, responsibility is shared with the Ministry for Foreign Affairs, which defines its public policy assignment, in line with Sweden's development policy and provides the financial resources to carry it out.

Swedfund stakeholders argue that this governance structure, based on a blueprint model, provides participants with a clear understanding of their roles, relationships, and areas of authority. Interviews suggest that these well-known structures and long-standing principles, allow for predictable and confident interactions between the shareholder and the company.

### ***The Owner Instruction***

The primary policy-driving tool available to the shareholder is the 'owner instruction', a standard instrument for Swedish state-owned companies with a public policy assignment. As defined in the [State Ownership Policy](#), it must be concrete and clear, and set out specific measurable public policy goals allowing for transparent evaluation of results. The owner instruction has no fixed timeframe but remains valid until amended by the shareholder. It is intended to be stable yet adaptable, allowing for revisions as policy priorities evolve.

Swedfund's [current owner instruction](#) was adopted at the Annual General Meeting in April 2025, replacing the previous version from December 2019. The document, just three pages in length, establishes five public policy goals, which serve as key performance indicators for the company. It also defines the scope of operations and the conditions under which investments may be undertaken.

By design, the owner instruction is concise, giving Swedfund considerable flexibility and room for manoeuvre to develop its own strategy and investment framework within these defined boundaries.

Revisions to the owner instruction are formally led by the Ministry of Finance in collaboration with the Ministry for Foreign Affairs and Swedfund. The company is represented in this dialogue by its Chair of the Board and members of the executive management, while each ministry is represented by the civil servants in charge of Swedfund-related matters. Stakeholders describe this process as a form of shared decision-making between the shareholder and the company, rather than a top-down directive.

Progress toward the goals set out in the owner's instruction is formally monitored during an annual 'owner dialogue' between representatives of the Ministry of Finance and Swedfund's Chair of the Board and CEO. Since 2024, the Ministry for Foreign Affairs pursues its own dialogue at the level of the State Secretary for Development Cooperation and the CEO of Swedfund. In addition, goal attainment is reported in the company's annual integrated report.

### ***The Shareholder and the Board***

Board members are appointed through a nomination process coordinated by the Ministry of Finance, in accordance with the State Ownership Policy. The articles of association stipulate that the board must comprise between six and nine members, with no deputy members permitted. No board member may be part of the company's executive management.

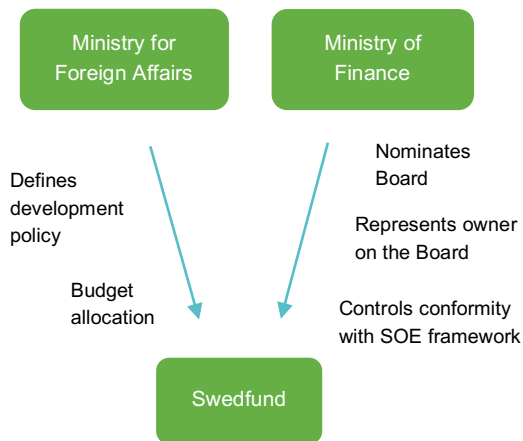
In many respects, the board functions as that of a typical private sector company, with responsibilities for oversight and strategy direction. However, Swedfund's board carries additional operational responsibility, including major investment decisions that in practice cover all new investments.

In practice, board nominations often result from a dialogue between the two ministries and Swedfund. Civil servants and senior political advisors evaluate whether potential candidates have the necessary expertise and background.



Final authority to nominate rests, however, with the Ministry of Finance. Appointed members act independently and do not receive instructions from the shareholder.

Beyond nominating board members, the shareholder has a direct presence on the board in line with the State Ownership Policy. This seat is held by the head of the team in charge of Swedfund at the Ministry of Finance.



