

Development Banks in global economic crisis;

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Introduction;

-A Development Bank is a bank with explicit legal mandate to reach socioeconomic goals in a region, sector or particular market segment.

- DBs have been an important instrument of governments to promote economic growth by providing credit, loan guarantees, other financial services and a wide range of advisory and capacity building programs to low-income households, SMEs, and even large corporations whose financial needs are not sufficiently served by private commercial banks or local capital markets.

- Even in advanced economies, where private financial institutions and capital markets cover the financial needs of households and enterprises, DBs continue to play an active role in the economy by providing credit to selected sectors and fostering new investments in priority activities such as clean energy, biotechnology, and environmental projects, as well as traditional sectors and activities.

-In some advanced economies, where private financial institutions and capital markets satisfy the financial needs of firms and individuals, several DBs continue to play an active role in providing financial services to strategic sectors of the economy: Kreditanstalt fuer Wiederaufbau (KfW) in Germany, Japan Development Bank, and Business Development Bank of Canada.

-DBs by Year of Establishment(*percent of DBs*): 39% 1990-2011
-During the past 21 years, two parallel movements were active around the world:
1- Governments were privatizing state-owned financial institutions,
2- countries were establishing new DBs.

-Examples of DBs established in the recent years include:

- Bulgarian Development Bank,
- SME Development Bank of Thailand,
- Financiera Rural of Mexico,
- Export Credit Guarantee Agency of Oman,
- Small Industries Development Bank of India
- New DBs established in Serbia, Bosnia and Herzegovina, Malawi.

-Even in the UK, they established a new development bank. In the UK, a new "Green Bank" established in 2012 to finance environmental projects.

-In the USA, the Obama administration is discussing the possibility of establishing a new national infrastructure bank.

-Mega development banks includes;

- China Development Bank,
- Brazil Development Bank (BNDES),
- North Rhine-Westphalia Bank (Germany),
- Kreditanstalt fuer Wiederaufbau (Germany).

-In terms of assets, China Development Bank, Brazil Development Bank and Kreditanstalt fuer Wiederaufbau (KfW) are larger than the World Bank Group.

- The global crisis has given DBs a new role. In most countries in Asia, Latin America, Africa, and Europe, DBs conducted a counter-cyclical role by scaling up their lending operations when private banks experienced temporary difficulties in granting credit to the private sector.

About a multilateral Development Bank:

- The WBG owned by 188 countries and comprises 5 institutions:
- 1-IBRD: International Bank for Reconstruction and Development(1944)
- 2- IFC: International Finance Corporation(1956)
- 3- IDA: International Development Association(1960)
- 4- MIGA: Multilateral Investment Guarantee Agency(1966)
- 5- ICSID: International Centre for the Settlement of Investment Disputes(1988)

-More than 10,000 staff members from 170 different nationalities with 130 country offices all over the world.

-World's largest source of development finance. 60 years of financing development projects, in which:

- US\$500+ billion in financing
- 130 countries approximately
- 5,000+ projects

-WBG help members achieve their development goals by providing:

- Financing, guarantees, and risk management tools to support their development-related investment programs;
- Expertise in areas such as agriculture, health, education, transportation, energy, and legal, financial market, and institutional reform, so that they can find solutions to national, regional and global problems.

-In the World Bank's loan portfolio:

(a)-Lending is limited to sovereigns or sovereign-guaranteed projects in eligible member countries;

- Countries with annual per capita income of US\$1195-7035 are eligible for borrowing from IBRD.

-Only countries with at least US\$1195 of annual per capita income are eligible (poorer countries receive concessional financing from IDA).

-Currently, the five largest country exposures are to China, Brazil, Turkey, India, and Indonesia.

-*Exposure Limit (\$16.5 billion) (a)*

-*India's exposure limit is US\$17.5 billion*

-Profitability of the World Bank;
-although the WB is not a profit-maximizing institution, strong financial performance is important to sustainably support development goals.

-The first signs of crisis in the developing world were sharp contractions in private capital flows and trade.

-Consensus emerged on the need for fiscal stimulus, within budget constraints.

