

REGIONAL CONSULTATION ON THE THIRD CONFERENCE OF FINANCING FOR DEVELOPMENT
UN/ECLAC and Government of Chile
Santiago, 12-13 March, 2015

**Financing for Development:
a fundamental role for
National Development Financial Institutions**

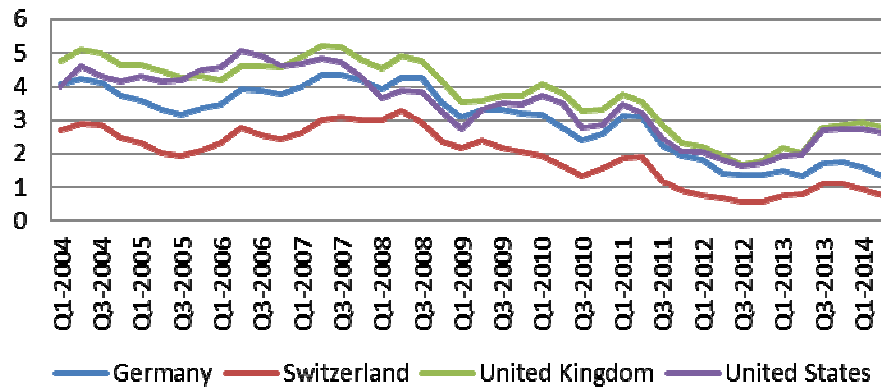
João Carlos Ferraz
Executive Director



- ↪ Growth stalemate and Development
- ↪ National Development Financial Institutions:
- ↪ Financing for Development through National Development Financial Institutions

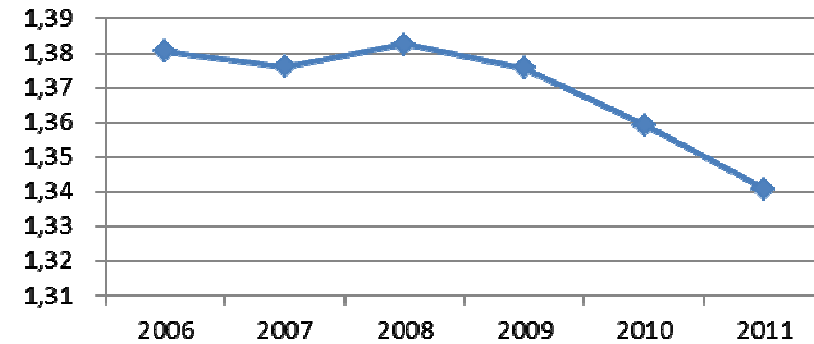
A world of low interest rates, high liquidity...

Long Term (10 year) interest rates



Source: OECD

Financial system's credit/deposits ratio (OECD countries non weighted average)



Source: Financial Structure Database, 2013

Historical S&P 500 leverage and liquidity

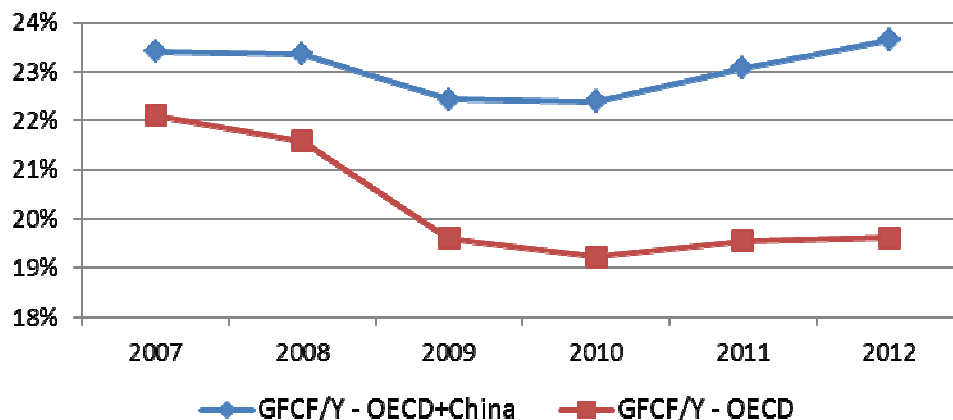


Source: J.P. Morgan, FactSet

Note: Data includes highly liquid, cash-like assets held on balance sheet; excludes financial and insurance companies; 2013 or latest available

