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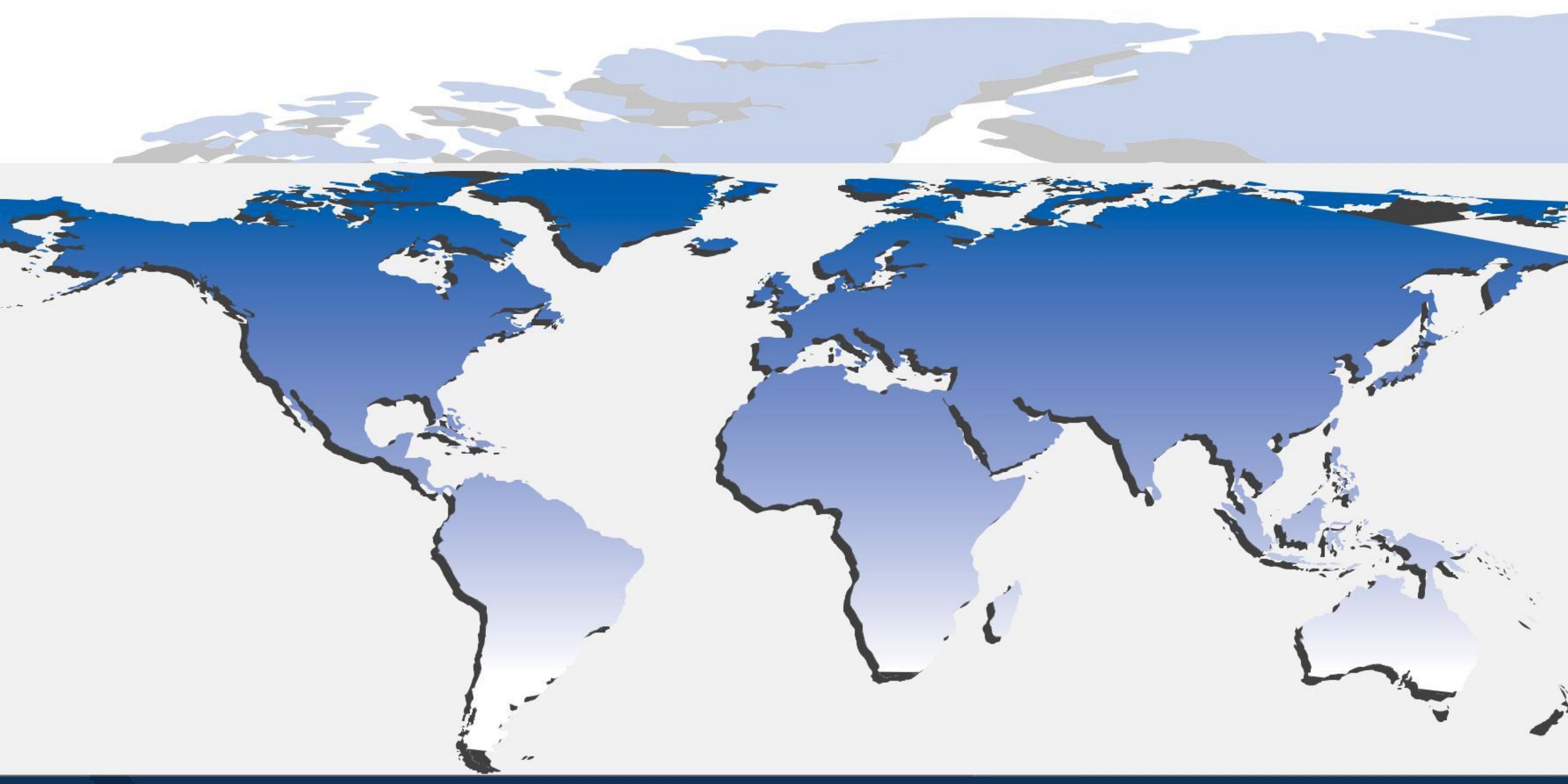
THE ROLE OF DEVELOPMENT BANKS

in Promoting Growth and Sustainable Development in the South



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The Role of Development Banks in Promoting Growth and Sustainable Development in the South

Economic Cooperation and Integration among Developing Countries

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Note

This report was prepared by the Unit on Economic Cooperation and Integration among Developing Countries, Division on Globalization and Development Strategies, UNCTAD. The report team consisted of Ricardo Gottschalk (lead contributor), Daniel Poon and Matias Mednik, and consultants CP Chandrasekhar and Stephany Griffith-Jones.

All references to dollars ($) are to United States dollars, unless otherwise stated.

