Financing for Development: a fundamental role for National Development Financial Institutions

João Carlos Ferraz
Executive Director

BNDES Brazilian Development Bank
Growth stalemate and Development

National Development Financial Institutions:

Financing for Development through National Development Financial Institutions
A world of low interest rates, high liquidity...

Long Term (10 year) interest rates

Financial system's credit/deposits ratio (OECD countries non weighted average)

Historical S&P 500 leverage and liquidity

Source: OECD

Source: Financial Structure Database, 2013

Source: J.P. Morgan, FactSet
Note: Data includes highly liquid, cash-like assets held on balance sheet; excludes financial and insurance companies; 2013 or latest available
For infrastructure to remain at a 70% asset-to-GDP ratio, at least $67 trillion of investments between 2013 & 2030 are required.

Growth stalemate and Development

National Development Financial Institutions:

Financing for Development through National Development Financial Institutions
OECD: institutions providing long term financing that are beyond the capacity or the willingness of others to do so.

Very common institutions

- BDC (2009): 235 DIs in 92 countries.

  International Benchmark Study on Development Institutions. Business Development Canada, 2009

- WB (2012): 90 DIs in 61 countries.

Not a homogeneous group, differing in:

- Ownership structure (fully vs. partially owned by government)
- Target sectors and clients (narrow vs. wide focus)
- Lending models (first-tier vs. second-tier)
- Credit conditions (subsidized vs. market interest rates)
- Regulation and supervision (special regime vs regime applicable to all banks)
- Corporate governance (independent vs. government controlled boards)
- Size (absolute and relative), loan portfolio, performance indicators...
Mandates and priorities defined at the political domain and by challenges associated with the stage of development of a country

Funding: most, if not all, benefit from specific sources of funding (fiscal, para-fiscal, tax regime, sovereign guarantee, etc.

Competences: oriented to support development processes

Scope of mandate (n= 90)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wide</td>
<td>47%</td>
</tr>
<tr>
<td>Specific</td>
<td>53%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>13%</td>
</tr>
<tr>
<td>SME</td>
<td>12%</td>
</tr>
<tr>
<td>Foreign Trade</td>
<td>9%</td>
</tr>
<tr>
<td>Residential</td>
<td>6%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>4%</td>
</tr>
<tr>
<td>Local Government</td>
<td>3%</td>
</tr>
<tr>
<td>Industry and others</td>
<td>6%</td>
</tr>
</tbody>
</table>

Segments supported by selected Development Banks

<table>
<thead>
<tr>
<th>Category</th>
<th>CDB</th>
<th>KfW</th>
<th>BNDES</th>
<th>JFC</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSME</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Agriculture</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Innovation</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Green Economy</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Internationalization</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Capital Markets</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>International Financial Cooperation</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Luna-Martínez and Vicente (2012)
Source: Ferraz, Além, Madeira (2013)
... and very significant economic relevance

Outstanding Loans/GDP and Outstanding Loans/Total Credit
Selected Development Banks, 2012

![Bar chart showing loan portfolio to GDP and total credit for selected development banks in 2012.]

- **KIW**: 11.7
- **CDB**: 14.5
- **BNDES**: 21.4
- **KDB**: 6.7
- **JFC**: 4.4

Source: Annual reports, BNDES

Assets/GDP – 2013
Institutions affiliated to IDFC

- **2013 total assets: US$ 2.8 trillion**

Source: Annual reports, BNDES. *These institutions have other functions besides financing development.*
They contribute to systemic stability through counter-cyclical role...