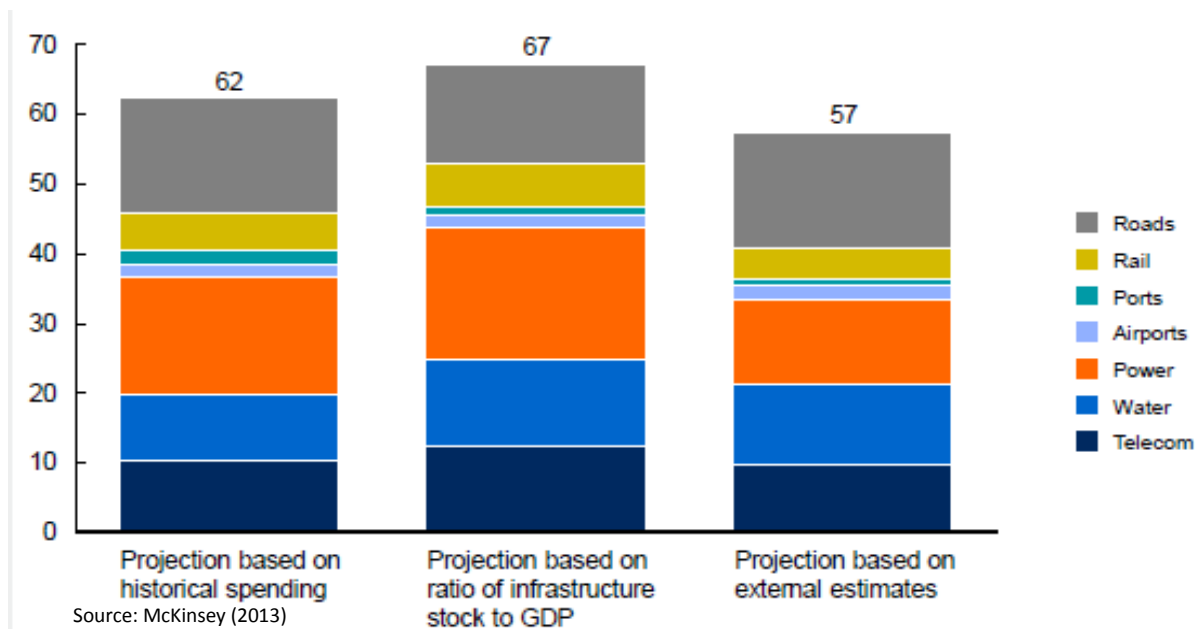
... but sluggish investment even with very promising potential demand

Investment rate – OECD countries and China



Estimates of infrastructure investments , 2013-2030 (\$ trillion)

For infrastructure to remain at a 70% asset-to-GDP ratio, at least \$67 trillion of investments between 2013 & 2030 are required



- ↪ Growth stalemate and Development
- ↪ **National Development Financial Institutions:**
- ↪ Financing for Development through National Development Financial Institutions

↪ OECD: institutions **providing** long term **financing** that are **beyond** the capacity or the willingness of **others** to do so.

↪ Very common institutions

↪ BDC (2009): 235 DIs in 92 countries.

International Benchmark Study on Development Institutions. Business Development Canada, 2009

↪ WB (2012): 90 DIs in 61 countries.

Global Survey of Development Banks. Policy Research Working Paper, n. 5969. Washington: World Bank, 2012.

- **Not a homogeneous group**, differing in:
 - Ownership structure (fully vs. partially owned by government)
 - Target sectors and clients (narrow vs. wide focus)
 - Lending models (first-tier vs. second-tier)
 - Credit conditions (subsidized vs. market interest rates)
 - Regulation and supervision (special regime vs regime applicable to all banks)
 - Corporate governance (independent vs. government controlled boards)
 - Size (absolute and relative), loan portfolio, performance indicators...

... but all are mission oriented institutions...



