National development banks and inclusive growth

Stephany Griffith-Jones
sgj2108@columbia.edu

G-24 Special Workshop on Growth and Reducing Inequality

5-6 September,2017, Geneva

Some theoretical insights

- DBs need, unrecognized in "efficient" private financial markets, now quite discredited
- Credit rationing+market failures first justification
- Stiglitz (2004), financial markets have far more market failures than government failures, key insight for government intervention
- Private finance unwilling to fund activities with uncertain returns, and with externalities, often key for structural transformation and sustainable development. DBs, as part of development or entrepreneurial State

The case for development banks

- Limitations of private finance
- In all times, eg lack of long term credit, scarce lending to smaller companies, and poorer people. Not willing to fund key development projects with high uncertainty
- Not funding investment key for structural transformation to inclusive growth
- During and after crises, reduce lending in pro-cyclical way

Positive case for development banks

- Key roles , multilaterally, regionally and nationally
- In emerging, low-income, and developed economies
- Impetus given by AIIB and NDB (BRICS) bank
- Balanced approach, combine public and private institutions more desirable. Benefits of diversification: contribute financial stability, increase competition +specialized certain activities, eg inclusive finance
- New development finance paradigm?
- Provide valuable leverage for scarce public resources

Research project on national development banks(NDBs)

- Co-directed with J.A. Ocampo at Columbia University
- Supported by BNDES and CAF
- Issues papers and seven in-depth case studies, NDBs in Germany, China, Brazil, Colombia, Chile and Mexico
- http://policydialogue.org/events/meetings/the_future_of_national_development_banks_-/materials/

Key roles for development banks

- Helping provide finance for structural transformation
- Provide counter-cyclical finance
- Deepen and improve financial markets for development friendly instruments
- Support greater inclusion
- Finance global public goods

Funding structural transformation

- Key role in fostering innovation and entrepreneurship in national economies
- Patient, long-term committed finance, for mission-oriented investment in innovation, has been fostered by national development banks
- Funding new sectors or cross cutting sectorial programs, with high uncertainty, making less likely for private finance to go in alone initially. Can have major externalities.

Counter-cyclical lending

- Particularly during and in the aftermath of financial crises. Strong empirical evidence
- Crucial to helping maintain long-term investment, mitigate the business cycle and help prevent financial crises from deepening
- Counter-cyclical role of NDBs should be seen as a complement to counter-cyclical fiscal and monetary policies

Deepen and improve financial markets for development friendly instruments

- Development of local currency markets
- Capturing the upside; lending in GDP debt service instruments, for example
- More broadly, eg China , NDBs helped develop deeper private capital markets
- Close collaboration required with private financial institutions
- NDBs act as bridge between governments and private sector

Support greater inclusion

- Important , not just micro-finance, but funding missing middle,- SMEs. High transactions cost.
- Key that lending is sustainable, not harm the poor or financial stability. Meet different needs.
- Variety of actors as financial intermediaries: commercial banks, specialized financial institutions, and micro-financing institutions.
- Through a series of instruments, mainly second-tier credits, first-tier lending to associations of producers, and guarantees, eg first loss

Finance global public goods

- Advantages of accumulated expertise, administrative efficiencies, and convening power
- Help Governments design policy frameworks
- Help mobilize additional funding, inc private
- Showcase the viability of certain green investments, as in renewable energy
- KfW and CDB played key roles in renewable energy

NDBs broadly successful

- Broadly successful at what they do; able to adapt flexibly to changing challenges
- a) New activities: entrepreneurship, innovation, financial inclusion
- b) New sectors: renewable energy, energy efficiency
- c) New instruments: greater use guarantees, equity (venture capital) and debt funds, and new instruments for financial inclusion, like correspondent stores
- d) New activities,-encouraging FDI in country and national FDI abroad.

Greater need for NDBs

- Is current scale, especially in Latin America and Africa, large enough for the development needs of their countries?
- Low levels of both private + public investment. Leverage public resources by NDBs becomes particularly attractive to boost investment.
- Greater need higher investment as challenges structural transformation more urgent, linked to need of different economic model, more dynamic, greener –make growth consistent with the needs of planet—, smarter – better innovation, to increase productivity more rapidly—, and more inclusive
- NDBs needed on a significant scale

Conditions for NDBs to operate well

- Broad context in which development banks operate is key for their success, including good macro policies and well functioning financial sector
- Country has a clear development strategy, ideally linked to a modern industrial policy
- Clear policy mandates particularly valuable if they do not change much with different governments

Areas of future research

- Key to have “good” development banks. Criteria.
- Central research issue: What is the political economy for ensuring they are well governed and well run?
- What are most effective instruments for NDBs to channel funds, in face of old and new development challenges?
- What are political economy dimensions for generating support for creating NDBs where they do not exist, and maintaining their scale or even expanding them, where required?