-The crisis reversed the decline in poverty of the past decade. The Bank Group estimates that by end-2010, an additional 114 million people worldwide will have fallen below the \$1.25 a day poverty line since the onset of the crisis. Even with a rapid recovery, some 71 million people would remain in extreme poverty by 2020 who would have escaped it had the crisis not occurred. Unemployment rates remain high in several countries. Moreover, 200,000-400,000 more infants expected to die every year and many poor children lost the opportunity to attend school.

-The WBG set up the Vulnerability Financing Facility (VFF) to channel rapid support needed to protect the poor and vulnerable during the crisis.

-The Bank tripled lending from \$13 billion annually to \$35 billion, and lending volumes committed reached around \$100 billion over 2008-2010 period.

-Much of the additional lending is being delivered through fast-disbursing development policy loans (DPL).

- **IDA** has commitments amounting to nearly \$42 billion over fiscal years 2009-11. These resources have been allocated to long-term country development programs, to assist low income countries to mitigate the impact of the crisis; the IDA Financial Crisis Response Fast-Track Facility, set up in late 2008, is fast-tracking up to \$2 billion of financial assistance.

- **IFC** committed investment volume of about \$12 billion per year over 2008-2010 period. To increase development impact, IFC launched new crisis response initiatives in both investment and advisory services.

thematic issues;

-World Bank Group's crisis response focused on three thematic areas:

- (i) protect the most vulnerable against the fallout of the crisis;
- (ii) maintain long-term infrastructure investment programs;
- (iii) sustain the potential for private sector-led economic growth and employment creation, particularly through SMEs and microfinance.

-The thematic areas are being addressed through three operational platforms:

- 1- *the Vulnerability Financing Facility (VFF),*
- 2- *the Infrastructure Recovery and Assets (INFRA) platform,*
- 3- *the IFC-led private sector platform.*

- They complement an over-arching focus on macroeconomic stability at the core of the crisis response.

1-The VFF programs addressed two specific areas of vulnerability to crisis:

- (i) Agriculture, the main livelihood of over 75 percent of the world's poor;
- (ii) Employment, safety nets and protection of basic social services to help the poor and vulnerable groups cope with crisis.

-There was also a "Rapid Social Response Program"(RSR), to assist countries address urgent social needs stemming from the crisis, and to build up capacity and institutions to respond better to future crises. The RSR program serves two parallel purposes:

-First, it coordinated the Bank's crisis response in the thematic areas of safety nets, labor markets and access to basic social services across all client countries.

-For IBRD operations that fall within its three thematic areas, the RSR serves primarily as a coordination mechanism.

-The RSR tracked all IBRD and IDA operations in the three thematic areas in order to monitor and report on the overall Bank crisis response in support of social protection and continued access to basic social services for the poor and vulnerable.

-The RSR also catalyzed learning and knowledge sharing in these areas across the Bank Group.

-IBRD lending to middle-income countries for social safety nets has increased in response to financial crises.

-**Second**, the RSR will be supported by a Multi-Donor Trust Fund that will channel additional donor contributions to leverage IDA resources to support crisis-related programs in the three RSR thematic areas.

-For IDA countries, the RSR MDTF will finance immediate interventions in the areas of:
(i) Access to basic social services emphasizing services for maternal/infant health and nutrition, and school feeding programs;
(ii) Scaling up targeted safety net programs, where adequate mechanisms exist, and building future capacity otherwise;

(iii) Active and passive labor market policies to assist in the income support of the unemployed, training, placement and similar employment initiatives. South-South learning and capacity building initiatives will be encouraged as an integral part of countries' long-term social protection systems.

-The RSR supported projects that are part of national social protection and social services strategies.

-Instruments:

-The two VFF programs (GFRP and RSR) provided technical and financial assistance to support governments in their immediate and near-term responses to the crisis.

-The following lending instruments would be used under the Facility:

- ***Development policy operations***
- ***Investment operations***

-Investment operations focused on social safety nets and agriculture related infrastructure, including financing the maintenance of infrastructure assets.

2-Infrastructure Recovery and Assets Platform;

-The Infrastructure Recovery and Assets Platform (INFRA) - the second thematic area of the Bank Group's crisis response – supports counter-cyclical spending on infrastructure and protects existing assets and priority projects.

