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Solidarity and the South: Supporting the new landscape of long-term development finance

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Abstract

This paper is structured in five sections. Part 1 introduces the many recent innovations in Southern-led development finance and their potential benefits, tempered with a reminder of lessons learned about the support these new institutions will need in the future. Part 2 charts the new landscape of development finance, identifying Southern-led and global mechanisms and resources that now potentially offer trillions of dollars' worth of support through foreign reserves, national development banks and sovereign wealth funds, southern regional banks and funds, plus the global multilateral World Bank and regional banks. It shows that the centre of gravity of development finance has moved firmly southwards. Part 3 assesses the extent to which the changes in bank ownership, mandates and governance means Southern-led banks are 'doing things differently', with respect to conditionality, scale and speed of loans. Amid these potentially positive developments, Part 4 warns that some things are not that different after all – including long-standing regional imbalances, the continued power of Credit Rating Agencies, and concerns about concessional lending. Part 5 concludes by suggesting how the development community can better support the new and expanded southern banks and funds, to build on their strengths and address their limitations.

Key words: south-south, development banks, sovereign wealth funds, AIIB, SDGs, regional integration

Contents

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1. Introduction

The many innovations in Southern-led development finance appear as one of the most significant trends of the new century. Trillions of dollars' worth of southern-owned currency reserves, Sovereign Wealth Funds, Development Banks credit swaps and bond issuances have transformed the development finance landscape. Existing banks and investment funds boosted their scale, scope, and mandates and entirely new ones came from nothing to become operational within a surprisingly short time. Moreover, Southern solidarity seems more than just a mantra; it is a mandate with real meaning for its members and practical implications that could promise qualitative differences in terms of governance and lending decisions, compared to those offered elsewhere. This paper sketches briefly the most significant ways in which the landscape has changed, before addressing the important question of how to ensure these new or enhanced institutions can meet the immense investment expectations.

If they live up to their promise, they could massively increase the capital available for the long-term investment needs expressed in the Sustainable Development Goals (see Table A.1). They could bring qualitative differences too – if they prove to be more willing to invest in productive activities, more 'green' and responsive to local needs, more streamlined in administrative requirements and less conditional. For such advantages, developing countries appear willing to pay the higher cost of capital compared to loans from the World Bank or other northern-led sources.

However, there are no inherent guarantees they can or will do this. Firstly, these new Southern-led sources of finance may look so large compared to traditional lenders in part because the latter were always under-financed compared to the magnitude of the task. It is possible that even the best-capitalised of the new Southern institutions will find themselves constrained by the same challenges besetting traditional Northern-based ones. Moreover, the euphoria generated by the new opportunities should not erase lessons learned about why some development banks stumbled in the past. Finally, the new landscape is still far from complete – despite the addition of new players and the expansion of existing ones, it is somewhat ad hoc and many gaps remain, especially in the poorest countries and regions. In short, support from national and international policymakers remains essential if the new south-south sources of finance are to grasp the opportunities created by a scaling up of investment finance, and to fulfil their development potential.

2. Charting a new Southern-led landscape

The many southern initiatives to boost long-term finance for development have changed the map of development finance significantly. It is true the map remains somewhat incomplete and ad hoc – reflecting the fact the initiatives emerged in a piecemeal basis and are not a coordinated southern effort to break with the old order. Nonetheless, the new institutions are doing things in a different way. Also, each new institution is slightly different in what it offers and how it operates. Together, they have the potential to help fill important institutional and financing gaps in a system that otherwise failed to reform despite the crisis of 2007-2008 and its fallout (Grabel 2015) and potentially can provide real benefits to a financial architecture that has long been under stress.

In terms of individual initiatives, there are too many to mention by name here. This section classifies them broadly into two categories: national and multinational activities. These categories are chosen because of their implications for governance and decision-making, rather than the scale or ambition of operations. Multilateral institutions have attracted most of the media and political interest; however, national ones are also extremely important, and together, their collaboration through linked-up networks whereby regional systems engage actively with national banks and national financial systems may prove to be one of the most transformative opportunities created by this new landscape. Table 1 summarizes some of the funds currently and potentially available for development. Some figures such as those from new southern banks and funds are still modest in face of the long-term financing needs of developing countries, but, as argued further below, the potential for significant expansion exists, provided southern governments further enhance their support to these institutions in the coming years. On the other hand, it needs also to be remembered that some finances are "borrowed" and cannot necessarily be relied upon – such as the foreign reserves based on short-term capital inflows that owe more to global capital markets than physical trade. These can abruptly reverse as global financial conditions change.

Table 1. A significant change in scale and scope - the new southern-led landscape

	Mechanisms and institutions	*$ value potentially available*
Southern National	Foreign reserves[1]	$6.7 trillion
	National development Banks[2]	$400 billion
	Sovereign Wealth Funds[3]	$6.3 trillion
Southern Multilateral	Development Banks and Investment Funds[4]	$302 billion
Global Multilateral (WBG)	World Bank Group, MIGA[5]	$300 billion
	AfDB, ADB, IADB[5]	$197 billion

Source: Development Banks' annual reports, World Bank Development Indicators and SWF Rankings, the latter accessed on 12 Feb 2018 on https://www.swfinstitute.org/sovereign-wealth-fund-rankings/.

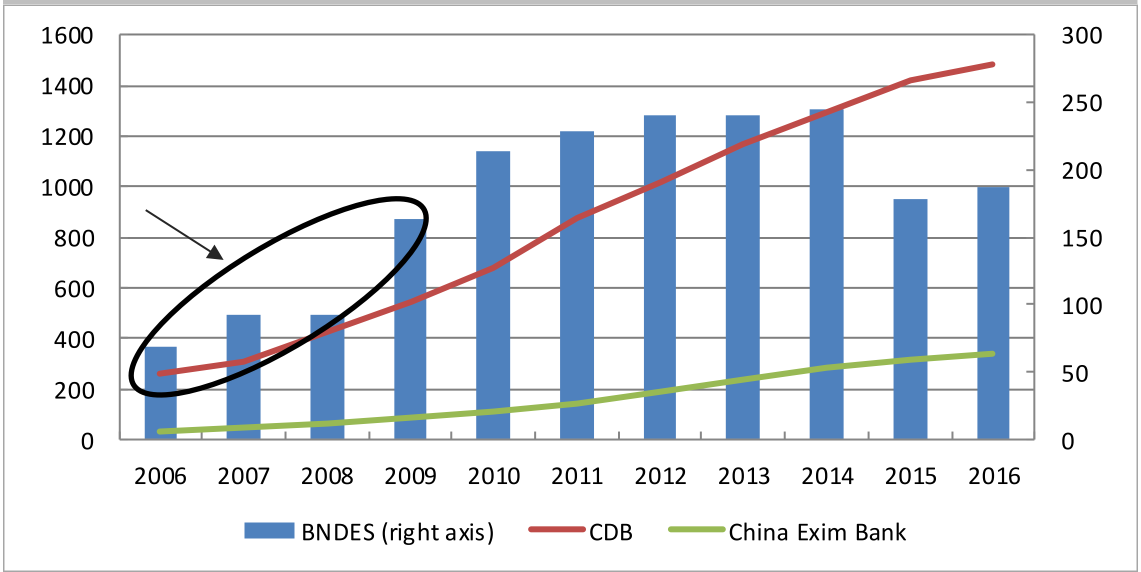
Note: [1]Foreign reserves (minus gold) of 111 developing countries in 2016. [2]Corresponds to total foreign loan portfolios of CDB, China Exim and BNDES in 2016. [3] Total includes all SWFs listed on SWF Rankings minus those funds from Australia, Canada, Ireland, New Zealand and United States. [4]Potential lending capacity of AIIB, NDB and CAF, based on banks' total equities and a loan-equity gearing ratio of 5, plus China's backed investment funds, as reported in Gottschalk and Poon (2018). [5] Banks' total loan stocks in 2016.

2.1 National initiatives are looking outwards

One of the major themes of the last decade has been the way that national public lenders and investors have enhanced their role to go beyond their territorial boundaries and become providers of development finance at the regional and even global south level. For example, there are now more than 250 *national development banks* in the developing world alone (UNCTAD 2015) and some of these are now immense, dwarfing long-standing multilateral institutions such as the World Bank and becoming major lenders for their regions and beyond.

Brazil and China have been among the most pro-active developing countries to use their national banks to support southern investments, and their banks are now significant international players, providing external financing as part of their standard operations. (Admitedly, this may be motivated more for the purpose of supporting national companies than to support south-south solidarity per se, but the trend remains). The China Development Bank (CBD), Export and Import Bank of China (China EXIM) and Brazil's BNDES have increased their assets and loan portfolios very rapidly in the 10 years between 2006 and 2016 (Figure 1).

