Financing for Development:
“Rethinking the Role of National Development Banks”

Presentation at the UN-ECE/UN-DESA Meeting of Experts on
“Financing for Innovative Development”
(Geneva, 3-4 May 2007)

by
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Mandate

Monterrey Consensus on Financing for Development

Mobilizing domestic financial resources for development
“We recognize the need to strengthen and develop the domestic financial sector, by encouraging the orderly development of capital markets through sound banking systems and other institutional arrangements aimed at addressing development financing needs …” [para.17]. “Development banks, commercial and other financial institutions, whether independently or in cooperation, can be effective instruments for facilitating access to finance …” [para.18].

Mobilizing international resources for development
“We urge businesses to take into account not only the economic and financial but also the developmental, social, gender and environmental implications of their undertakings. In that spirit, we invite banks and other financial institutions … to foster innovative developmental financing approaches.” [para.23]. “We will support new public/private sector financing mechanisms, both debt and equity, for developing countries and countries with economies in transition, to benefit in particular small entrepreneurs and small and medium-size enterprises and infrastructure.” [para.24].

Addressing systemic issues
“We also underscore our commitment to sound domestic financial sectors, which make a vital contribution to national development efforts, as an important component of an international financial architecture that is supportive of development.” [para.53].
Mandate

2005 World Summit Outcome

“We reaffirm the Monterrey Consensus and recognize that mobilizing financial resources for development and the effective use of those resources in developing countries and countries with economies in transition are central to a global partnership for development in support of the achievement of the internationally agreed development goals, including the Millennium Development Goals.” [para.23].

UN General Assembly resolution 61/191

“Decides that the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus will be held in Doha, Qatar in the second half of 2008 …” [para.1].
Overview

Multi-stakeholder Consultations

Key Messages

Next Steps
Overview: Definition and Lines of Activity

NDB: “Financial institution primarily concerned with offering long-term capital finance to projects generating positive externalities and hence underfinanced by private creditors”.

NDBs often design and implement their objectives through:
(i) **Appraising** economic and social impacts of projects that seek financing;
(ii) **Accompanying** investors over the long run through long-term loans;
(iii) **Assisting** sectors that are key to growth through technical cooperation;
(iv) **Attracting** investors by playing a role of catalyst for large operations; and
(v) **Alleviating** negative impact of crises through counter-cyclical financing.

Since 1990s, NDBs’ lines of activity evolved significantly as a result of globalization and a reshuffle of national development banking strategies.
Overview: A Pyramid of National Development Banking

- Achieve development objectives
- Desired Outcome
- Major Lines of Activity
  - Long-Term Financing
  - Other Financing Mechanisms for Development
  - Productive Sector Support
- Requirements
  - Good Governance
  - Efficient Management
  - Sustainability
  - Regulation & Supervision

Actions (Five A’s)
- Appraise
- Accompany
- Attract
- Assist
- Alleviate
**Overview: The Five A’s of National Development Banking**

<table>
<thead>
<tr>
<th>Action</th>
<th>Target</th>
<th>Mechanism</th>
<th>Challenge</th>
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<tbody>
<tr>
<td><strong>Appraise</strong></td>
<td>Projects</td>
<td>A unique feature of NDBs is that they take into account not only financial returns, but also economic, social and developmental impact of a project.</td>
<td>Reconcile development goals and sustainable lending policies</td>
</tr>
<tr>
<td><strong>Accompany</strong></td>
<td>Investors</td>
<td>By providing long-term financing, NDBs are key sources of funding for infrastructure projects.</td>
<td>Offer adequate long-term products on a sustainable basis</td>
</tr>
<tr>
<td><strong>Attract</strong></td>
<td>Capital</td>
<td>By acting as catalysts, NDBs are instrumental in attracting foreign investors, guarantors and counter-guarantors, regional and multilateral financial institutions.</td>
<td>Develop a role of catalyst for large financing operations</td>
</tr>
<tr>
<td><strong>Assist</strong></td>
<td>Productive Sector</td>
<td>Technical assistance is an increasingly important part of NDBs’ activities to support the productive sector and foster export industries.</td>
<td>Provide and pool knowledge and expertise</td>
</tr>
<tr>
<td><strong>Alleviate</strong></td>
<td>Financial crises</td>
<td>Acting individually or in cooperation with RDBs, NDBs can provide financing even at times of crisis, thus producing counter-cyclical effects.</td>
<td>Foster understanding of counter-cyclical potential of NDBs</td>
</tr>
</tbody>
</table>
Multi-stakeholder Consultations

Key Messages

Next Steps
Consultative Process

Objective: To develop policy recommendations for enhancing the role of NDBs in promoting economic and social development.