Annual growth (%) of credit portfolio of selected development banks

Source: Annual reports.
Brazil infrastructure investments and BNDES disbursements to infrastructure

Brazil, selected industries: expansion of capacity 2007-2013 & BNDES “financing” share

<table>
<thead>
<tr>
<th>Activity</th>
<th>Unit</th>
<th>Installed capacity 2007 (A)</th>
<th>Country projects 2007-2013 (B)</th>
<th>Growth 2007/2013 (B/A)</th>
<th>BNDES supported projects</th>
<th>% BNDES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Hydro</td>
<td>MW</td>
<td>74,937</td>
<td>12,253</td>
<td>16%</td>
<td>11.893</td>
<td>97%</td>
</tr>
<tr>
<td>Medium Hydro</td>
<td>MW</td>
<td>1,820</td>
<td>3,260</td>
<td>179%</td>
<td>1.994</td>
<td>61%</td>
</tr>
<tr>
<td>Wind</td>
<td>MW</td>
<td>247</td>
<td>1,997</td>
<td>809%</td>
<td>1.093</td>
<td>55%</td>
</tr>
<tr>
<td>Ethanol</td>
<td>million tons</td>
<td>385</td>
<td>235</td>
<td>61%</td>
<td>75</td>
<td>32%</td>
</tr>
<tr>
<td>Pulp</td>
<td>1,000 ton/year</td>
<td>7,530</td>
<td>6,205</td>
<td>82%</td>
<td>5.515</td>
<td>89%</td>
</tr>
</tbody>
</table>

Sources: ANEEL, EPE, BRACELPA, BNDES. Energy: capacity 2007: interlinked systems as defined by the planning agency EPE

2007-2013: US$ 509.2 billion finance for energy projects by all Development Banks (2007: 38.7; 2009: 69.7; 2011: 93.6)

2013: US$ 84.9 billion
Nat Dev Banks: 73.4%
Multilaterals: 26.6%
Source: Bloomberg Renewables 29/09/14
...finance inclusion...

**Cartão BNDES:**
An example of an effective tool for financial inclusion

Out of 5.445 Brazilian townships, in 97.8% there was at least one active Cartão BNDES

Growth in employment by SMEs actively using Cartão BNDES was 10% superior to those similar but with no active Cartão
... support development oriented but very uncertain mode of investments: innovation...

BNDES disbursements to innovation projects (current US$ billion)

US Small Business Innovation Research: early stage and seed funding awards

state as venture capitalist?

Block and Keller 2012
... and, emerging development challenges are, naturally, a mobilization driver

Sources of finance for climate change adaptation or mitigation projects in 2012

- Development Finance Institutions: $123.0 bn
- Project developers (including public utilities): $102.0 bn
- Corporate actors: $66.0 bn
- Households: $33.0 bn
- Commercial Financial Institutions: $21.0 bn
- Government (budgets): $12.0 bn
- Private Equity, Venture Capital and Infrastructure funds: $1.0 bn
- Institutional Investors: $0.4 bn

Caetano Penna & Mariana Mazzucato, presentation at Minds Seminar, Rio 28/07/14 based on data from Climate Policy Initiative (2013)

Financing innovation, SME and green economy

KfW in 2013

- General SME Finance and Start-ups: 10.3bn; 46%
- Innovation: 11.3bn; 50%
- Environmental and Climate Protection: 1.0bn; 4%

Vivian Lo at Mission Oriented Finance for Innovation Seminar, London, 23/07/14

BNDES disbursements to green projects (current US$ bl)

- 2007: 3.4
- 2008: 5.8
- 2009: 8.9
- 2010: 8.0
- 2011: 8.3
- 2012: 9.3
- 2013: 10.9

Source: BNDES. Green economy projects included climate change, disaster risk management, renewable energies and energy efficiency, amongst others.
Growth stalemate and Development

National Development Financial Institutions:

Financing for Development through National Development Financial Institutions
Development in a sustainable mode is the way out of current growth stalemate.

Development demands investments leading to the expansion of tangible and intangible capacities and capabilities.

Development is closely associated with investment – and its financing.

National Development Banks: the adequate DNA to be a most relevant agent in the financing for sustainable development.
3rd Conference on Development Financing: unique opportunity to support national based financing through National Development Financial Institutions. Three dimensions to be considered:

**Means**
- Stable funding
- Strong competences do deal with development challenges

**Ends**
- Contribute to systemic stability
- Financial inclusion
- Expansion of infrastructure
- Strengthening of innovative capabilities
- Climate change mitigation
- Development of local financial markets

**Regulation**
- Recognition of DFI idiosyncracies when defining regulatory frameworks
Financing for Development and National Development Financial Institutions

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