Figure 1. **National development banks: Stock of loans over the years 2006-2016** ***(in U$ billion)***

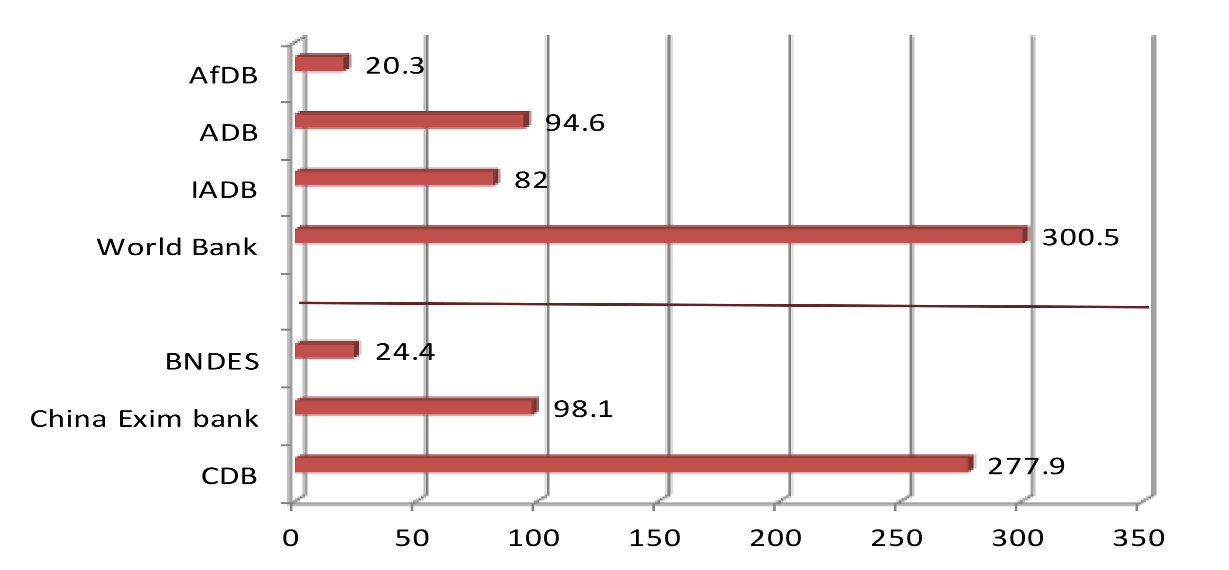


Source: Authors' calculations, based on data from Banks' annual reports and IMF database.

The stock of international loans held by China's banks (some $375 billion) is already larger than the global total of loans by the World Bank ($300 billion), and the total portfolio of China's banks would obviously be larger still if one included their domestic loans. The BNDES's stock of loans at $187 billion, of which 13% is in foreign currency, is not too far behind, if compared to those of the larger regional development banks (Figure 2). What is particularly impressive is that the larger multilateral development banks have been around for over 50 years or more, as compared to these national banks that only started to become actively engaged in outward operations from the early 2000's onwards. The impacts from the perspective of recipient countries are potentially very considerable. As described by Bertelsmann-Scott and Prinsloo (2018), Chinese financing of investment in African infrastructure alone accounted for almost $21billion in 2015 and dwarfed the total investments to the region made by at least nine other countries combined (France, United Kingdom, Japan, Germany, India, Brazil, United States, Canada and South Korea). Together, these nine countries invested just over one third of that total amount.

Another major national provider of investment finance emerging in many developing countries is that of *Sovereign Wealth Funds*. SWFs are a public investor, often seed-funded from government revenues earned by exports of commodities such as oil and gas, and they are now so plentiful and well-financed they could potentially (if not currently in practice) change the game for long-term developmental investment (see TDR 2015 and Barrowclough 2015).

Figure 2. International loans by Southern-led national banks already dwarf the total loans of multilateral development banks
(Year 2016, $US billion)

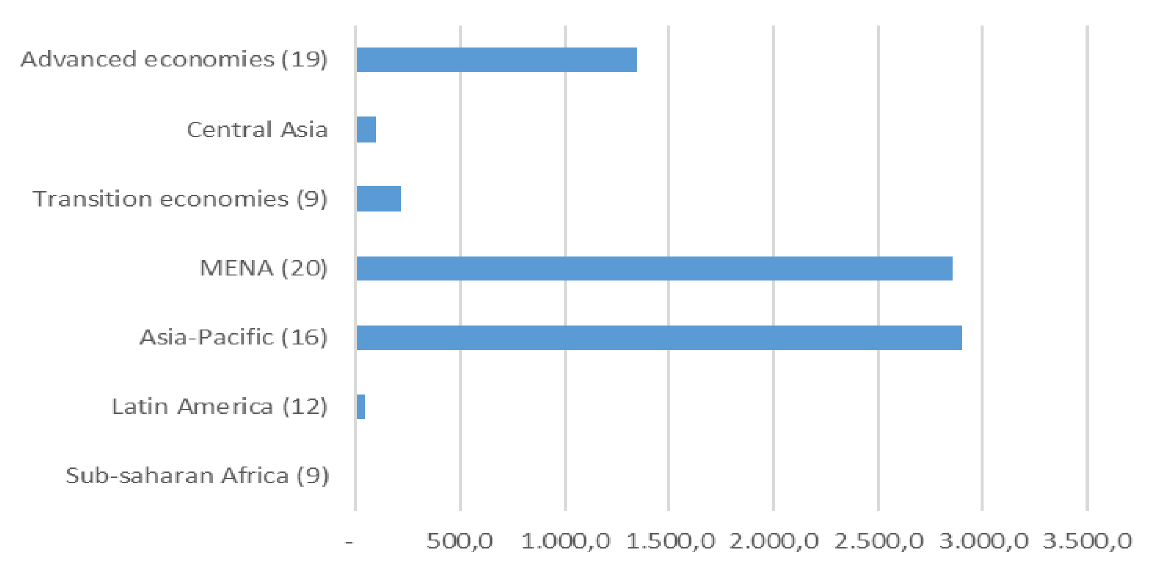


Source: Authors' elaboration, based on banks' annual and financial reports.
Note: WB: Sum of net outstanding loans of the IBRD and of the IDA, 2016 financial year; IADB: Outstanding loans of ordinary capital, fund for special operations and other funds; ADB: Outstanding loans of ordinary capital resources and ADF, as of 1 January 2017; AfDB: Net loans of AfDB only; China Exim bank: International cooperation loans only; CDB: International loans only; BNDES: values are merely indicative, based on loans in foreign currency.

Several features of SWFs stand out particularly in this context of southern-led development finance. It is not just their size – although the fact the total global value of assets held in SWFs is estimated at around $7 trillion is definitely part of it. This is an order of magnitude far greater than what is available through the world's largest multilateral institutions, whose lending firepower is still measured in billions of dollars. Another reason they are attracting attention is that of that $7 trillion, developing countries own or control as much as $6 trillion.

This reflects a flurry of activity in the years since the early 2000's, related to the emergence of extremely large current account surpluses in many commodity-based developing countries and some East Asian non-commodity exporters. Between the years 2000 and 2015, as many as 52 new SWFs opened worldwide, compared to just 15 funds for the twenty years before that, and of those new funds, more than 40 are owned by the south (Barrowclough 2015, 2018). Developing countries also account for the world's largest ones – of the 42-plus SWFs with more than $10 billion assets, 32 belong to developing and transition economies. Also, size is not the only thing that matters – funds do not need to be massive to be useful, and much smaller funds can play an important role in areas where other sources of finance are less forthcoming. The latest estimate of assets held by nine SWFs in Sub-Saharan Africa at $7.78 billion is too small to show up in Figure 3 relative to the other regions, but it can make a significant difference in the country if well invested (ibid).

Figure 3. SWF assets under management by region
($ billion, reported as of April 2018)



Source: Authors, derived from SWF Institute database. Figures in parentheses indicate number of funds per region. Assets values are estimates made by the SWF Institute, based for the most part on official sources.

However, this dramatic change in the landscape of southern-led financial institutions does not automatically translate into an effective change in the availability of finance for development. This depends on the mandate and the political will. Some Funds, such as stabilization funds, have a macroeconomic stabilization mandate and hence can support counter-cyclical lending and investment but should not be counted on for the long term. Also, many developing countries' SWFs are actually pension and life funds, and insurance companies, whose long-term mandate is to provide a cash-stream to cover pension liabilities or as a savings vehicle. They could be directed to more long-term developmental (infrastructure) activities, but for this to happen, however, certain obstacles would have to be overcome. Many funds have clear rules that forbid them to invest abroad (or in infrastructure projects – see, for Africa, AfDB (2018:77), and Barrowclough 2018). Finally, not all yet have the appropriate transparency, accounting and accountability mechanisms in place. Lack of transparency is a continued concern and criticism that hinders their use.