Dec. 2005
Meeting of Experts

Spring 2006
Multi-stakeholder Consultations

Fall 2007

Fall 2008
Output and Follow-up

- Expert Group Meeting (New York, USA)
- Focus on Latin America and the Caribbean (Lima, Peru)
- Focus on Western Africa (Paris, France)
- Focus on Southern Africa (Johannesburg, South Africa)
- Focus on Eastern Europe and CIS (Geneva, Switzerland)
- Focus on the Middle East (Cairo, Egypt)
- Focus on Asia and the Pacific (Bangkok, Thailand)
- Final meeting (Cambridge, USA)

Output: Publication on the role of NDBs/DFIs as a renewed tool of development finance, to serve as an input to the Follow-up International Conference on Financing for Development (Doha, Qatar, 2008).
Meeting of Experts on “Rethinking the Role of National Development Banks” (New York, 1-2 December 2005)

- Reviewed key substantive issues outlined in the project proposal (background paper)
- Launched “multi-stakeholder consultations”, organized by FFDO in cooperation with NDBs, RDBs, IFIs and UN agencies
- Agreed on a draft model agenda to serve as a framework for a series of follow-up regional meetings
- Discussed a tentative calendar of regional meetings.
First Regional Consultation on “Challenges of National Development Banks in Latin America”
(Lima, Peru, 12-13 June 2006)

• Co-hosted by the Latin American Association of Development Financing Institutions (ALIDE) and Corporación Financiera de Desarrollo (COFIDE).

• Co-chaired by José Antonio Ocampo, Under-Secretary-General for Economic and Social Affairs, United Nations; Rommel Acevedo, Secretary-General of ALIDE; and Daniel Schydlowsky, President of COFIDE.

• Attended by some 80 representatives from NDBs in Latin America, Asia, and Africa, international organizations (ECLAC, CAF, CAN, IMF, IADB, GTZ), academics and civil society.
**First Regional Consultation: Discussion points**

**The meeting addressed:**
- Rationale of development banking
- Best practices in development banking
- Financial instruments and innovations
- Regional financial & technical cooperation
- Counter-cyclical financing

**Major discussion points:**
- Public service, infrastructures and utilities: potential of NDBs
- Information sharing on experiences in the region
- Raising funds and harnessing resources from the private sector
- Enhancing cooperation at the regional and sub-regional levels
- Potential role of NDBs in counter-cyclical financing

- Organized by Agence Française de Développement (AFD) in collaboration with KfW (Germany) and the European Investment Bank (EIB).

- Co-chaired by Jean-Michel Severino, CEO, AFD; Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development, United Nations; Bruno Wenn, First Vice-President for Sub-Saharan Africa, KfW; and Daniel Ottolenghi, Chief Economist for Development, EIB.

- Attended by some 100 representatives from NDBs in Africa and Europe, international organizations (World Bank), bilateral aid agencies, academics and civil society.
Second Regional Consultation: Discussion Points

The meeting addressed:
- Evolution of development banking
- Case studies: how to address market failures?
- Roles and instruments
- Tools, governance and monitoring of results
- Role of ODA and PPPs

Major discussion points:
- Reasons for decline in development banking
- Role of the State
- Utility and use of subventions
- Roles of development and commercial banks
- Banking legislation
Third Regional Consultation on “The Role of National and Regional Development Banks in Africa” (Johannesburg, South Africa, 27-28 November 2006)

• Co-hosted by the Industrial Development Corporation (IDC) of South Africa and Development Bank of Southern Africa (DBSA) in collaboration with the Southern African Development Community – Development Finance Resource Center (SADC-DFRC) and the Association of African Development Finance Institutions (AADFI).

• Held within a broader context of The Africa Development Finance Week – conducive to the high-level participation and overall success.

• Gathered more than 100 participants, including CEOs of NDBs/DFIs in Africa and Europe, international organizations, bilateral aid agencies, academics and civil society.
Third Regional Consultation: Discussion Points

The meeting addressed:
- Evolution of development banking
- Regional economic integration
- Role of NDBs in sustainable development
- Financial sustainability of NDBs
- Support for SMEs & microfinance
- Mobilization of resources
- Enhancing NDBs’ delivery for development
- Corporate governance and regulation

Major discussion points:
- Privatization vs. development priorities
- Financing regional infrastructure
- Participation of key stakeholders in capital
- PPPs and tariff issues for basic services
- DFI fit in public policy
- Need for strengthening corporate governance
Fourth Regional Consultation: Highlights

Fourth Regional Consultation on “The Role of National and Regional Development Banks in Transition Economies” (Geneva, Switzerland, 4 May 2007)

- Organized by the Financing for Development Office of the UN Department of Economic and Social Affairs (UN-DESA) and the Economic Cooperation and Integration Division of the UN Economic Commission for Europe (UN-ECE).

- Held within a broader context of the Meeting of Experts on Financing for Innovative Development.