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Abbreviations

AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
AsDB	Asian Development Bank
BDEAC	Central African States Development Bank
BNDES	Banco Nacional de Desenvolvimento Econômico e Social
BOAD	West African Development Bank
CAF	Corporación Andina de Fomento
CDB	China Development Bank
EADB	East African Development Bank
EIB	European Investment Bank
IADB	Inter-American Development Bank
IDBI	Industrial Development Bank of India
JFC	Japan Finance Corporation
KDB	Korean Development Bank
KfW	Kreditanstalt für Wiederaufbau
NDB	New Development Bank
OECD	Organization for Economic Cooperation and Development
PTA	Preferential Trade Area Bank
SELIC	Sistema especial de liquidação e custodia
SMEs	Small and medium-sized enterprises
TJLP	Taxa de juros de longo prazo
UNCTAD	United Nations Conference on Trade and Development

Table of contents

A. Introduction

The world is entering the new post-2015 era of the Sustainable Development Goals. These include poverty eradication, education for all, inclusive economic growth, full employment, reduced inequality, climate change mitigation and sustainable use of the world's ecosystems. Economic transformation is critical to make these socioeconomic and environmental goals achievable and sustainable.

Africa's recent development provides a good illustration of the nexus between transformative growth and social goals. The region grew rapidly in the 2000s, but this growth did not create jobs, and was based on the expansion of the services sector, to the detriment of manufacturing. Between the late 1980s and late 2000s, the region saw strong de-industrialization taking place. As a result of a lack of structural transformation and the creation of good quality jobs and sustainable incomes, Africa missed many Millennium Development Goals, some by a large margin (UNCTAD, 2013; UNCTAD, 2014).

Economic transformation requires long-term investment to support the expansion of productive capacities, as well as infrastructure development that underpins industrial activities and reduces bottlenecks. Rapid, transformative growth will also require, from the developing world, a more autonomous development strategy, in light of the fragile world economic recovery and the uncertainty about developed country demand and capital as drivers of developing country growth (UNCTAD, 2016).

The financing needs to support the Sustainable Development Goals are formidable. Investment in infrastructure development alone, which is a key bottleneck to economic transformation and thus sustainable growth, faces financing needs at the global level that amount to $5 trillion–$7 trillion per year (Intergovernmental Committee of Experts on Sustainable Development Financing, 2014). For developing countries alone, figures point to an infrastructure financing shortfall of $1.0 trillion–$1.4 trillion per year (Bhattacharya and Romani, 2013).

This report discusses the role of development banks in promoting long-term development. Such banks have been a major feature of the development finance architecture for many years. The post-Second World War era saw the emergence of the World Bank and regional banks. Since their creation, these banks have played a fundamental role in funding global and regional public goods, and in providing long-term finance to developing countries. It is hoped that they will continue to do so by helping address the financing needs of the post-2015 era, together with other sources of financing for development, such as aid, which are part of global development finance. The large international development banks are, however, few in number. Despite their sizes, their aggregate lending is limited. In 2015, the World Bank and the three main regional banks – African Development Bank (AfDB), Asian Development Bank (AsDB) and Inter-

American Development Bank (IADB) – lent in aggregate only $69 billion (banks' annual reports).

The lack of financing is not due to a shortfall in global savings. Currently, the stock of financial assets worldwide is $218 trillion, and annual global savings are $22 trillion (Intergovernmental Committee of Experts on Sustainable Development Financing, 2014). Most of these are held in the form of developed country assets that offer low returns. Parts of these savings could be channelled towards long-term investments in the real economy. To this end, existing and new development banks are needed to bridge finance from end-savers to development projects. Such bridging should be done by development banks at all levels – national, regional and international – in order to provide the financing needed in the developing world. Development banks can thus be key players for development by providing long-term financing directly from their own funding sources, by tapping into new sources and by leveraging additional resources, including private, through the co-financing of projects with other partners.

The time is ripe to promote development banks. At the national level, the global financial crisis in 2008 has opened space for national policymakers to selectively break with the Washington Consensus policy package and an opportunity to support pro-development finance initiatives. At the regional and South–South levels, there is a new momentum of initiatives for the creation of Southern banks, which could tap into global savings, especially those that originate in the South. Taking advantage of such opportunities is fundamental to supporting future development in the South.

This report first details the rationale for national development banks and developing country experiences with such banks in the past. It then discusses regional and subregional banks, which can play a critical role, especially in supporting smaller countries that may face greater obstacles in setting up development banks at the national level. Finally, it discusses the recently created Southern banks, both regional and cross-regional. The report concludes by noting that the new development banks are greatly needed and should not be seen as a threat to long-established international financial institutions. In fact, they have already started operations in collaboration