- **Mandates and priorities** defined at the political domain and by challenges associated with the stage of development of a country
- **Funding:** most, if not all, benefit from specific sources of funding (fiscal, para-fiscal, tax regime, sovereign guarantee, etc.
- **Competences:** oriented to support development processes

Scope of mandate (n= 90)

Wide	47%
Specific	53%
Agriculture	13%
SME	12%
Foreign Trade	9%
Residential	6%
Infrastructure	4%
Local Government	3%
Industry and others	6%

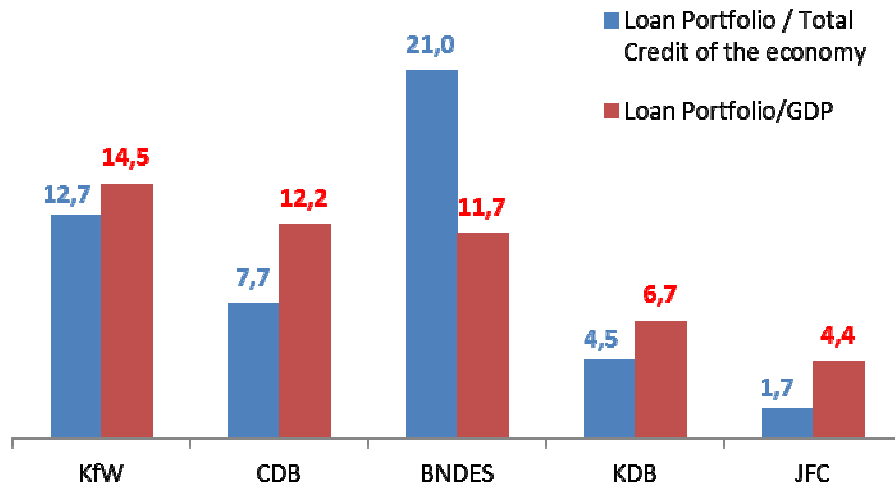
Source: Luna-Martínez and Vicente (2012)

Segments supported by selected Development Banks

	CDB	KfW	BNDES	JFC
MSME	X	X	X	X
Agriculture	X		X	X
Infrastructure	X	X	X	
Exports		X	X	
Innovation	X	X	X	X
Green Economy	X	X	X	X
Internationalization	X	X	X	X
Capital Markets	X	X	X	X
International Financial Cooperation	X	X		

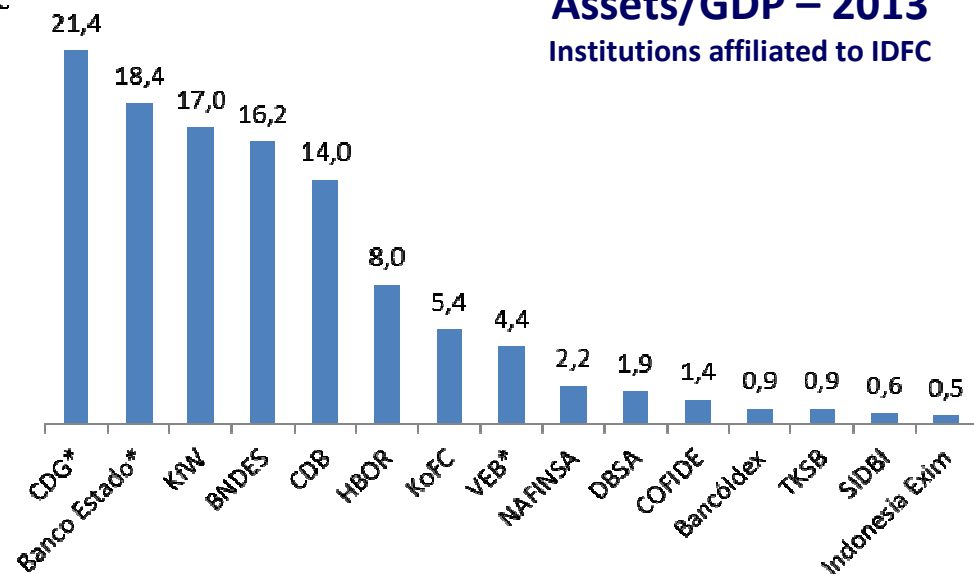
Source: Ferraz, Além, Madeira (2013)

Outstanding Loans/GDP and Outstanding Loans/Total Credit Selected Development Banks, 2012