2.2 Southern-led multinational or multilateral initiatives

The burst of national, South-South activity described above has been overshadowed by the second major theme that captures most media and development interest, namely that of multi-national or multilateral, activities. The lack of reform in the global financial system prompted some developing countries to take much bolder steps by creating south-south development banks that can by joining forces across a number of countries, greatly increase their footprint. These initiatives reflect in particular the disillusionment with the government structures, patterns of lending and especially the conditionalities associated with lending by the Bretton Woods institutions and some of the leading regional banks.[1] The Bank of the South (based in South

[1] The history of conditionality embedded in IMF-World Bank loan programs is long, in the case of the WB starting back in the late 1970s as part of its structural adjustment programs. By the mid-2000s, conditions attached to loans were both broad and deep covering areas such as public financial management reform, budget process, social reforms and private sector conditions. Many related to

America), the BRICS New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB) are new southern institutions that are fully controlled and in some cases fully owned by the developing countries themselves. AIIB has already raised some $100 billion capital stock; the NDB has $50 billion in subscribed capital, and the Bank of the South has an initial promised capital of $20billion.

Existing Southern regional banks and funders have also scaled up their resources and in some cases re-engineered themselves to serve better the pressing needs of their regions. The 17 members of Latin America's CAF opened up the membership to take on new members from the hard-hit Caribbean states and in 2015 agreed a capital increase of $4.5 billion. Their counter-cyclical role increased from 2015 under the rubric of 'contingent operations' and further capital was accessed through different markets around the world. Similarly, the Development Bank of Southern Africa, (DBSA) initially established in 1983 as a South African government financed development bank with the mandate to provide finance for infrastructure development, expanded in 2013 its mandate to enter the entire African continent. Within two years it was devoting just under a quarter of its $929 million portfolio to infrastructure investment in countries outside South Africa, including Kenya, DRC, Mauritius and Zambia among others (Bertelsmann-Scott and Prinsloo, 2018). In other parts of the developing world such sums may not seem large but in Africa, investment is comparatively so low that this contribution is extremely significant for its recipients. The total volume of infrastructure investment financed by DBSA is now roughly three times larger than that of the regional development bank for West Africa and dwarfs other regional banks.

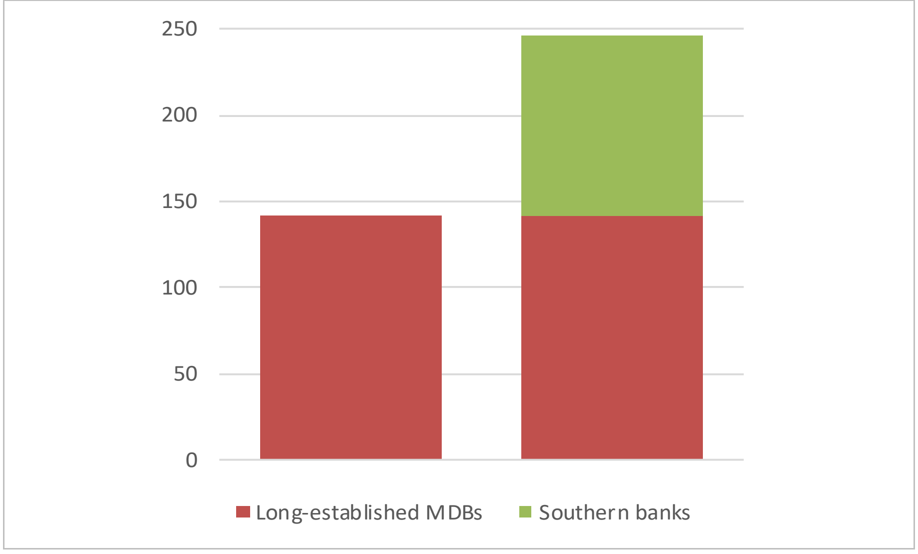
2.3 Creating a new centre of gravity

Taken together, these national, sub-regional and supra-national initiatives, whether new or enhanced versions of what already existed, mean that the landscape of the global financial architecture now looks very different compared to just a decade ago. This could have some negative consequences as well as positive ones, given it is in part a response to deficiencies in the global financial architecture and more time is needed to see what this implies for development in practice. Nonetheless, the trend is clear – the centre of gravity is gradually moving southwards.

As described above, the scale of finance potentially available to developing countries, controlled and governed by developing countries, has at least doubled. Figure 4 below also shows that annual disbursements are significantly higher, when southern banks (including national ones) are added to the picture. Moreover, this finance is held by institutions whose reach is focused more at the regional level than the global; and whose footprint of ownership is centered more around the South rather than the North. As shown in figure 5, there is a movement to the lower right-hand quadrant. Some of the new Southern-led institutions have many northern members as well – such as the AIIB, which is therefore sited somewhat 'north-east' of institutions that have only a few northern members, such as the Latin American bank CAF (with Spain and Portugal as members). Other important new features of this landscape include leaner and fairer governance structures, less conditionality and higher speed in loan approvals and disbursements (see Figure 6). Other differences (and some similarities) are discussed below. It is worth noting that the developmental implications of this is not necessarily all positive – there may also be some negative implications, reflecting the fact the trend is driven in response to the deficiencies in the existing multilateral arrangements as well as its more pro-active rationales.

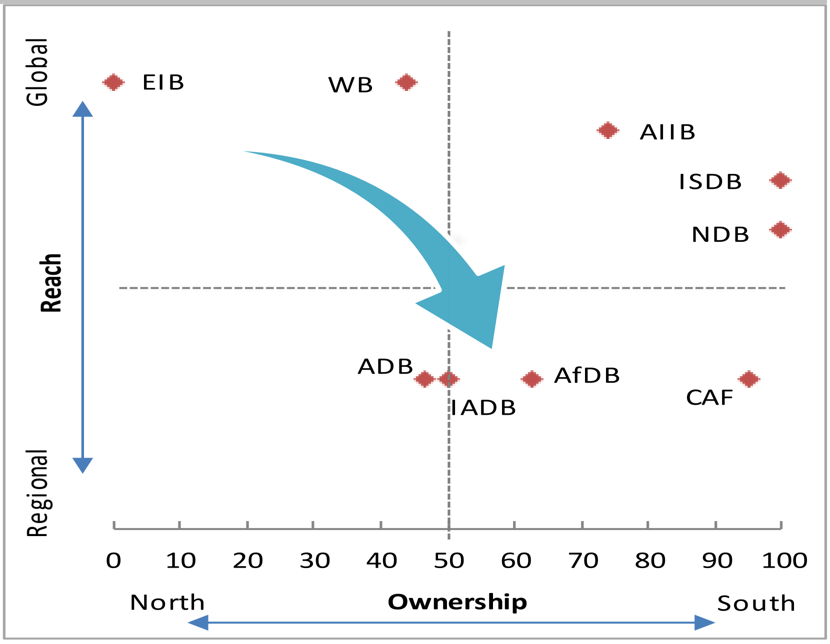
privatization (World Bank, 2007). Since then, conditionalities have been streamlined in some cases but many remain and are a significant deterrent for many countries and enterprises seeking loans. This topic is addressed briefly below, and in more detail in a separate paper by the authors.

Figure 4. Loan disbursements by development banks, 2016



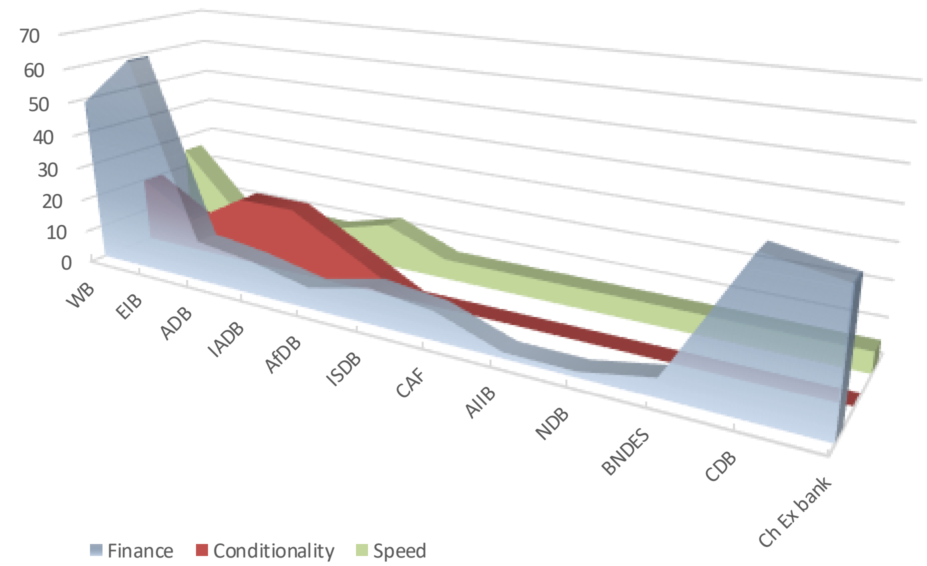
Source: Authors' estimation based on banks' annual reports. Long-established banks include ADB, AfDB, EIB, IADB and WB. Sothern banks include AIIB, BNDES, CAF, CDB, Ch Ex Bank, IsDB and NDB. These are banks' gross disbursements in 2016, except for ISDB, AIIB and NDB, which are based on loan/finance approvals. For BNDES, CDB and Exim Bank China, these are authors' own estimates of foreign disbursements.