-This is an effective tool to provide the foundation for rapid recovery and job creation and to promote long term growth.

-INFRA helped countries to:

1-Stabilize existing infrastructure assets, including by restructuring and providing funding to those infrastructure projects with private, public or mixed participation which are facing temporary financing problems;

2-Ensure delivery of projects that remain government priorities by monitoring country focus on infrastructure, through analytical work and by building government capacity to plan for infrastructure expenditures;

3-Support new infrastructure project development and implementation, for example under the Africa's regional integration agenda, which includes projects with potential for high economic returns.

3-Private Sector Support;

-Supporting the private sector is the third thematic area of the Bank Group's crisis response. Staying engaged with the private sector in the developing world, notably the SME and micro-enterprise sectors which account for most private sector jobs, is critical both to the global recovery and to protecting the long-term growth potential vital to billions of the world's citizens.

IFC initiatives covered three broad areas:

- (i) providing liquidity support,
- (ii) rebuilding financial infrastructure,
- (iii) managing troubled assets.

-IFC liquidity support aims to:

- (i) ease financing and liquidity constraints on trade;
- (ii) ensure the availability of credit for micro, small, and medium enterprises (MSMEs),
- (iii) support viable infrastructure projects;
- (iv) help agribusinesses address liquidity and capital challenges.

IFC Specific initiatives include:

- (i) The expansion of the Global Trade Finance Program (GTFP) from \$1 billion to \$3 billion;
- (ii) The creation of a Global Trade Liquidity Pool (GTLP) with \$1 billion from IFC and \$3 billion from development institutions to co-fund a trade liquidity pool on a risk sharing basis with commercial banks in Islamic countries;
- (iii) The launch of an Infrastructure Crisis Facility, including \$300 million from IFC, representing the private sector side of the INFRA platform;
- (iv) The creation of a Microfinance Enhancement Facility in partnership with the public German Financial Institution, KfW.

-The IFC adopted a multi-faceted approach to rebuild financial infrastructure involving investment in the banking sector, advisory services and policy guidance. The IFC Recapitalization Fund, in which IFC has invested \$1 billion and Japan \$2 billion, aimed to provide additional capital for banks in developing countries to ensure they can support economic recovery and job creation.

-IFC worked to create a private sector troubled assets management program to encourage transparent auctions to help governments and banks transfer their non-performing loans to the private sector for processing and to foster sustainable and prudent work-out practices.

-MIGA responded to the crisis through its operational activities. It extended guarantees covering shareholder loans from European banks to recapitalize their subsidiaries in Ukraine and the Russian Federation, and supported reinsurance in Eastern Europe.

-MIGA provided political risk insurance capacity of up to €2 billion for bank lending, in Eastern Europe. MIGA was focused also on support to SMEs in sub-Saharan Africa.

- Other development institutions delivered countercyclical responses. European Bank for Reconstruction and Development, European Investment Bank, and Asian Development Bank increased their investments in the crisis period.

- Between 2000 and 2013, on average, investment and project lending accounted for 75 percent of African Development Bank (AfDB) lending, 76 percent of Asian Development Bank (AsDB) lending, 79 percent of Inter-American Development Bank (IDB) lending, and 64 percent of International Bank for Reconstruction and Development (IBRD) lending.

-BRICS Development Bank:

-The **BRICS Development Bank** is a proposed development bank of the **BRICS** nations. BRICS is a group of countries including Brazil, Russia, India, China, and South Africa. Its establishment was agreed to by **BRICS** leaders at the **2013 BRICS summit** held in Durban, South Africa on 27 March 2013. Among its goals is to provide funding for infrastructure projects, and create a "Contingent Reserve Arrangement" worth \$100 billion which will help member countries counteract future financial shocks.

-By some estimates, developing countries will need to invest an estimated additional US\$1 trillion per annum through 2020 to keep pace with the demands of rapid urbanization, growth, climate change, global integration and connectivity.

-PPP in crisis and the WBG:

- Public-private partnerships (PPPs) reliance on the private sector rendered them vulnerable to the global crisis in particular as access to private finance dried up. The crisis affected every participant in a PPP, (Including investors, the government, contractors, and end users)

- Almost half of infrastructure projects near completion in the developing world involved private participation were close to delay or cancel as a result of the crisis.