- Gathered more than 50 participants, including CEOs of NDBs/DFIs in Europe, international organizations, bilateral aid agencies, academics and civil society.
## I. Filling gaps in financial market development

<table>
<thead>
<tr>
<th>Providing long-term financing</th>
<th>Expanding the range of financial products</th>
<th>Building inclusive financial sectors</th>
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<tr>
<td>Infrastructure projects</td>
<td>Short-term loans</td>
<td>Access to finance for SMEs</td>
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<td>Market failures</td>
<td>Syndication</td>
<td>Microcredit &amp; Microfinance</td>
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<td>Complementarity</td>
<td>Securitization</td>
<td>Sustainability &amp; Subsidies</td>
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<td>Subsidiarity</td>
<td>Equity</td>
<td>Legal &amp; financial infrastructure</td>
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<td>Cooperation with RDBs &amp; IFIs</td>
<td>Quasi equity</td>
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<tr>
<td>Management &amp; governance issues</td>
<td>Guarantees</td>
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<td>Risk mitigation tools</td>
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## II. Improving the business climate

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<th>SME promotion and support</th>
<th>Acting as a catalyst for investment</th>
<th>Reducing volatility of financial markets</th>
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<tr>
<td>- Equity finance</td>
<td>- Crowding in the private sector</td>
<td>- Exchange of information &amp; raising awareness</td>
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<td>- Direct financing schemes</td>
<td>- Public-private partnerships (PPPs)</td>
<td>- Counter-cyclical financing</td>
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<tr>
<td>- Short-term financing</td>
<td>- Linkages with IFIs</td>
<td>- Regional cooperation</td>
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<tr>
<td>- Export financing</td>
<td>- Regional integration</td>
<td></td>
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<td>- Loan guarantee schemes</td>
<td>- Instruments for risk sharing</td>
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<td>- Factoring</td>
<td>- Project development</td>
<td></td>
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<td>- Technical assistance</td>
<td>- Promotion of business opportunities</td>
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<td>- Knowledge networks</td>
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### III. Capacity-building

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<th>Rating, prudential regulation and supervision</th>
<th>Governance, management and skills</th>
<th>Measuring and monitoring results</th>
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<tr>
<td>• Banking legislation</td>
<td>• Governance codes</td>
<td>• Development impact</td>
</tr>
<tr>
<td>• Rating</td>
<td>• Auditing and oversight</td>
<td>• Information sharing</td>
</tr>
<tr>
<td>• Prudential regulation</td>
<td>• Board composition</td>
<td>• Benchmarks</td>
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<tr>
<td>• Internal oversight</td>
<td>• Disclosure</td>
<td>• Culture of evaluation</td>
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<tr>
<td>• Portfolio risk assessment</td>
<td>• Relationship with government</td>
<td>• Results-based approach</td>
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<td></td>
<td>• Operational efficiency</td>
<td>• Key indicators</td>
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<td>• Training</td>
<td>• Impact on end-users</td>
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Next Steps

- Mandate
- Expert Group Meeting
- Multi-stakeholder Consultations
- Key Messages
Action-oriented Proposals

Overall, the regional meetings concluded that NDBs/DFIs have a critical role to play in economic and social development. National development priorities, market environment and client needs tend to evolve over time. NDBs/DFIs need to continually adapt and adjust if they are to respond to changing needs and developmental imperatives.

Common proposals

- **Make an inventory of NDBs/DFIs and disseminate information on best practices and lessons learnt**

- **Strengthen cooperation among NDBs/DFIs, including on capacity-building and technical assistance**

- **Enhance exchange of information on NDBs between the United Nations system and regional associations of DFIs**
In the context of the ongoing multi-stakeholder consultations, it is proposed to conduct a global survey of national DFIs, based on a questionnaire to be circulated through regional associations, in order to update:

- **General information** (form, domain of activity, ownership, history …)
- **Details on lines of activity and financial products provided** (loans, grants, guarantees, equity …)
- **Details on financial performance, governance and supervision**
- **Case studies of best practices and failures**
- **Suggestions** for further analysis
Thank you!

More information: www.un.org/esa/ffd

**Rethinking the role of National Development Banks**

- **Overview**

How can the role of NDBs in promoting economic and social development be enhanced? This fundamental question will be addressed through a set of multi-stakeholder consultations during 2006-2007. The process will be organized by the Financing for Development Office of UN-DESA, in collaboration with NDBs, International Financial Institutions, Regional Development Banks, UN Regional Commissions and other interested parties from the official and private sectors, academia and civil society.

- **Ad Hoc Expert Group Meeting** on “Rethinking the role of National Development Banks” (New York, USA, 1-2 December 2005)

- **First Regional Consultation** on “Challenges of National Development Banks in Latin America” (Lima, Peru, 12-13 June 2006)

- **Second Regional Consultation** on “The Role of National and Regional Development Banks in Africa” (Paris, France, 27-28 June 2006)

- **Third Regional Consultation** on “Rethinking the Role of National Development Banks in Africa” (Johannesburg, South Africa, 22-23 November 2006)