



# The Future of National Development Banks

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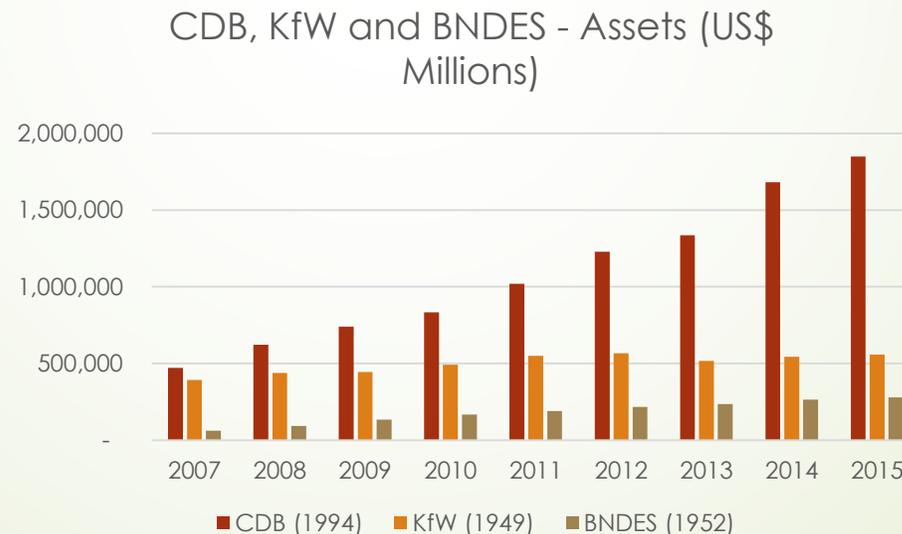


# The Seminar Agenda – 19 April

- ▶ Project Framework – Stephany Griffith-Jones and Jose Anotonio Ocampo
- ▶ BNDES – Brasil – Rogerio Studart
- ▶ Nafinsa – Mexico - Juan Carlos Moreno
- ▶ Corfo - Chile - Stephany Griffth-Jones
- ▶ Colombian Development Banks – Jose Antonio Ocampo and Paola Arias
- ▶ CDC – China – Qiyuan Xu
- ▶ KfW – German – Ulf Moslener and Peter Volberding
- ▶ Peruvian Development Banks – Oscar Dancur

# Case studies

- ▶ 2 cases are analyzed as a system – Colombia and Peru
- ▶ 2 “oldest” cases in LA: Nafinsa (1934) and Corfo (1939)
- ▶ 3 National Development Banks (CDB, KfW, BNDES) – if you include JFC (Japan) and KDB (Korea) - 5 largest National Development Banks (Assets).



Data: Annual Reports (IFRS), Average Exchange Rate (yearly)



# Corfo and Nafinsa

- ▶ Nafinsa (1934) – Born as a key instrument in Mexico's political consolidation and economic reconstruction in the aftermath of the Revolution (1910-21).
- ▶ Corfo (1939) – Born after the catastrophic consequences of the Chillán earthquake.
- ▶ Promotion of ISI. Mostly funding equipment and machinery. Nafinsa during the period 1940-82 was also financing infrastructure.
- ▶ In the 1970s, Nafinsa absorbed the Exchange Rate Risk and made funds available at rather preferential rates (Mexico: fixed exchange rate mid 1950s – early 1970). (p.6)
- ▶ Corfo in the Popular Unity Government played an important role in nationalizing enterprises, whereas during the Military Government it did the reverse.
- ▶ Both during the 1980s: debt and banking crisis: downsized, SMEs, switched from giving credit directly to becoming a second tier institution, providing credit and guarantees (1990s)
- ▶ “New Corfo” and “New Nafinsa”: bringing about a structural change and modernization of the economy.
- ▶ However, the challenges are huge for both Mexico and Chile.