**Figure 4 Swedfund's governance structure**

Historically, the Ministry for Foreign Affairs also held a seat on the board alongside the Ministry of Finance. This arrangement ended in 2017 following a policy decision, mirroring similar changes across other state-owned companies. The rationale behind this change was to have only one single representative from the Government offices on the Board. In practice, this change reduced the Ministry for Foreign Affairs' insight into Swedfund's strategic direction and distanced the ministry from the board's strategic discussions.

### **Financing Swedfund's growth**

Beyond its role in development policy, the Ministry of Foreign Affairs is also responsible for the budgetary allocations drawn from the development budget.

In practical terms, Swedfund submits a formal request to the government specifying the amount of capital it can effectively absorb, how it intends to allocate these funds, and the anticipated development outcomes. This proposal is then reviewed by the Ministry for Foreign Affairs within the Government's budget process and is included in the budget bill that the Government sends to the Parliament.

Successive governments - regardless of political orientation - have during the last decade pursued an upward trend in capital injections. Consequently, Swedfund has experienced significant growth, expanding its assets, investments, and workforce.

However, this growth has not been accompanied by an increase in state governance resources, notably within the Ministry for Foreign Affairs, which, despite its central role in development policy, has very limited resources dedicated to Swedfund - currently one civil servant working on Swedfund-related matters.

This reveals a potential gap between Swedfund's expanding operational scale and the government's capacity to effectively guide and support the company's development policy.



## 5. Lessons in Governance

### ***Why it matters***

Governance is not a sexy topic. The limited attention it receives in development finance literature reflects the challenge of making it compelling to stakeholders.

Yet, it is the keystone of the development finance architecture - the mechanism that translates policy intent into concrete action, ensures adequate resourcing and underpins institutional effectiveness and efficiency.

The remarkable impact of the G20 Capital Adequacy Framework confirms that the effective use of governance power by shareholders is a key driver for unlocking the very real value inherent to, and sometimes trapped in, the development finance system of institutions.

Because the world in which human institutions operate is never static, no governance system is ever perfect. It is therefore the Sisyphean duty of those tasked with steering development finance institutions to ensure that governance arrangements are regularly, if not continuously, interrogated and, if the need arises, adapted to changing circumstances.

### ***We come in peace***

Writing about governance offers few opportunities to indulge the analyst's penchant for the lyrical. Yet, governance structures across our three cities are borne out of the history of their peoples, carry the unique traits of their respective cultures, and have flowed from the rivers of their political upheavals.

Whether they represent an expression of the uniquely Swedish *lagom*, an illustration of the centuries-honoured British taste for unwritten rules or exemplify a Gallic appreciation for multilayered administrative onions, these systems exist for reasons that make sense within each national context, even if they may

not were they to be exported beyond its borders.

Crucially, conversations with stakeholders on both sides of the shareholding divide strongly suggest that these arrangements by and large work.

The value of examining them therefore lies not in finding fault but rather in understanding whether their features are more or less helpful to the delivery of the important mission of development finance institutions.

This analysis may in turn inform the efforts undertaken in these three cities, and beyond, to adapt and enhance governance systems, without which increasingly well-resourced DFIs risk failing to deliver the just and sustainable development we collectively seek.

### ***BII: Formal simplicity and informal complexity***

BII's formal governance structure is straightforward, with a single shareholder carrying all shareholder responsibilities. This concentration of ownership helps to clarify lines of accountability and streamline communication. The governance framework is laid out in a clear and accessible manner, leaving little room for ambiguity about roles or responsibilities at the top. In practice, this makes the system fluid and easy to navigate, with few layers of oversight and a limited number of actors involved. Compared with more complex arrangements, this simplicity can be seen as a strength.

FCDO has put in place mechanisms to scrutinise BII's management and overall performance, ensuring that the priorities set out in the five-year strategy are delivered and that BII's activities are aligned with British foreign and development policy. These mechanisms include regular meetings and a structured



reporting framework, enabling FCDO to carry out its oversight responsibilities effectively.