- Mumbai, India, Metro case with public-private program to construct a mass transit system, based on build-own-operate-transfer (BOOT) faced a serious problem during the crisis.

-WBG supported these troubled PPP projects by helping them to:

- i) Restructure the project,
- ii) providing funded support to the PPP,
- iii) Providing contingent support to the PPP.

- Governments looked to restructure PPP Projects also benefited from the advice and support of Bank experts.

- MIGA also helped investors and lenders to address concerns about investment environments and political risk in the emerging markets by providing political risk insurance, and dispute mediation services.

Performance of National Development Banks during crisis;

The WB survey of DBs in the world is based on 90 national development banks in 61 countries.

-Past research on DBs has focused on examining their performance and comparing them to private financial institutions.

-Survey coverage by Region and Country:

-Africa(11 countries),America(15 countries), Asia(21 countries), Europe and central Asia(12),MENA(2)

-**Countercyclical Role of DBs:** 36% increase,in lending in just three years,during crisis is well above the 10% increase in private bank credit for the countries during the same period. Most DBs conducted a countercyclical role by increasing their supply of credit to private firms to mitigate the credit crunch associated with the global financial crisis.

Development Banks around the World:

-In 21% of development banks the private sector participates as minority shareholder, holding between one and 49% of the total shares. (Malaysia)(Colombia). In this type of DB, the government maintains control of the institution, while the private sector owns part of its capital.

-In those DBs that the government owns less than 50% of the capital of the DB. like DFCC of Sri Lanka, despite being partially privatized and fully managed by the private sector, retains its focus on developmental activities.

-There are different options for DBs to fund their business operations, including: (i) taking savings and deposits from the public,
(ii) borrowing from other financial institutions,
(iii) raising money in the domestic or international capital markets,
(iv) using their own equity,
(v) receiving budget allocations from the government.

Most DBs combine all these funding options.

-On the basis of their mandates, DBs can be divided into two groups:

- (i) institutions with a narrow and specific mandate, which explicitly refers to the sector(s), type of customers or activities that a DB is expected to support, SMEs and Infrastructure.
- (ii) institutions with broad mandates that are formulated in general terms without reference to any particular sector or activity.

-53% of DBs surveyed are institutions with specific policy mandates.

-the other 47% of DBs are institutions with broader legal mandates and are expected to support a broader range of activities and sectors.

For instance: Development Bank of Turkey, and Development Bank of China.

-Economic Sectors Targeted by DBs: Industry/Manufacturing; Agribusiness ; Construction ; Energy ; Infrastructure ; Health ; Education ; Mining; Services

- Maximum Loan Term Offered by DBs: Up to 5 years (16%); 6 to 10 years (29%); 11 to 15 years (19%); 16 to 20 years(22%); 21 to 25 years (7%); 26 to 30 years(6%).

- Challenges for DBs: For 71% of DBs the most important challenge was the need to improve their risk management capacity.

- 59% of the DBs indicated that the need to become a financially self-sustainable organization is a key challenge,

- 50% saw the need to improve corporate governance and transparency as a major challenge;

- The survey's results reveal that DBs is heterogeneous and should not be treated as a uniform group of institutions.

- DBs differ among themselves in various areas, such as: Ownership structure, Policy mandates, Funding mechanisms, Target sectors and clients, Lending models, Pricing of lending products, Regulation and supervision, Corporate governance, Transparency standards.

Development Banks in I.R.Iran:

-Four sector development bank: Agriculture, Industry and Mining, Housing, Export promotion

-**Review the existing development Bank in Iran** in terms of Ownership structure, Policy mandates, Funding mechanisms, Lending models, Pricing of lending products, Regulation , Corporate governance.

-**To study the establishment of new sector development banks for MSMEs and infrastructure.**

- **To study the establishment of new regional development banks for underdeveloped regions;** south development Bank, East development Bank and Midland Development Bank.

- **To study the dichotomizing of the mandate for the National Development Fund:** stabilization mandate and development mandate. Development mandate could be operationalize through Development Banks.