# Colombia and Peru

- ▶ Colombia also has a long history of public sector banks - Instituto de Fomento Industrial (IFI) created in 1940-2002; FDN (1982, 2011), Findeter (1989), Finagro (1990), Bancoldex (1991). The major feature of Colombia case is a system of multiple, specialized institutions.
- ▶ Peru also has a system: Corporación Financiera de Desarrollo (COFIDE), created in 1971 (second tier); Banco de la Nación (1966), Fondo Mivivienda (1998), Banco Agropecuario (2001).
- ▶ During the 1990s: Both countries experienced domestic financial liberalization reforms.
- ▶ In Peru, in the start of the 1980s, the overall lending of state financial entities amounted 15% - had fallen drastically to 3% of GDP.
- ▶ In Colômbia: "... [the reforms] kept a strong development banking system. Two of these institutions, FINDETER and FINAGRO have increased or kept their share in the economy, but the other two, BANCOLDEX and FDN (previously FEN) have shrank, but also now in a process of restructuring and growth, notably in the case of FDN" (p.26). Problem: no institutional mechanism in place that guarantees coordination among development banks.
- ▶ Peru: "On the contrary, as with other state-owned companies, they have been subject to discrimination treatment in comparison with private companies ... Lack of a long-term vision on the part of the state ... Some have promoted greater financial dollarization ... Therefore none of these institutions constitutes an effective state development bank such as exist in other countries" (p. 28)



# CDB



- ▶ Born in a “transitional economy” (1994) – It was born with the characteristics of a planned economy, in the middle of a fiscal reform (redistributed resources between the central and the local government).
- ▶ “When CDB was an infant in late 1990s, the problem was not to grow up but to survive. By the end of 1997, CDBs ... NPL ratio reached 42,7%” (p.4). With a new administration and many policies, the NPL ratio fell below 1% in 2005 – and remain less than 1% (p.9)
- ▶ CDBs started to be “more popular in the bonds Market” and CDB bonds contributed to develop the yield curve of benchmark interest rate.
- ▶ CDB not only directly develop the economy and invest in infrastructure, but also, develop sound markets and institutions and does act counter-cyclical in crisis.



# BNDES

- ▶ BNDES (1952): History, Business Model and Funding Challenges
- ▶ Focus of the article: Infrastructure Gap
- ▶ “The challenges of boosting Infrastructure and logistics (I&L) seems nonetheless enormous in a moment when: i) national and subnational governments face severe fiscal constraints; ii) private sources of long-term financing continues scarce and the cost of capital too high; and iii) Project development capabilities, particularly for more complex and innovative ones, are limited.” (p.1)
- ▶ BNDES initiatives to promote the Market of infrastructure bonds by fostering the issuance of them and stimulating their secondary market ... However, no matter what incentives are created the development of an infrastructure bond Market will depend on the capacity and interest of institutional investors to acquire them – it will require “building bridges”.
- ▶ BNDES and sustainable infrastructure – BNDES can be a key player in the financing, leveraging and crowding in private capital to I&L.



# KfW



- ▶ Created in 1949 – Reconstruction of the World War
- ▶ “... three reasons as to why KfW is able to so successfully pursue its objectives within the policy cycle: a broad economic objective with government financing, access to both policymakers and regulators, and extensive technical expertise.” (p. 4)
- ▶ ” On the one hand, KfW is tasked with implementing policy objectives of the German government. In order to do so, KfW **receives the full financial backing of the federal government, which allows it to borrow cheaply on capital markets** and follow social, economic and environmental goals rather than purely commercial ones.” (p.1)
- ▶ “While by most accounts KfW has successfully promoted the German government’s economic and social policies, this does not mean the results are easily replicable in other contexts. A few cautionary notes are warranted. **First, KfW’s institutional model largely functions because of a strong legal framework** ... it requires **operational autonomy** that is legally protected ... Second, National Promotional Banks require a **functioning domestic financial system to achieve optimal results** ... It is therefore necessary for the government to establish a well-functioning financial system as a precondition ... Finally, enormous **technical capacity is required to achieve positive economic outcomes** ... Policymakers must implement clear guidelines on what the priority of the NPB should be and, moreover, having faith in the NPB to independently implement these goals.”