Figure 5. Turning South – the new centre of gravity of development finance



Source: Authors' estimation, based on banks' annual reports; expanding on Abdelwahab W (2017). Ownership calculated according to member country voting rights; reach calculated according to geographical locations of loans.

Figure 6. Changing landscape: Less conditionality, more finance and higher speed[1]



Source: Authors' estimate based on banks' annual reports, World Bank Corporate Scorecard 2017 and Humphrey (2015:14).

3. Doing things differently?

With the flurry of new and evolving institutions led by the South, there is the expectation of a mixture of special, Southern-flavoured benefits, both financial and non-financial. Alongside fascination for the massive increase in funds now potentially available, it is also assumed Southern-led institutions will do things differently compared to the traditional lenders of the past, even the developmental ones. It is not just the issue of providing long-term finance, because northern-led development banks have also played this role, being the primary providers of long-term finance for development, with a funding base comprised of long-term liabilities that match aptly with long-term investment needs. Similarly, it is not just about providing counter-cyclical finance; because Northern-led development banks and SWFs have also done this in the past, stepping in to provide medium-term finance that helps countries sustain economic activity and jobs and protect vulnerable productive capacities.[2] Moreover, it is not just about providing technical expertise in the design and operation of major long-term infrastructure and other projects, because northern-led banks have also done this. They accumulated precious knowledge of local needs and capacities, and management experience and other skills (Studart, 2018; also, Chandrasekhar, 2014).[3] Compared to this history, it seems that what is new about the enhanced and new southern institutions is a) their capacity (actual and potential) to scale up financing very rapidly and b) their perceived ability to experiment with new forms of funding, lending and doing business.

Beyond their core characteristics, shared with other development institutions – southern development banks have demonstrated in recent years a growing ability to play the role of catalyst, partnering with other financial institutions that would otherwise not support such long-

[2] Some of the new SWFs established in Europe following the economic crisis of 2007-2008 had such a counter-cyclical catalytic role as their explicit mandate (see TDR 2015) .

[3] SWFs also similarly often have such a long-term investment view, although they are not usually expected to be project managers with technical expertise like development bankers.

term projects. And southern-led SWFs are also starting to be thought of in ways that did not occur so much before. There is still a long way to go before many Funds invest in other developing countries over more traditional markets (some of the biggest Southern-led deals in recent years have been focused on the finance sector in the North), but the potential for market returns in the south should help to change this. Over the last two decades, a number of such funds have been established with the purpose of domestic greenfield infrastructure investment in developing countries, including not only the major Gulf Funds but also funds from Kazakhstan, Malaysia, Angola and others (Gelb et al., 2014; Barrowclough 2018).

The Southern-led institutions are also expected to, and are already, doing things differently on various other fronts: in how they manage governance issues, how they liaise with the private sector, what types of partnerships they form, how they fund themselves and what types of loans they provide. This section teases out some reasons why this is the case, and its potential impact.

3.1 Mandate, ownership and governance

Southern-led institutions are usually expected to have a better 'fit' between their mandate, ownership and governance structures – if only for the reason that this was one of the reasons prompting their birth in the first place. The slow pace of governance reforms towards more equal power sharing, long and complex processes of loan approval and strict (and often damaging) conditionality by the Bretton Woods institutions and leading regional development banks encouraged developing countries to seek alternatives by creating large new development banks and funds. Their creation has been timely, given, on the one hand, the financing needs for regional integration and other development goals; and on the other, the amounts of foreign savings that China and other emerging economies currently hold. These savings (including those in SWFs) are in most cases invested in low yield assets in developed countries. However, they could be better employed to finance the unmet developmental needs of the developing world, which could give much higher economic and social returns.

NDB was established at the Sixth Summit (Fortaleza, Brazil, July 2014), with the specific mandate of "mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging and developing economies" (BRICS, 2014, paragraph 11). Following the agreements reached at the summit, each member country – Brazil, the Russian Federation, India, China and South Africa – has contributed an equal equity share despite their different economic sizes and per capita incomes, to ensure that the bank does not reproduce the ownership pattern of the IMF and the World Bank, with concentrated shareholding by a few Western countries. Two emerging features of the bank have been the speed of loan approval – six months from the date of project identification, and willingness to engage in partnerships in order to tap into the expertise of other development banks and strengthen its own technical capacity.

AIIB was established in October 2014 in Beijing, with operations formally launched in January 2016. There are currently 84 approved members, the majority of which are from within the Asian region (AIIB, 2018). A significant share of the authorized capital stock of $100 billion is the contribution of China, giving the country veto power on decisions such as structure, membership and capital increases, which require at least 75 per cent of the votes. AIIB faced considerable scrutiny at the time of its announcement, with questions arising about issues of governance, standards and transparency. Moreover, concerns were raised that the bank was being created as part of an effort to displace existing multilateral banks. However, similar to NDB, AIIB has demonstrated since it started its operations not willingness to compete but, rather, to cooperate with other multilateral development banks through co-financing and other means.

In Latin America, the Bank of the South (Banco del Sur) is a sub-regional entity whose founding member countries are all from South America: Argentina, the Plurinational State of Bolivia, Brazil, Ecuador, Paraguay, Uruguay and the Bolivarian Republic of Venezuela. Established in 2009 with a promised initial capital of $20 billion, it aims to promote economic development and regional integration in the South American sub-region, by supporting infrastructure projects, knowledge generation, and the advance of technical capacities to support alternative forms of productive development, the latter with emphasis on the social economy and cooperativism (Buonomo, 2016).

Hence, when these banks or funds are described as being "Southern-led", this is not just words, but a reminder that they are a response to a very different world compared to that which existed during the post WWII environment of Bretton Woods. At a recent UNCTAD meeting, one Southern-led development Bank which now has more than 50 member countries and total financial approvals in 2016 of $12.2 billion, said "while solidarity is not in our name it is in our DNA" and emphasized that the principle of solidarity governs the bank's relationships with and among shareholders. Reflecting this sentiment, other southern banks agreed on the importance of making no distinction between members in terms of whether they were net donors or net recipients – all members could potentially be either. Linked to this is a related issue of whether to treat members differently, according to their different needs and capacities, or whether all should be treated the same. Should borrowers with limited payment capacity be offered concessional loans, and to what extent should cross-subsidization should be the mechanism to finance it, in the absence of a development fund? Answers to these critical questions will be different according to the preferences and goals of individual institutions and countries – underscoring the benefits of having a larger choice of banks and other sources of finance. Similarly, the issue of whether all borrowers should be offered the same terms for loans, irrespective of differences for example in their perceived risk. Most (but not all) representatives of Southern-led institutions argued that differential pricing was wrong as it did not support the principle of solidarity and cooperativeness. It would also not help countries put in place better policies. Others argued that it was furthermore wrong to do this when countries were already under stress.

Certainly, almost all countries are stronger together than apart. As shown in Table 2, the credit ratings of regional institutions are typically higher than that most if not all its members, even the rich ones. Countries therefore benefit significantly from membership, permitting them to borrow at lower costs than if they borrowed directly from international markets. This implies that risks among individual countries are pooled with the Bank itself playing an equalizing role, despite the disparate ratings among countries. Solidarity therefore brings tangible benefits to all, distributed according to need.

Table 2. Stronger together – Credit Ratings of selected institutions and their members

S&P Ratings	*ISDB Bank and members*	*CAF Bank and members*
AAA	IsDB	
AA	Kuwait; UAE	
AA-	Qatar	CAF
A+		Chile
A-	Malaysia; Saudi Arabia	
BBB+		Spain
BBB-	Indonesia; Kazakhstan; Morocco	Portugal, Colombia
BB+	Azerbaijan	
BB	Turkey	Brazil
BB-	Bangladesh; Oman	
B+	Bahrain; Jordan	Argentina
B	Burkina Faso; Cameroon; Pakistan; Nigeria; Suriname; Uganda	
B-	Egypt; Iraq; Lebanon; Tajikistan	

Source: IsDB Annual Report 2016 and Trading Economics, accessed on 27/02/2018. Available at: https://tradingeconomics.com/country-list/rating; S&P ratings, at https://www.spratings.com/documents/20184/1022795/Sovereign+Ratings+Infographic+Final+2017/4416e8fa-9a92-4252-9aff-adef050f9fcd

Given that, there is a balance to be considered between scaling up and solidarity. Development Banks are usually state-owned, they raise funds in capital markets as well as sometimes get capital infusion from national budgets; their purpose is to provide loans for projects designed to contribute to overall economic development. National and international development banks have different funding structures, and each brings them both advantages and disadvantages.

