Sketching profiles of Development Banks

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One assertive, three propositions

Assertive

A development bank is an essential instrument to support development strategies and policies.

Propositions

Each Development Bank is a singular institution. **No role model exists.**

As market based finance can be relied only partially for development financing, a **stronger configuration for a national financial industry is where private and public institutions co-live.**

But... attention!!! **Time and place do matter** in defining: (i) a DB place in development and, (ii) the public/private modes of relation.
The starting point: each country, a specific model for the financing of economic activities

Credit and corporate bonds as % of GDP - 2010

Source: Financial Structure Database and BIS - 2010
A very common institution: in countries under different regimes, at different stages of development.

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

BDC (2009): 235 DIs in 92 countries.


Different types of Development Institutions: Development Banks, Specialized Agencies (Credit, Guarantee or Equity), Development Financing Institutions (usually multilateral)
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...
Comparative role in the economy – 2011 data-

Source: Annual reports.
Potential contributions and criticisms

- **Finance expansion** of capacity, fill gaps, fix failures, induce externalities...
- **Foster** an innovative, sustainable **long term financing industry**
- Contribute to **systemic stability** (anti-cyclical role)
- Appropriate and **distribute** (to society, via the State) **returns** of (financial) investment decisions

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- **But not at all without controversy**! Common criticisms
  - Crowding out private industry
  - Discretionary power ("pick winners")
  - Cronyism
“Once a financial crisis hits, it is too late for governments to create institutional capacity to provide fall-back credit support. The institutions must already exist, with a clear operate mandate, experienced professional staff, and the financial capacity to respond to the financial needs and ramp-up their operations when the private market fails.” (Conference Board of Canada, 2010)

“An Infrastructure Bank (IB) to facilitate the provision of stable, long-term, predictable finance for infrastructure. There are good theoretical reasons for the creation of such a bank: it can help to overcome key market failures in capital markets in a direct and constructive way. (LSE Growth Commission, 2013)
Current crisis show: a strategic role for development banks

Growth (%) of credit portfolio of selected development banks -2011

**BNDES - Brazil**

**CDB - China**

**BDC - Canada**

**DBJ - Japan**

Source: Annual reports.
A comparative perspective: significant and adequate economic and financial performance

Comparative performance – 2011 data-

- **Assets (2011) – US$ million**
  - BDC - Canada: 17.225
  - KDB - Korea: 116.538
  - DBJ - Japan: 195.136
  - BNDES - Brazil: 319.756
  - KRW - Germany: 635.756
  - CDB - China: 990.649

- **Return on Asset (%)**
  - KRW - Japan: 0.42
  - CDB - China: 0.51
  - KDB - Korea: 0.80
  - BNDES - Brazil: 1.00
  - BDC - Canada: 1.65
  - BDC - Canada: 3.10

- **Loans Outstanding/Total Credit Stock (%)**
  - 2002: 30.9
  - 2003: 8.1
  - 2004: 5.2
  - 2005: 4.0
  - 2006: 21.1
  - 2007: 12.0
  - 2008: 8.0
  - 2009: 8.0
  - 2010: 8.0
  - 2011: 8.0

- **Non-performing loan ratio (%)**
  - 2006: 0.95
  - 2007: 0.72
  - 2008: 0.68
  - 2009: 0.68
  - 2010: 0.46
  - 2011: 0.14
BNDES at a glance: scale and scope matters

- Main provider of long-term financing in Brazil
- 100% state-owned company under private law
- Stable funding
- 2,780 employees
- Instruments
  - Direct operations
  - Indirect operations
  - MSME (financing & guarantee)
  - Exim
  - Project finance
  - Equity investments
  - Grants

Total disbursements 2012:
US 75 billion; + 12% vs 2011

Gross Fixed Capital Formation (GFCF) and BNDES Disbursements - R$ Billion

Disbursements only for capital expenditures

Source BNDES
BNDES efforts towards inclusion and sustainability

Loans for MSME

Disbursements 2012: US 75 billion; + 12% vs 2011

Number of firms

Source BNDES
Support for “economic infrastructure”

Ger. Hidrica
Energia Alternativa
Distribuição
Transmissão

Ferroviás
Rodovias
Portos, Terminais, e Armazéns
Aeroporto e Transp. Aéreo

Logística
Eletricidade

Source: BNDES
Support for industrial investment and competitiveness

Sectoral disbursements according to Plano Brasil Maior directives

in R$ billion

Source: BNDES
Mandates must be given and enforced at the highest political level

Servant of public interest; pursuer of effectiveness and efficiency

Stable funding as a basic asset for financial sustainability

Flexible competences to mobilize resources and instruments adequate to mandates and to different stages and needs of a country`s development.

Development Banks must not be the vanguard nor the rearguard but the co-guard of development
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