In addition to its internal control mechanisms, BII is regularly assessed by several independent bodies that oversee its effectiveness, transparency, and governance - most notably the Independent Commission for Aid Impact and the International Development Committee of the House of Commons.

Under the arm's-length model, FCDO does in theory set the strategic direction every five years and then holds the company accountable for delivering on those objectives.

In practice, however, FCDO officials whether in London or overseas have a documented appetite for extensive day-to-day engagement.

Whilst significant value could be derived from this opportunity to leverage on, inter alia, FCDO's vast resources across BII's geographies of interest, this not only risks consuming significant resources, but also creating ambiguity in the relationship and making it harder for BII to stay the course when engagement occurs through multiple channels.

Beyond the five-year strategy and the right to appoint the chair of the board and two non-executive directors, FCDO has relatively few formal powers. This creates a dilemma tied to the earlier point: while FCDO shows a strong appetite for involvement and dedicates substantial resources to overseeing BII, the governance framework is specifically designed to limit its direct role in the strategy cycle.

As a result, a gap could conceivably emerge between formal and informal governance, with actual practices not fully aligned with the official rules.

This potential gap could perhaps be seen as the result of a strategic choice. Placing BII under FCDO does ensure it forms a coherent part of the United Kingdom's foreign and development strategy. However, its position outside of the SOE framework does likely mean that some of the benefits of state ownership

may be partially foregone, given FCDO's relative youth as an owner.

### ***Proparco: Sensible intermediation and evolving structures***

As a specialised development agency and itself a significant development finance actor, AFD possesses a deep understanding of its role as Proparco's shareholder and can adopt an informed, directive, and engaged stance in its governance role which may contribute to an effective coordination and understanding between the institutions.

In this sense, the French "transmission belt", seems to be well oiled. In line with this perspective Proparco's management teams emphasise that significant policy and strategic changes have taken place over its history and that these changes have been successfully translated into action. This success they attribute in part to the shared institutional culture between AFD and Proparco as outlined above.

While their respective missions differ, both are regulated financial institutions that share a professional language and an understanding of operational and regulatory constraints - an understanding that ministries may not always possess. This common ground facilitates a more coherent and practically grounded approach to strategic planning. It is conceivable that, without the intermediary role played by AFD, this shared language and understanding would be lost, making it more difficult to maintain strategic consistency.

The strategic coordination between AFD, Expertise France, and Proparco within the AFD Group is yet another advantage of this integrated approach. These three entities jointly define country strategies, drawing on a shared vision and common objectives. According to AFD's executive management, this synergy is a major strength that would not be possible if the entities operated independently.



AFD is the primary link with the ministries, largely insulating Proparco from resource-consuming direct engagement. It can be argued that AFD, given its sheer size and its oversight of the lion's share of France's development apparatus, is in any event a better interlocutor for the ultimate shareholder.

AFD and Proparco's management teams do however acknowledge that Proparco's current shareholding structure lacks coherence and strategic significance. Minority shareholdings have become too diluted to meaningfully influence the board and as Proparco's mission has evolved over the decades some shareholders are no longer relevant to the company's objectives. This issue has been under discussion within the AFD Group and the responsible ministries for some time, but a new approach has yet to be identified.

There equally is a recognition that this multilayered system results in a level of interactions between AFD, Proparco, Expertise France, overseas networks, embassies, and the supervisory ministries that can at times slow down processes and hinder the group's responsiveness.

### ***Swedfund: Clarity and frugality***

The Swedish model for state-owned enterprises, refined over decades of practice, is perceived by stakeholders as stable and effective. Roles and responsibilities are clearly defined, and established procedures provide a high degree of predictability and certainty. Such a system reduces reliance on informal relationships, which in other systems are found to complicate governance and consume scarce resources.

The shareholder is only represented on the board through the Ministry of Finance, whose focus is predominantly on the compliance with the SOE framework. The owner instruction

itself is an exercise in simplicity as evidenced by its remarkable brevity.