Source: Annual reports, BNDES

Assets/GDP – 2013 Institutions affiliated to IDFC

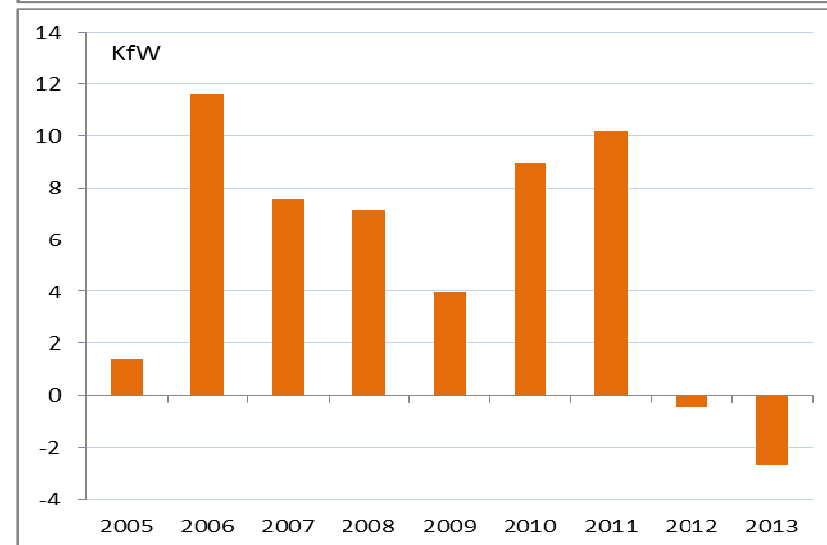
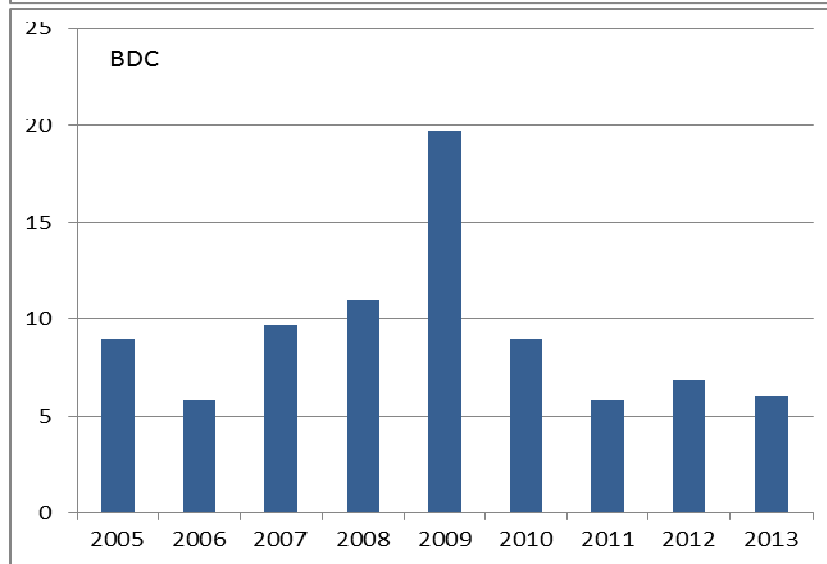
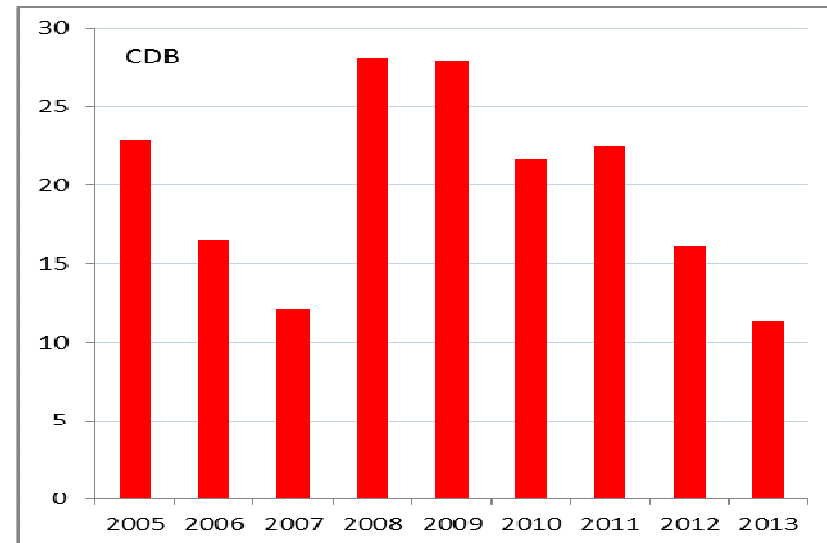
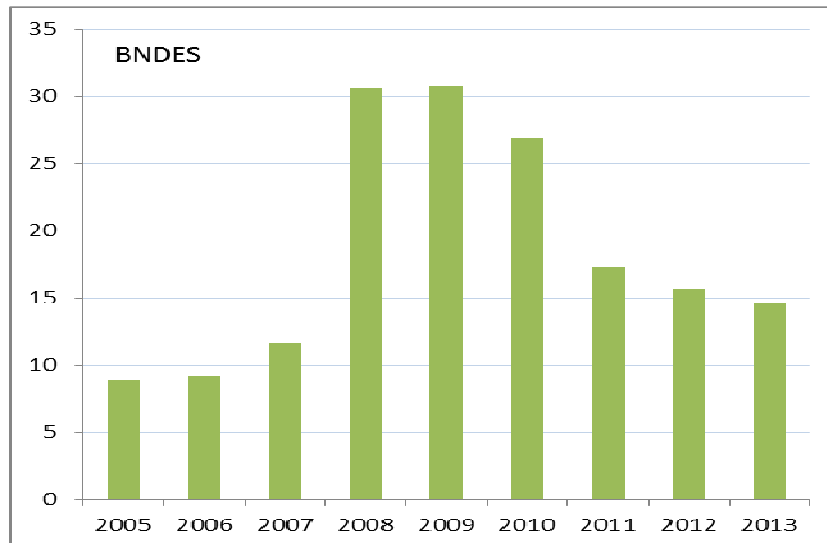