# The Seminar Agenda – 20 April

- ▶ Patient Finance and Mission Oriented Innovation – Mariana Mazzucato
- ▶ Financial Regulation and Development Banks – Lavinia B. de Castro
- ▶ Counter-Cyclical Role of Development Banks – Alfredo Schclarek and Michael Brei
- ▶ The roles of Public Banks in Long Term Funding – Felipe Rezende
- ▶ Conclusions and Follow-Up
  
- ▶ Public Panel

# Now talking about the future ...

## Legitimacy

- 1990/2000 – Market Failure Framework
  - Fiscal Cost x Social Benefits - Hard to measure and ...
- However, many articles in this book enlarge this vision ... Development Banks should:
  - 1) foster development opportunities that already exist;
  - 2) be transformational, that is, create that which does not yet exist, and transform that which exists in the desired direction, towards a predefined development agenda (Studart, 2017).
- 2007-2008 global financial crisis (Kregel, 2008)
  - New legitimacy? “Growing consensus on the value of DBs during non-crisis and crisis periods (World Bank 2012) while dampening the effects of financial fragility (Rezende 2015)” (Rezende, F., 2017).

# Catchphrases

➤ “The day that Development Banks start doing only what Society wants, they will be wrong. BDs have to advance demands that still do not exist”

➤ “An Insulated bureaucracy (the Weberian concept) is a weakened bureaucracy”.

DBs use to combine (not only KfW!):

-being a financial actor,

- building bridges between the government and enterprises,

- special access to policy makers and regulators

-Recognized technical competence to evaluate projects (Moslener, U, Thiemann, M and Volberding, 2017) ....

-And a promoter of a national development agenda.

# New Trends

- Hypertransparency,
- Individual empowerment,
- The rise of middle class (new demands)

(Berger, 2016)

Crisis of traditional forms of representation  
(parties, unions ...).

How can we build a consensual development  
Agenda in a net society?



# Finding new ways to legitimate ourselves

- ▶ How can development banks work to guarantee “good Jobs” and “decent work” in order to face the challenges imposed by demographic shift + the automation of work?
- ▶ Infrastructure has been a core business of Development Banks. How to fill the Gap? Yes, we must promote sustainable infrastructure, but what should we do with our old assets?
- ▶ Finthechs: Should we finance them? Should we become one of them? Should we compete?
- ▶ Big Data and Social Data: would it make credit more inclusive or would it creates new forms of discrimination? Should we foster Crowdfinancing for Aid?
- ▶ Demographic shift: Urbanization + Health Agenda

Table 1

## Colombia's System of Development Banks

Entity	Predecessor funds (managed by Banrep)	Sector	Date of creation
Instituto de Fomento Industrial IFI		Industrial development	1940 - 2002
Financiera Energética Nacional/Financiera de Desarrollo Nacional FDN	Electric Development Fund	Infrastructure	1982, 2011
Financiera de Desarrollo Territorial FINDETER	Urban Development Financial Fund	Urban and regional infrastructure	1989
Fondo para el Financiamiento del Sector Agropecuario FINAGRO	Agricultural Financing Fund	Agriculture	1990
Banco de Comercio Exterior BANCOLDEX	Exports Promotion Fund	Non-traditional Exports/ Business development	1991

