Central Banks, Financial Systems and Economic Development:
The experience of Development Banks

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The experience of Development Banks

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Not an exception but very common institution: in countries under different regimes, at different stages of development.

BDC (2009): 235 DIs in 92 countries.

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


Different types of Development Institutions: Development Banks, Specialized Agencies (Credit, Guarantee or Equity), Development Financing Institutions (usually multilateral)
OECD: institutions providing long term loans that are beyond the capacity or the willingness of others to do so.

After 2007/8, “rediscovery” of DBs: Confidence builder, long term financing, risk mitigating institution.

But not at all without controversy! For:
- Crowding out private industry
- Having discretionary power (“pick winners”)
- Being an ambiance conducive to cronyism
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)
BNDES at a glance

✓ Main provider of long-term financing in Brazil
✓ 100% state-owned company under private law
✓ Stable funding
✓ 2,500 employees
✓ Instruments
  ➢ Direct operations
  ➢ Indirect operations
  ➢ MSME (financing & guarantee)
  ➢ Exim
  ➢ Project finance
  ➢ Equity investments
  ➢ Grants

Gross Fixed Capital Formation (GFCF) & BNDES disbursements
(US$ Billion)

BNDES disbursement for GFCF (*)

(*) exc. BNDES Exim; working capital, M&A and Equity Financing.

BNDES contribution to investment and employment

Source: BNDES
Funding Composition

Recent demand expansion and crisis firmly supported by National Treasury

Institutional Funding
(by Constitution, 40% of Worker Assistance Fund)

Sound financial performance
2011
- ROE: 23.1%
- Assets: US$ 340 billion
- Equity: US$ 32.8 billion

Prudential behavior
2011
- Basel Indice: 20.6%
- NPL/total loans: 0.14%

Source: BNDES
BNDES annual disbursements

Growth rates receding to allow for “crowding-in” of private industry

Capillarity ensured by accrediting & providing funds to commercial banks. Risk of operations is theirs
Financing by type of clients

Share of MSMEs in total disbursement

85.5% of townships with active operations with BNDES credit card for SMEs

N° of MSMEs supported in 2011

Cartão BNDES:
- 510,000 active cards
- 2011: R$ 7.6 bi
- 2012: R$ 11. bi (expected)

Source: BNDES
Disbursements by business sector (%)

- **Infrastructure financing is expected to grow at 20% annually up to 2015**

- **Industrial Policy Priority Sectors: 55% of total**

**BNDES support for export of high value added products (capital goods) and engineering services**

**Export Financing (US$ billion)**

- Source: BNDES
BNDES as an Investment Bank

**BNDES Equity Portfolio (USD million)**

- **BNDES Portfolio in PE/VC Funds**
  - USD million (April/2012) – USD/R$ = 1,90

<table>
<thead>
<tr>
<th>Fund Focus</th>
<th># Funds</th>
<th># Corps.</th>
<th>All Commit. Equity</th>
<th>BNDES Commit. Equity</th>
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</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>9</td>
<td>100</td>
<td>247</td>
<td>95</td>
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<tr>
<td>Infrastruct</td>
<td>7</td>
<td>45</td>
<td>2.176</td>
<td>448</td>
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<td>Governance</td>
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<td>20</td>
<td>482</td>
<td>84</td>
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<td>Environment</td>
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<td>5</td>
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<tr>
<td>Regional</td>
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<td>10</td>
<td>79</td>
<td>14</td>
</tr>
<tr>
<td>Agribusiness</td>
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<td>8</td>
<td>598</td>
<td>119</td>
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<tr>
<td>Education</td>
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<tr>
<td>Food</td>
<td>1</td>
<td>4</td>
<td>49</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>29</td>
<td>199</td>
<td>4.562</td>
<td>1.013</td>
</tr>
</tbody>
</table>

- Brazil’s **largest investor** in PE & VC
- BNDES brand **attracts new investors**
- **Long experience:** 35 years involved with capital markets

Source: BNDES.
Finance expansion of capacity, fill gaps, fix failures, induce externalities...

Foster an innovative, sustainable long term financing industry

Contribute to systemic stability (anti-cyclical role)

Appropriate and distribute (to society, via the State) returns of (financial) investment decisions
Essential assets and capabilities

► **Political priority:** The role/mandate of a DB must be enforced at the highest political level

► **Stable funding:** the basic asset to finance long term

► **Scale and scope:** A DB must have the means – resources and instruments– for accomplishing mandates.

► **Capacity to change:** Flexible adaptation to different stages and momentum of a country development.

► **Competences and values:** a servant of public interest; effectiveness and efficiency; team player: an instrument to build the future.

Of course, these assets are not “ready made”...
Each Development Bank is a singular institution. No role model exists.

As market based finance has proved to not induce sustainable development, a stronger configuration for a national finance industry is where private and public institutions co-live (But... attention!!! Time and place do matter in defining the mode of relation. Again, no role model exists...)

A Development Bank should not be the vanguard nor the rearguard but the co-guard of development
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