**2013 total assets:
US\$ 2.8 trillion**

Source: Annual reports, BNDES. *These institutions have other functions besides financing development.

They contribute to systemic stability through counter-cyclical role...

Annual growth (%) of credit portfolio of selected development banks

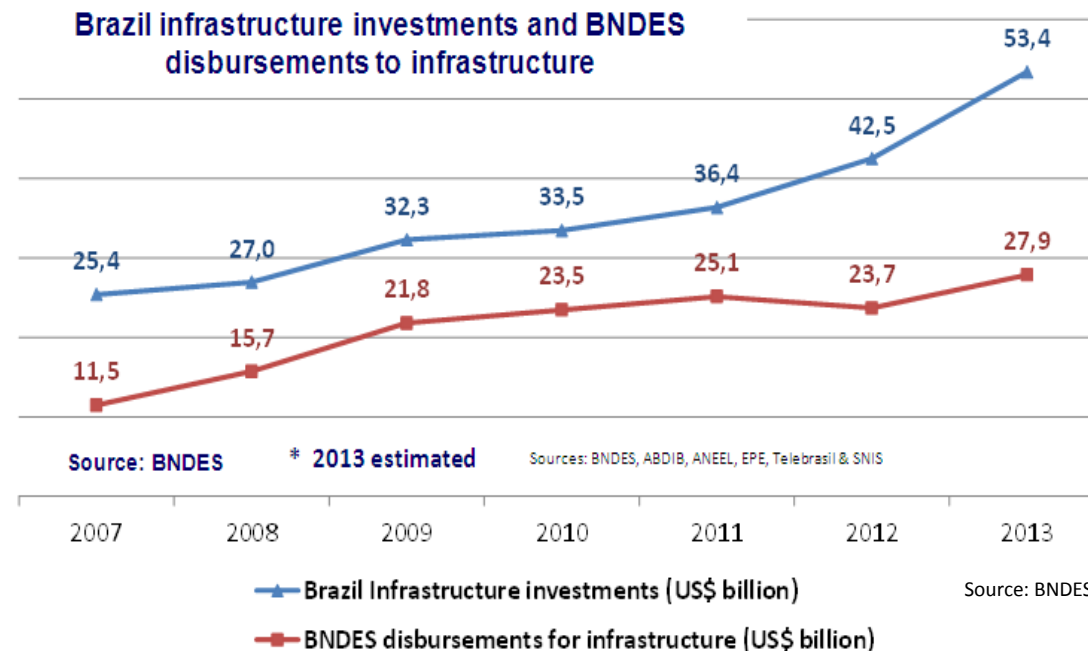


Source: Annual reports.

... strong involvement with projects of long duration...