National development banks often have a more diverse funding base, which includes, in addition to national capital markets (and in the case of larger banks, international capital markets as well), budgetary resources. In times of crises or when budgetary resources are constrained, they may be able to count on the role of central banks, which can step in by extending credit lines that these banks can intermediate. As a banking regulatory body, central banks can also increase these banks' ability to lend by designing banking capital and other rules that are tailored to the specific characteristics of these banks, such as their longer-term liabilities vis-a-vis commercial banks (Griffith-Jones and Gottschalk, 2016). On the downside, resources available on the national capital markets may be limited and tapping into the international capital markets may be very costly, especially if their national governments do not have high sovereign rating, which tends to be the case among most developing countries.

In contrast, sub-regional development banks have a business model in which their main funding sources are the international capital markets. On the one hand, this can be seen as a positive feature, provided these banks have creditworthy shareholders and are awarded high credit ratings, which gives them the ability to raise resources in these markets at lower costs. Indeed, sub-regional banks that include non-borrowing developed (or emerging) countries tend to have a greater capacity to lend more and at more favorable terms to member countries. This may come at the cost of compromising solidarity. On the other hand, sub-regional development banks that have only the borrowing countries themselves as shareholders tend to have a limited lending capacity. This is particularly the case among the African sub-regional banks. In order to enhance their lending capacity, one method may be to attract part of the large foreign reserves and sovereign wealth funds of emerging and other economies, to be invested in such banks, thereby enhancing their capital structure so that they can fully meet their mandates. Some sub-regional development banks in Africa already have emerging countries such as China as shareholders, which means that the institutional set up is already in place to expand their capital base.

The new cross-south development banks, in turn, had great potential to scale up from their inception, thanks to having some strong shareholders. The BRICS NDB has the large emerging economies of Brazil, China, India and Russian Federation (in addition to South Africa) as main owners of the bank, and the bank has the choice of tapping into the domestic capital markets of these economies to raise funds for loans, in addition to international capital markets. Indeed, in July 2016, NDB issued three billion yuan-denominated green bonds, equivalent to $448 million, on the China Interbank bond markets, as part of the bank's initial strategy to explore local currency bond issuances not only in China but also in the capital markets of the other BRICS countries (NDB, 2017 and Wu, 2016). Tapping into national capital markets is a novelty that differentiates the new banks from the old multilateral banks, giving them more choices in terms of funding sources as well as flexibility, for instance by making it less risky to provide loans in local currencies. Going forward, NDB could expand its membership in order to increase its capital base and therefore be able to scale up lending considerably.

Like NDB, AIIB's main funding mechanism is through bond issuance, in both regional and global markets. AIIB, in in particular, has not only large emerging economies as shareholders but also many leading developed countries, while China maintains a controlling position. The latter, of course, is a very important feature of the AIIB. It permits that the bank experiment with new institutional arrangements – namely, its special funds (Gottschalk and Poon, 2018), which gives the bank the possibility of scaling up its lending capacity beyond what a traditional international bank can achieve.

3.2 Forming partnerships: links with the private sector

Collaboration is already a theme word for many multilateral development banks but the hopes are high that the southern-led banks will enhance this. Internal evaluation documents by the older multilateral banks such as the ADB, for example, raised concern about the lack of co-financing arrangements and urged the bank to do more to mobilise funds from other sources (ADB 2011). As early as ten years ago, the ADB signed a formal MOU with the IsDB to promote co-financing between the two institutions. By last year the IsDB was their third-largest partner, and pipeline facility was prepared for $6 billion co-financing that included transport, energy, health, and PPPs (with $2.5 billion from ADB and $3.5 billion from IsDB).[4] The IsDB target for co-financing is already at 100% and the ADB announced a co-financing target of 100% by 2020, compared to its currently levels of 80%, which are already up sharply from just 4% in 1976.

Among the new development banks, NDB has sought to engage in partnerships with other financial institutions right from the beginning of its operations, as seen earlier. To this end, the bank has signed cooperation agreements with global and regional multilateral banks as well as with sub-regional institutions. As for the AIIB, in 2016 six of its nine loans were for projects co-financed with ADB, the European Bank for Reconstruction and Development and the World Bank (AIIB, 2017), thus showing strong willingness to form partnerships with other international banks.

Will these new and enhanced Southern-led institutions interact differently with the private sector compared to the more northern-led development or commercial banks? Attracting private sector support for infrastructure and other long-term investment has long been a goal for many governments, despite evidence that the lion's share of long-term investment always comes from the public and not the private sector. Typically governments seek to involve private finance or expertise through the Public Private Partnership model, despite the chequered experience with this in many other countries and persistent claims that the public sector too often carries an unfair share of the costs whilst receiving too few of any benefits (e.g., Eurodad 2017). Will South-South PPPs be any different from the North-North or North-South ones of the past? The major MFIs seem to think so, according to the 2015 World Bank/IMF publication "From billions to trillions", and PPPs are a major plank of the infrastructure masterplans that currently exist for each region of the world, such as the Programme for Infrastructure Development in Africa (PIDA) or China's Belt and Road Initiative.

However, so far, the rise of Southern-led financial institutions has not led to a concomitant increase in PPPs in developing countries, judging by the World Bank Private Participation in Infrastructure database (Barrowclough 2018).

Nor is there any inherent reason to believe south-south PPPs would be any different from north-south ones. Governments still need to give equal consideration to the use of more conventional methods of providing infrastructure, such as public provision or procurement, as opposed to assuming that more complex arrangements will always be better. Evidence shows these are often more costly, and do not provide such broad or universal coverage (see Barrowclough 2018, TDR 2015).

3.3 Loan portfolios: Are southern-led institutions more willing to support productive economic activities and green investments?

Alongside the benefits of scaled-up finance, it is also hoped that southern-led institutions will have more appetite for supporting infrastructure and other activities that the private sector and commercial lenders have been unwilling to support. The traditional lenders such as the World

[4] See (https://www.adb.org/documents/adb-idb-partnership-and-cofinancing-guide).

Bank lent annually only between $50-70 billion to infrastructure over the 2008-2015 period, which is far too low for what is needed, reflecting the disengagement from these areas by the traditional multilateral institutions over the years. Hopes are high that southern-led institutions will be different.[5] It does appear so – among the Chinese banks, CDB is a primary provider of long-term finance for infrastructure projects, such as railways, roads and telecommunications, and for large-scale investments in basic and heavy industries, such as petrochemicals. In 2014, mining, energy, transport, telecommunications and other activities described as infrastructure accounted for 56% of total loans (UNCTAD, 2016: 28). China Exim Bank's mandate is to support China's exports and imports of mechanical and electronic products, equipment and high-tech products, as well as overseas investments of Chinese companies (Poon, 2014; China Exim Bank, 2014).

These banks are also looking outwards. CDB has contributed finance to countries along the Belt and Road route, which in 2016 amounted to $12.6 billion in such areas as energy, telecommunications and industrial capacity. Together with CDB, China's Exim Bank has strongly supported China's strategic partnership with other developing countries. In Africa, it gave finance to "the development of high-speed railway, expressway and regional aviation networks (the 'Three Networks')" through loans (part of these concessional) and other assistance mechanisms (China Exim Bank, 2013:33 and 2014: 9). Although its priority since 2016 is the Belt and Road initiative, it continued to support African countries via loans to promote China-Africa infrastructure and industrial cooperation.[6]

Similarly, the Brazilian BNDES has expanded its international operations, supporting regional economic integration and therefore investment promotion in neighbouring countries, as well as strengthening Brazil's economic links with fast-growing developing regions, particularly Africa. In South America, for instance, the bank has played a very important development-supporting role by lending to small countries such as Ecuador as well as larger ones such as Argentina, to finance economic infrastructure. In Africa, it has extended loans to large national construction companies investing in infrastructure and other projects.