This set of arrangements shields Swedfund from any potential shareholder overreach and equips it with a comparatively high level of flexibility. The resulting ability to focus on mission delivery in the absence of excessive involvement from government officials within strategy cycles can be construed as a significant advantage, particularly in a time of aggressive growth, where management is required to concurrently build a much larger assets base and the human resources needed to manage it.

It could however be worth interrogating whether this standardised SOE model is suited to Swedfund, or whether it should be adapted to reflect its particular institutional role, given that, unlike other state-owned companies, Swedfund carries a unique development mandate.

This challenge is closely tied to the supervision and policy transmission issues more specifically relevant to the Ministry for Foreign Affairs in its quality as the custodian of Sweden's development policy. Although it is responsible for driving the policy of Swedfund, the Ministry of Foreign Affairs does not participate, since 2016, in board-level discussions where strategic directions are set.

Our research indicates that the Ministry for Foreign Affairs, at the time of writing, has limited resources for the supervision and steering of an increasingly sizeable and complex Swedfund. With a greater asset base come greater responsibility. The owner's future capacity to effectively guide and support Swedfund's growing volume of activities will likely be a determining factor in how fully it harvests the rewards of this investment in development.



## 6. Conclusion

### ***Three models, shared imperatives***

The governance arrangements examined across these three DFIs reflect distinct national traditions and have each proven capable of delivering results in their respective contexts.

BII's arm's-length model provides formal clarity, delivering the value of extensive informal engagement whilst navigating its inevitable complexities. Proparco benefits from AFD's expert intermediation and institutional integration, even as it addresses the legacy of an evolving shareholding structure. Swedfund operates within a stable and well-defined framework that grants considerable operational autonomy but will likely need to adapt governance capacity to its growth trajectory.

These differences matter. Governance structures shape how effectively policy priorities translate into investment decisions, how efficiently institutions can scale their operations, and how well they can adapt to shifting development challenges. This analysis reveals that whilst no single model emerges as universally superior, all three systems face common imperatives: balancing shareholder oversight with operational independence, ensuring adequate governance capacity matches institutional growth, and maintaining clear lines of accountability whilst preserving the flexibility essential to development finance.

As bilateral DFIs continue to expand their role in sustainable development financing against the backdrop of ever scarcer ODA resources, the importance of effective governance will only intensify. The experiences documented in this study suggest that all three institutions and their shareholders recognise this reality and are actively working to refine their arrangements. There is considerable value in continuing this analysis of differentiated models. Not to identify best practices for universal adoption, but to understand the trade-offs inherent in different approaches and

to learn from the varied ways in which similar challenges are being addressed.

Highlighting differences should not cause us to overlook commonalities. There are governance issues that should be addressed through collective reflection. To name but one, mobilisation targets given to bilateral DFIs will, for as long as they are set on a nominal basis that does not factor in risk, continue to create skewed incentives. The necessary recalibration of both the DAC Statistical System and of private capital mobilisation measurement methodologies has been discussed at length in two earlier CDFS Short Reads<sup>6</sup>.

This paper represents a first step in what we hope will become a broader examination of DFI governance models. Future studies could usefully expand the geographic and institutional scope, examine governance arrangements at multilateral development banks, or explore specific aspects of the governance relationship in greater depth. The development finance community would benefit from treating governance not as a settled matter, but as a domain requiring continuous attention and thoughtful adaptation as the scale, complexity, and expectations of these important institutions continue to evolve.

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<sup>6</sup> <https://www.thecdfs.org/publication/short-read-2-measurement-reporting-and-mobilisation/>

<https://www.thecdfs.org/publication/short-read-1-oda-psi-incentives-and-why-they-matter/>

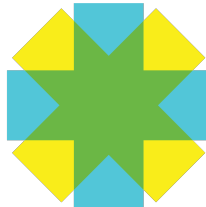


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For more information please contact the CDFS at [info@thecdfs.org](mailto:info@thecdfs.org) with any comments or questions about this Short Read.

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