- **2007-2013: US\$ 509.2 billion** finance for energy projects by all Development Banks (2007: 38.7; 2009: 69.7; 2011: 93.6)
- **2013: US\$ 84.9 billion**
Nat Dev Banks: 73.4%
Multilaterals: 26.6%
 Source: Bloomberg Renewables 29/09/14

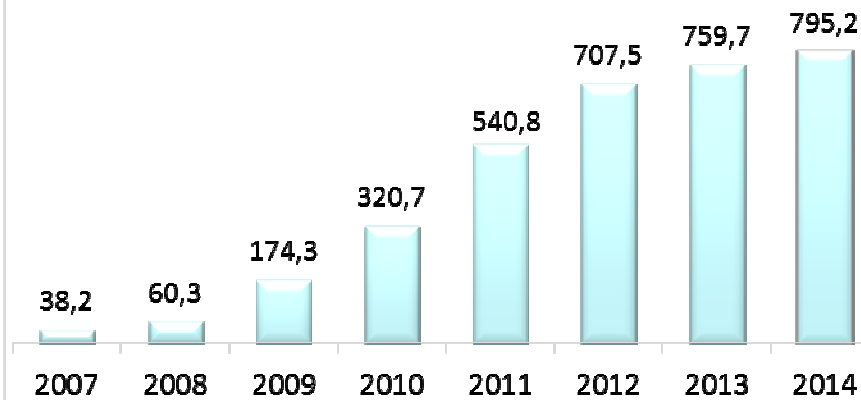


Brazil, selected industries: expansion of capacity 2007-2013 & BNDES “financing” share

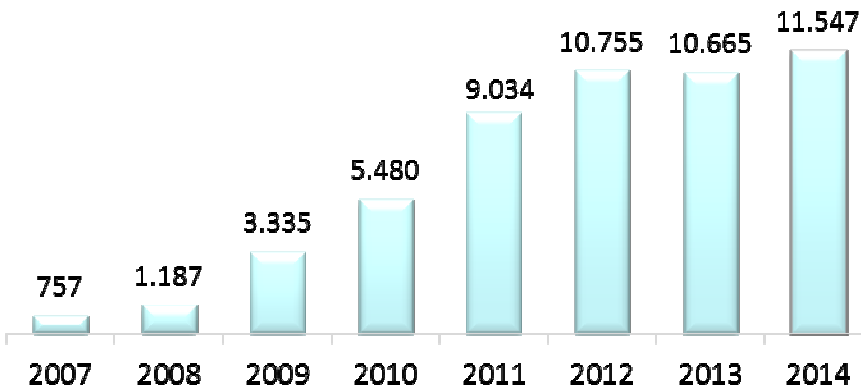
Activity	Unit	Installed capacity 2007 (A)	Country projects 2007-2013 (B)	Growth 2007/2013 (B/A)	BNDES supported projects	% BNDES
Large Hydro	MW	74,937	12,253	16%	11.893	97%
Medium Hydro	MW	1,820	3,260	179%	1.994	61%
Wind	MW	247	1,997	809%	1.093	55%
Ethanol	million tons	385	235	61%	75	32%
Pulp	1.000 ton/year	7,530	6,205	82%	5.515	89%

Sources: ANEEL, EPE, BRACELPA, BNDES.. Energy: capacity 2007: interlinked systems as defined by the planning agency EPE

Number of operations (1,000)



Loans R\$ million, Dez/14 prices (IPCA)



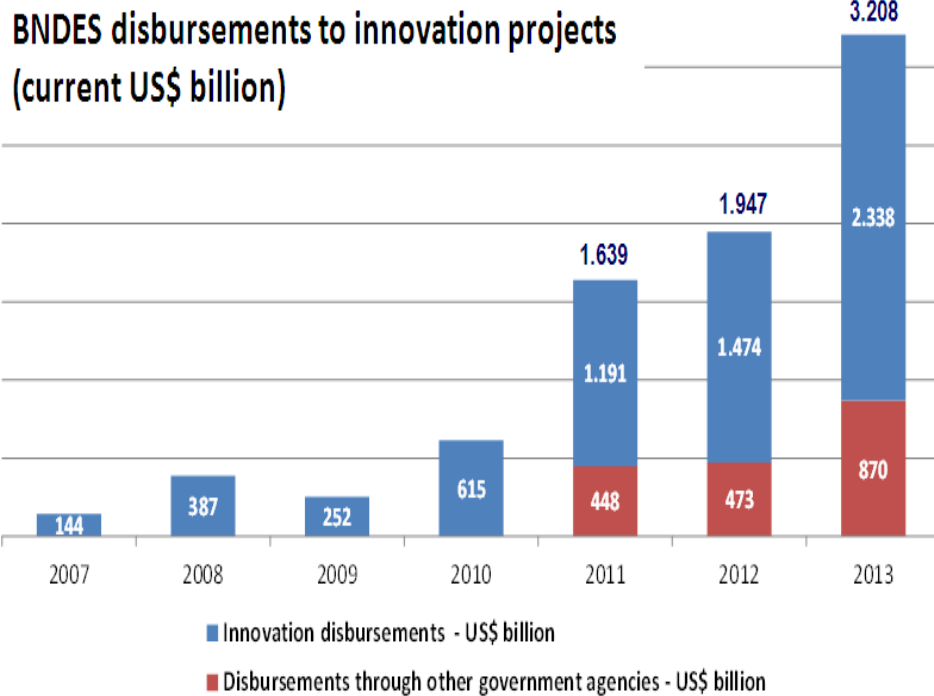
Cartão BNDES:

An example of an effective tool for financial inclusion

Out of 5.445 Brazilian townships, in 97.8% there was at least one active Cartão BNDES

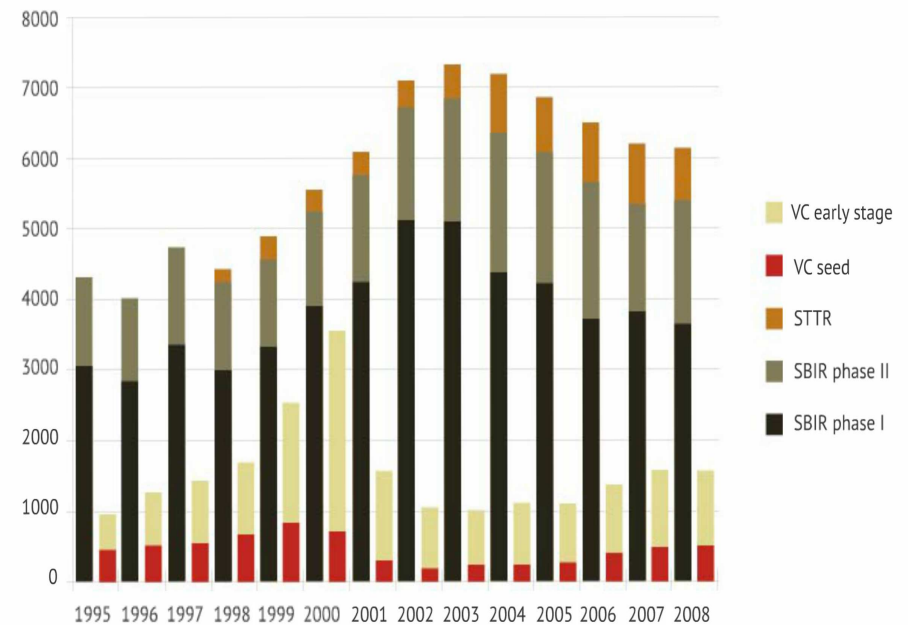
Growth in employment by SMEs actively using Cartão BNDES was 10% superior to those similar but with no active Cartão

... support development oriented but very uncertain mode of investments: innovation...



US Small Business Innovation Research: early stage and seed funding awards

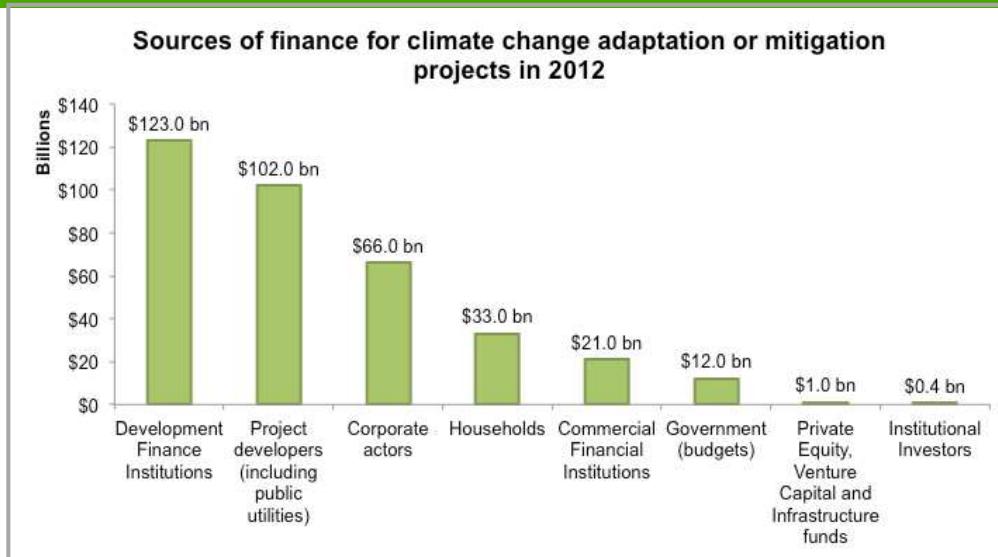
state as venture capitalist?