Another distinctive contribution from the Southern national development banks is their willingness to experiment with new types of loans. For more than a decade, China has offered commodity-backed or resource-secured loans, which are a significant source of finance for many emerging and developing countries. These can be huge – estimated to account for as much as $132 billion already in the years between 2003 and 2014 (Brautigam and Gallagher 2014), and included oil-backed loans to Angola, Congo-Brazzaville, Ghana, Sudan, Brazil, Ecuador, and Venezuela, among others. CDB has been a key provider of these forms of loans. Through a triangle operation, it makes a loan to the host government, on the basis of either direct repayment in the usual way or payment via commodity sales pledged to Chinese State-Owned-Enterprises, such as the CNPC, or NODC or Sinodec (Gallagher and Koleski, 2012).[7]

Another distinction is their orientation towards green finance. In its first year of operations, of the seven loans approved by NDB worth $1.6 billion, as many as 6 were for renewable energy. Declarations from the banks' senior managers indicate that this initial emphasis on green projects has not been accidental, but part of a strategy to build an image that identifies the bank as

[5] These figures are actual and projected MDB lending for infrastructure by the following MDBs:EIB, EBRD, IsDB, IADB, AsDB, AfDB and WBG (G20, 2011:Figure 8).

[6] In a similar vein, while the new multilateral AIIB, together with China's Silk Road Fund, is expected to support China's Belt and Road initiative, there have also been suggestions the strategy should include Africa, by means of focusing on industrial relocation from China to the region (Lin 2015).

[7] CDB (and also other Chinese banks) is also involved in the form of triangular consortia, whereby it (working with the Ministry of Finance or Ministry of Commerce and commercial banks) lends to firms in foreign countries offering grants, import credit, non-concessional or concessional loans, or direct FDI (Gallagher and Koleski, 2012).

intimately connected with future trends and concerns. In a similar vein, it has sometimes been suggested that southern-based MDBs can capitalize on their strengths and partially compensate for their weaknesses by focusing on green and sustainable infrastructure projects.

Thus, palpable gains as a result of the growing international operations of national development banks, initial operations of the new banks and refocusing of existing ones include a greater focus on industrial infrastructure projects (including green ones), in addition to the scaling up of financing to developing countries.

3.4 Macroeconomic coherence

The benefits of having alternative sources of credit creation and intermediation became clear during the latest economic crisis, as Development Banks increased their lending counter-cyclically at just the time many private banks were scaling back. According to a World Bank survey of 90 development banks across developed and developing countries, in the post-crisis difficult years 2007-2009, these banks increased their loan portfolios more than three times as much as private banks operating in the same countries (by 36% compared to an increase of just 10% – de Luna-Marthinez and Vicente, 2012). Some Sovereign Wealth Funds can also, as discussed above, play this role. Whilst it is too soon to say what will be the record of the new south-south and southern-led banks, the expectations are that, by their nature, they will follow similar behavior, even if counter-cyclical lending is not an objective explicitly mentioned in their mandates, as is the case, for instance, of the EIB. More generally, to the extent that the new sources of finance will support investment in infrastructure, industrialization and diversification in developing countries it should help governments achieve a more coherent fit between all the different aspects of their developmental aims and policies.

4. Some things are not different

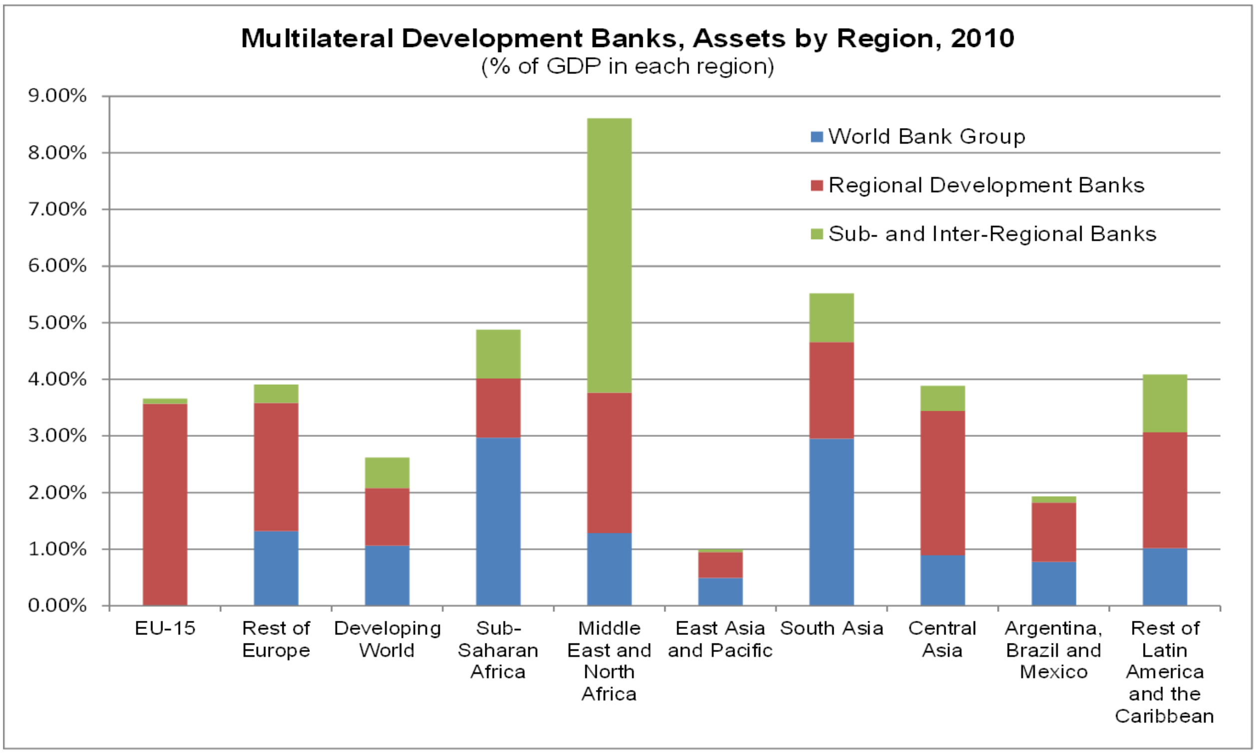
4.1 Concerns about regional imbalances

Even with the new growth of Southern-led initiatives, some long-standing concerns and themes remain unchanged. One is that not all regions have shared equally. In particular, smaller or poorer countries and regions that are less able to set up national Development Banks may miss out on the opportunities of linking with the new cross-south, or regional and global southern led institutions. As shown below, whether in terms of MDBs, or SWFs, some regions are much better served than others, which is a problem for development and a potential problem for solidarity.

Among the three main developing regions, Latin America and the Caribbean stands out as one that has had, in addition to national development banks – notably BNDES as seen earlier – sub-regional development banks actively scaling up financing towards southern initiatives to support regional integration and other international development goals. Such banks include the Central American Bank for Economic Integration (CABEI), the Caribbean Development Bank and the Andean Development Corporation (Corporación Andina de Fomento (CAF)). CAF, the biggest of the three, was created with a mandate to promote sustainable development and regional integration. At present, the bank supports the strengthening of its members' national productive sectors, particularly the development of value-added products and services, as well as job creation and the promotion of access to social services, including education, health, water and sanitation.[8]

[8] CABEI is a bank created primarily to promote regional integration. The bank also supports poverty and inequality reduction, the insertion of member countries of Central America in the global economy and environmental sustainability. The Caribbean Development Bank has as its main mission poverty reduction through social and economic development, and the promotion of economic integration and

Figure 7. Varying coverage by MDBs across regions



Source: Ocampo (presentation at BU, 2017).

In Asia, China's CDB and China Exim Bank have been prominent players in promoting south-south projects both in Asia itself and in every other developing region in the world, as discussed earlier. In addition, the region is also host to IsDB (see also above). Based in Saudi Arabia, the bank's goals are to support economic development and social progress. To achieve these goals, it supports through equity participation and grant loans its member countries, which are spread out throughout developing Asia, Africa and South America.

In contrast, in Africa, strong national and sub-regional financial institutions that could provide large-scale support to regional development, and that are both based in the region and wholly owned by African countries, are still missing. This gap is not due to lack of financial institutions in the region. Africa has several long-established sub-regional development banks, with a very clear mandate to support regional integration and development. Figure 8 brings information from about five such banks from the region: The Central African States Development Bank, the West African Development Bank, the Development Bank of Southern Africa, the East African Development Bank, and the Preferential Trade Area Bank, which is a development bank that covers the eastern and southern Africa. It shows that these banks are very small in terms of total assets, which in some instances are in their millions of dollars. DBSA is the biggest of all, with total assets at about 5.5 billion dollars. It stands out among such grouping mainly because it is wholly owned by South Africa, the largest economy in the region with strong interest in supporting regional integration. The bank has expanded loans fairly rapidly since the global financial crisis (Humphrey, 2015), both to South Africa itself and other countries from the African continent (see above), but it is still very small compared to the scale of assets and loans of banks from other developing regions and, of course, with Africa's development financing needs.