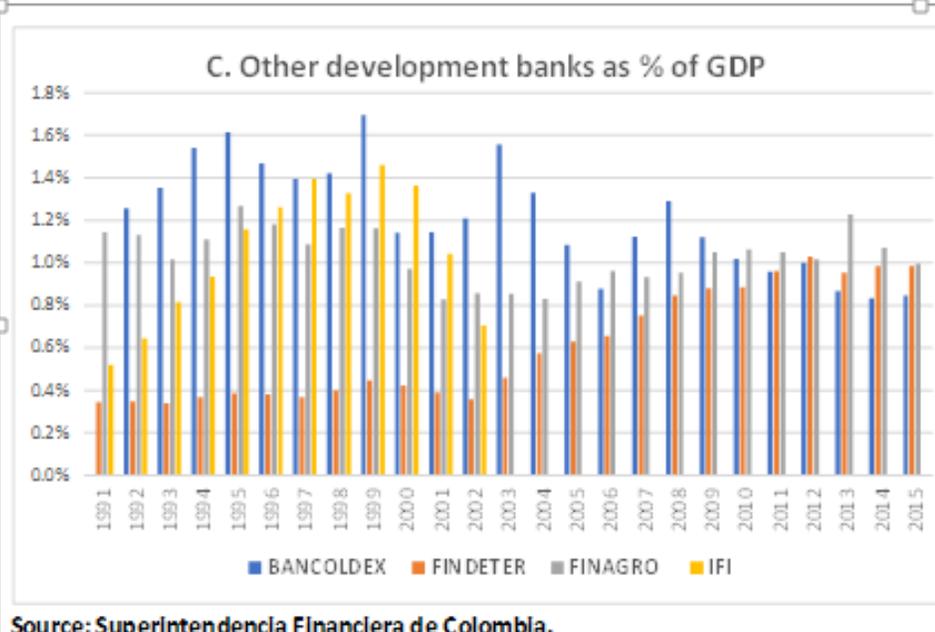


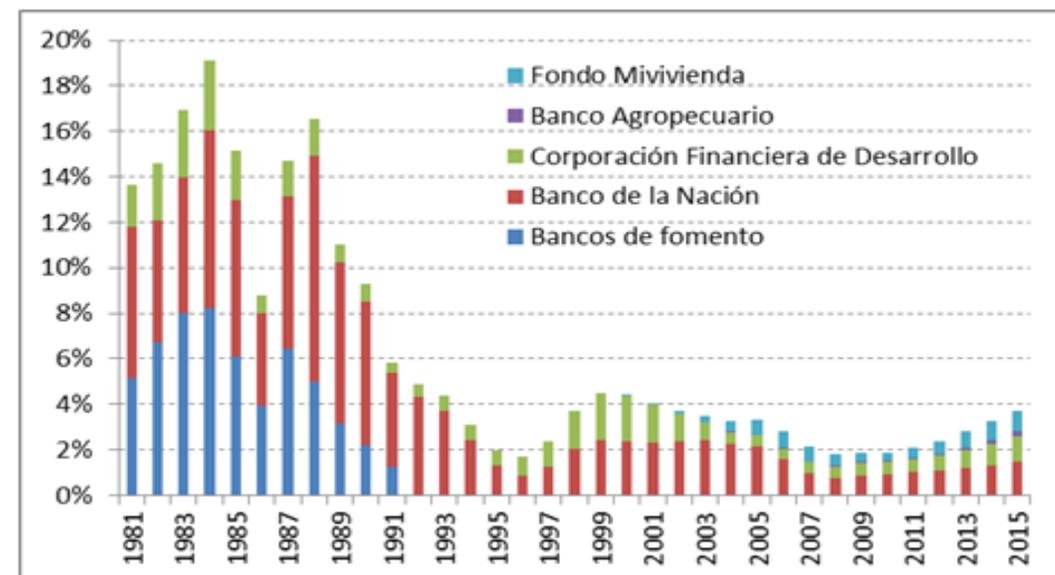
Table 1

## Peru: Forms of intermediation of the state-owned financial entities

	Banco de la Nación	Corporación Financiera de Desarrollo	Banco Agropecuario	Fondo MiVivienda
Current target market	Public sector plus exceptions	Public and private sectors 6/	Only agricultural sector	Only real estate sector
Authorization of fund-raising (deposits)	Direct and indirect 1/	Only indirect 7/	Direct 10/ and indirect 11/	Only indirect
Authorization of fund placement (credit)	Direct 2/, indirect 3/, and synthetic 4/	Only indirect and synthetic 8/	Direct 12/, indirect, and synthetic	Only indirect and synthetic
Authorization of acquisition of securities (investment)	Direct, indirect, and synthetic	Direct, indirect, and synthetic	Direct 13/	Direct and synthetic 14/
Authorization of placement of securities (issuances)	Direct 5/	Direct 9/	Direct	Direct
Supplementary regulation	General banking	General banking	General banking	Special banking
Current legal regime	Public law	Private law	Private law	Private law
Subsidies from the budget	No	No	Yes	Yes
Trustor and trustee	No	No	No	Yes

Graph 2

## Peru: Overall average lending by state-owned financial entities, out of GDP



Source: INEI and SBS

Compiled by authors