... and, emerging development challenges are, naturally, a mobilization driver

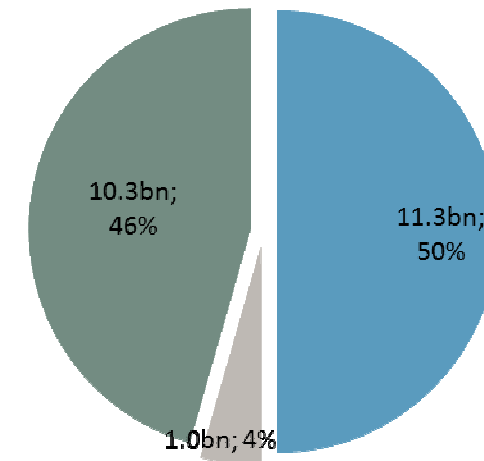


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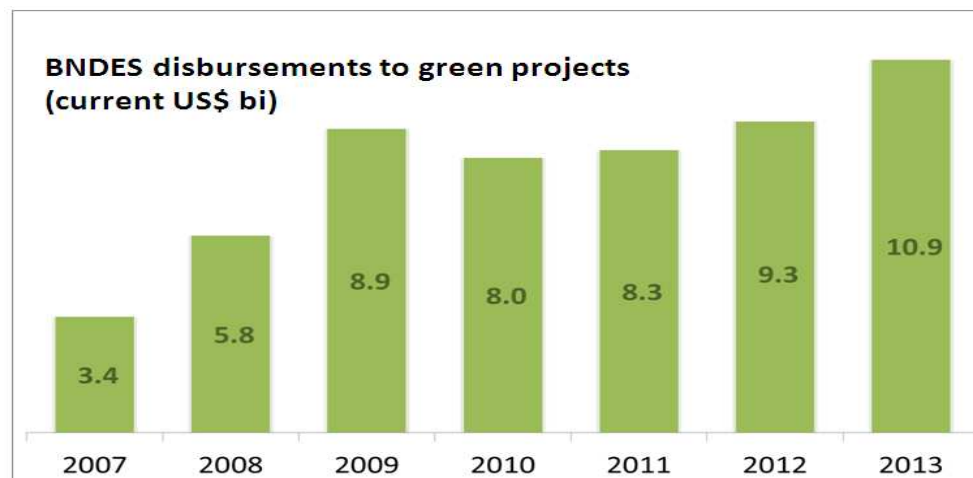
Caetano Penna & Mariana Mazzucato, presentation at Minds Seminar, Rio 28/07/14 based on data from Climate Policy Initiative (2013)

Financing innovation, SME and green economy KfW in 2013



- General SME Finance and Start-ups
- Innovation
- Environmental and Climate Protection

Vivian Lo at Mission Oriented Finance for Innovation Seminar, London, 23/07/14



Source: BNDES; Green economy projects include climate change, disaster risk management, renewable energies and energetic efficiency, amongst others

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- ↪ **Financing for Development through National Development Financial Institutions**

- **Development in a sustainable mode is the way out of current growth stalemate**
- **Development demands investments** leading to the expansion of tangible and intangible capacities and capabilities
- **Development is closely associated with investment – and its financing-**
- **National Development Banks: the adequate DNA** to be a most relevant agent in the financing for sustainable development

- **3rd Conference on Development Financing:** unique opportunity to support national based financing through **National Development Financial Institutions**. Three dimensions to be considered:
- **Means**
 - Stable funding
 - Strong competences do deal with development challenges
- **Ends**
 - Contribute to systemic stability
 - Financial inclusion
 - Expansion of infrastructure
 - Strengthening of innovative capabilities
 - Climate change mitigation
 - Development of local financial markets
- **Regulation**
 - Recognition of DFI idiosyncracies whern defining regulatory frameworks

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