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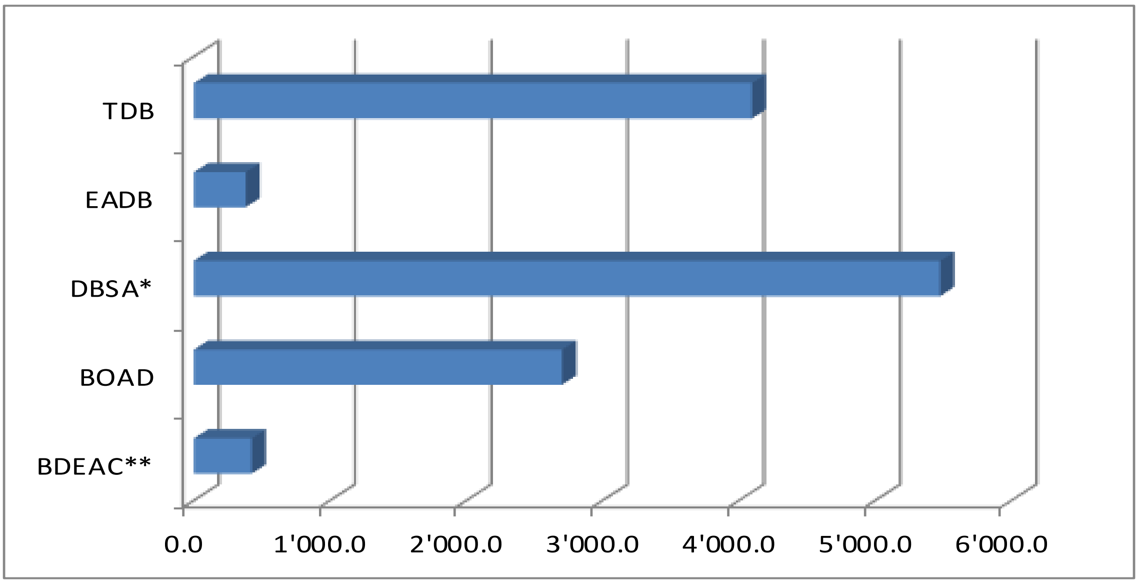
cooperation in the Caribbean region. Lending policies prioritize productive enterprises and social and economic infrastructure (Caribbean Development Bank, 2016).

South Africa also has the Industrial Development Corporation (IDC), which is a national development financial institution whose mission is to support sustainable economic growth both in South Africa and on the rest of the African continent. Nonetheless, Gottschalk and Poon (2018) shows that both DBSA (wholly owned by South Africa, as just mentioned) and IDC are not just small in terms of assets and outstanding loans, but, also, have very low loan-to-equity gearing ratios, implying that their lending capacity is even more restricted than it could have been the case. Given South Africa's economic weight in the African region and its prominent role in SADC and other regional initiatives, one could expect the country to strengthen its national banks and increase their leverage capacity so that these institutions can become more effective levers of regional development.

Figure 8. Africa's sub-regional development banks — total assets

($ million, 2015)



Source: Banks' annual reports. BDEAC: Central African States Development Bank; BOAD: West African Development Bank; DBSA: Development Bank of Southern Africa; EADB: East African Development Bank; TDB: Trade and Development. *31 Dec 2016. **31 Mar 2014.

Nigeria is the other economic heavy weight on the continent that could also have a more prominent role in supporting African development. By 2010, it had 5 national development finance institutions, but none of them seemed to have an international role, at least not on a significant scale.[9] This is in contrast with Nigeria's commercial banks, which have been very active abroad providing commercial loans in the African region (Ajakaiye and Tella, 2016).

Thus, the strengthening of national and sub-regional development banks are undoubtedly positive responses to shortages in the international development finance architecture. Yet, the provision of development finance remains largely insufficient and uneven. As just discussed, African sub-

[9] These are: Bank of Industry, Federal Mortgage Bank of Nigeria, Nigeria Export-Import Bank, the Bank of Agriculture and the Urban Development Bank of Nigeria, currently known as The Infrastructure Bank (Ajakaiye and Tella, 2016). The Nigeria Export-Import Bank may be somewhat an exception in that, in addition to supporting the country's export sector, it is "the government's National Guarantor under the ECOWAS Inter-state Road Transit programme." This information available on the bank's website at: http://www.neximbank.com.ng/about-nexim/

regional development banks and national development banks have small capital bases and therefore limited lending capacity. This is an issue that needs to be tackled in the coming years.

4.2 The continued power of CRAs

Despite their efforts to scale up resources for long-term investment, southern development banks are concomitantly adopting a conservative approach to lending, in broad conformity with the wider loan patterns set by the old multilateral lending institutions. The fact is that, despite the shift of power towards the East and South and the emergence of new cross-south international development banks, three international credit rating agencies −S&P, Moody’s and Fitch −have maintained their grip over the international credit markets on which many, if not all, investors and borrowers depend. Their criteria for rating the international development banks are not very transparent and do not seem to take full account of the specific characteristics of such banks, such as their ownership structure or their preferred creditor status. On the contrary, they penalize policies that do not follow the neoliberal orthodoxy. This is an area in urgent need of reform.[10]

Among other initiatives, the creation of southern-based credit rating agencies has been suggested, to reflect the new emerging reality of a far more complex and diverse landscape, with new funding sources and borrowers, many of which now are based in the South. However, in this rapidly changing landscape rules are not set in stone, and what shape they will take in the future depends very much not only on such dominant agencies but critically how the new actors play the game. In this environment in which much of new norms and standards are still in flux, NDB and AIIB could take advantage of their strong shareholders' membership to test the markets by increasing their loan-capital gearing ratios above what the long-established banks have done over the many years they have been in operation. Building a strong lending track-record as these new banks have already started doing can further help them leverage more for a given amount of capital, while maintaining or even further improving their international credit ratings. On the other hand, it may come at the cost of solidarity and development focus, if it means that banks do not support projects that are less attractive on narrow financial, if not economic, terms.

There is, therefore, a need for a proper discussion about the fact that most development banks perform a difficult balancing act between remaining economically viable, whilst still developmental. The way they resolve this tension is an aspect on which there is very little public information. Anecdotal evidence suggests that most are cross-subsidising some of their more developmental projects through profits made on more commercial ones. As long as a credit-rating agency calls the shots, it may not make much difference whether banks are Southern-led or Northern – unless there is an explicit criterion for evaluating projects and deciding which to support.

4.3 What future for concessional lending?

In one sense, this tension is highlighted in the role of concessional lending. Multilaterals institutions such as the World Bank and the large regional banks have always played an important role with respect to concessional loans, provided through their soft windows. Until recently, about 30% of their total loan portfolio was in the form of concessional lending (UNCTAD, 2016:36). This may change in the coming years, as a result of reforms in these banks aiming to enhance their lending capacity. Some of these reforms took the form of a merger of balance sheets whereby banks' resources stationed in their development funds were merged with their ordinary resources. This has been the case with two large regional banks: the ADB and the IADB. A possible negative consequence of these reforms is less availability of concessional lending. The World Bank, in

[10] See TDR 2015, in particular pages 104-108.

turn, has permitted that IDA, its concessional window, to raise resources in the international capital markets. This measure may also affect the bank's capacity to continue providing concessional lending on the same scale as before.

These changes are important, even in the current context in which new finance providers are scaling up lending and new banks are entering in operation. The reason is that none of these new Southern-led banks has a clear institutional set up to provide concessional loans, even though some level of subsidy may have been provided in the past by those banks that have central bank and treasure support, such as China's Exim bank. Unlike the old multilateral banks with concessional windows, the new banks, spearheaded by China, do not differentiate between borrowing and non-borrowing countries. They did not create parallel structures to cater to the specific needs of low-income countries, which still require concessional lending to avoid the buildup of foreign debt, which can become unsustainable leading to deep crises, as has happened in the past. Chinese authorities are pointing to a model of international financial assistance in which loans will be non-concessional, even though the intention will be to provide them at 'below' market rates (Gottschalk and Poon 2018).

It would be important, therefore, that the South open a new front of institutional initiatives for the provision of long-term concessional lending so that the poorest countries are not left further behind.

5. How to support this new opportunity for development

The earlier sections in this paper sketched out the rationale and processes by which southern countries are strengthening their national and sub-regional development banks, creating cross-South development banks, and establishing other institutions or mechanisms for raising finance. The primary purpose of these initiatives has been to supplement the amount of financing for long-term investments on offer globally, and to better support human and economic development. They show there is the potential for a real change in the game. But, they also show that some things have not changed, and need to stay high on policy makers' radar screens to ensure these new opportunities for development can really deliver.

Many positive comments have been made on the contribution that southern development banks have made in the past few years on the international stage, and little has been said about the challenges they are likely to face, or the lessons that could be learned from failures in the past, or indeed how to treat failure at all. Now they face high expectations about what they will be able to deliver in the coming years. The likely tasks are many – from scaling up financing for infrastructure and green technologies to promoting regional integration projects, not to mention supporting low-income borrowers with concessional lending, especially those often hit by natural disasters and other shocks. There is the notion that a division of labour between south- and north-based institutions is shaping up, so that southern banks can concentrate on activities where they are thought to have a comparative advantage. But it is still not certain what roles each bank will be taking up, partly because the landscape is shifting quickly and the long-established development banks are also responding to the new landscape and trying to redefine their roles in the international arena.

Whatever scenario materializes, southern institutions will likely have to expand lending vigorously in order to keep up with growing borrowers' expectations and demands. They will confront a major constraint, which is their current limited capital base. One response to that is to expand membership; another is that existing shareholders contribute more capital, which members may do if they want their development institutions to have a prominent role in the years ahead. Both options have pros and cons. Expanding membership too broadly can dilute the sense of solidarity or weaken the southern-voice in governance, and this needs to be weighed up against the benefits of bringing in new capital. On the other hand, some developing countries do not have the same budgetary constraints that advanced economies raise as reasons for their unwillingness to expand their capital contribution to the MDBs. Their more rapid growth rates and younger populations in principle give them more fiscal room to provide additional funding to their own financial institutions. (That said, they have more limited revenue-raising capacity and high needs compared to advanced economies, an issue that needs to be tackled. South-south cooperation on international tax matters would be a good way to start going about it, to address tax avoidance and evasion by large corporations as well as international illicit flows.)

Alternatively, in a context of restricted budgetary resources, developing countries could draw on their SWFs to inject new capital in their development banks. This would give SWFs what they currently lack to invest in development projects: technical expertise, which development banks have in abundance. This would be a win-win situation: SWFs are entities with long-term liabilities that would greatly benefit from investing not just in long-term assets but above all investing in the people and the long-term prosperity of their own countries and regions. By implication, the prosperity of these countries' future generations is, after all, the very reason why they were created in the first place. This would be a welcome change to a situation in which these funds invest instead, in jittery, Northern-based financial markets.

As argued earlier, development banks could, in addition, insist on a longer-term view of economic and social returns. One way is to test the narrow, short-term view of markets and credit rating agencies by expanding lending beyond and above what has been considered acceptable for a given amount of capital. The current loan-to-capital ratios, set long ago by the World Bank, are clearly low and thus room exists to raise these ratios. The new banks NDB and AIIB are backed by China, a strong shareholder, which gives them the war chest needed to go for higher ratios. This, in turn, could open the way for other banks to follow so that, in the process, a new benchmark could be set to the benefit of both lenders, which would be using their own capital more effectively, and country borrowers, who would be having access to greater availability of financing for development. Unfortunately, AIIB and NDB, in their quests for credibility, are adopting a rather conservative approach on this matter, but there is still time to change tactics and see how markets respond.

Other southern initiatives to scale up funding for development have included the creation of investment funds and platforms, many of which are focused on infrastructure development. As reported earlier, China has been behind the largest funds, backed by China’s national development banks and other Chinese State entities, and whose resources can be channeled directly to development projects in the form of equity participation but also loans, and indirectly via development banks. While some of these funds are primarily focused on Asia’s infrastructure development, regionally dedicated funds outside Asia such as the China-Africa Development Fund that are exclusively or mostly backed by China also exist, as part of China’s international cooperation initiatives. In 2016, CAD Fund investment decisions in Africa had reached an accumulated value of U$4.1 billion, covering a wide range of projects, from highway and regional airline networks to energy and resource sectors (CDB, 2016; also Gottschalk and Poon 2018). Africa itself has its ongoing initiatives, including NEPAD’s Infrastructure Project Preparation Facility, aimed at providing technical expertise and leveraging private capital for infrastructure projects. Although some of the African-led funds have been around long enough to have some successful stories, the fact is that they are too small (even those that have China as contributor), especially compared to Chinese- led funds, and therefore new ways might be explored to strengthen them.

The picture thus emerging is one of new institutional and operational arrangements based on multiple partnerships within and across developing regions, led by the South (albeit with some northern involvement as well), to scale up finance for the infrastructure and other projects that are essential for the achievement of several SDGs. To a large extent, this kind of cooperative modality mirrors the sorts of modus operandi the new development banks are eagerly adopting. In their first couple of years of operations, they actively sought collaboration with exiting MDBs, to take advantage of their accumulated knowledge and expertise they are still lacking as well as of their soft windows in projects involving concessional loans (Morris and Gleave, 2016). In addition, the new banks are collaborating closely with the national financial systems and development banks, particularly from the BRICS countries, such as Brazil and China, which have large banks (e.g., BNDES, CDB) with a strong track record and deep pool of expertise. By partnering both with international and national banks, these new banks have the potential to become the nub of a worldwide network of development banks. The main strength of such a network would be its diversity in terms of expertise, focus and geographic reach. Greater diversity in the international financial and monetary landscape is welcome, and the additional resources that the new institutions are already starting to provide can have a significant positive impact in terms of generating more long-term financing for development.

However, while the rationale of this network is to build on the strengths of individual banks thereby maximizing the use of the current global pool of knowledge and expertise on development finance embedded in these institutions, there is the risk that weaker banks and regions with greater needs but also larger funding and expertise deficits are being left out. There is, in particular, a risk that large swathes of Africa will be marginalized, partly for lacking development banks that are sufficiently strong to support Africa development and engage in meaningful partnership with banks outside the region. The way forward, here, might be not to create new and more institutions but to try to build on what Africa already has. This means, in other words, to expand and enhance Africa's sub-regional development banks, and strengthen the national ones such as South Africa's IDC, so that they can have a more prominent presence and thus be able to carve out their own space and role on the African continent.

Finally, to make the most of the opportunities in today’s new development finance landscape, it would help to give equal billing to the demand side of the equation as well as supply. The availability of finance is not on its own sufficient – what is also needed are projects, articulated in a developmental plan, and supported by the appropriate legislation, industrial and competition policies and regulations (see for example Studart (2018) and Carciofi (2018). This challenge was met in the past by developmental governments at the national level in many countries, and now needs to be revived and expanded to the regional level.

Table A.1. **Southern-led initiatives for long and short-term finance by main goal**

Main goal	*Form of integration*	*Examples*	*Issues/comments*	*Indicative values*
1.Preventative -- Coping with balance of payments crisis	Regional liquidity sharing pools	Latin America's FLAR Asia's Chiang Mai Initiative AMF ACF	These are not long-term financiers in the sense of development banks but distinctions can blur as some liquidity pools lend funds for quite long periods. Also, perception that countries or regions are well supported against BOP crisis may likely encourage long-term investment (and vice-versa)	
	Regional credit swaps	China-bilateral swaps measured in many billions of dollars	Depending on the length and conditions these may also be blurred with longer-term sources of finance	
2.Developmental -- Promoting regional investment	Regional Development banks and funds	A large number exist including AIIB, , IDB,CAF, Banco del Sur, FONPLATA, FONASUR. BCIE, NDB	Regional development banks are designed for and are the ideal candidates to provide long-term investment.	$302 billion
	National development banks operating at regional level	More than 250 already. Major outward investors include Brazil's BNDES, China's CDB and Exim Bank, South Africa's DBSA	National banks are very diverse, but many are playing an important new role, spreading their interests abroad, in particular at the level of the region.	$400 billion
	Sovereign Wealth Funds	More than 60 in developing and transition countries, including at least 10 in Africa alone..	Some SWFs have regional development as part of their official mandate and invest long-term in regional infrastructure and other enterprises. However most invest in much the same way as national commercial investors; generally across the developing world SWFs are not used as much for development as they could be.	Estimated $6.3 trillion
	PPPs	The World Bank records 305 projects in 2017 with a total value of $93 billion, considerably lower than in previous years.	PPPs are being strongly promoted at national and regional levels but there are many concerns about their cost to governments, failure to harness additional investment from the private sector, and other disappointing outcomes. Many countries are returning to more traditional public investment modes.	$93 billion
	Regional bond issues, backed by Central Bank of Government		Potential new tool for raising capital but does not solve the problem of need for technical support or other expertise.	

As shown in Table A.1, Southern-led initiatives include both short-term, essentially preventative and long-term, more developmental financing vehicles. There can be some blurring of functions depending on the conditions. The different activities and functions of government represented in each of the rows can be considered separately, but in practice their impacts are inter-dependent. If development banks are able to support long-term productive investment and transformation that impacts on trade this may be expressed both through the payments system (not shown above, but another locus of many new Southern-led initiatives) and potentially reduce the threat of balance of payments crisis (row 1).

Table A.2. **Main features of selected development banks discussed in the chapter**

		Policy goals-Sectoral focus	*Stock of loans U$ bn Year 2016*	*International operations*	*Geographic reach*	*Counter-cyclical role*
National	BNDES	National development; regional integration; internationalization of national companies.	188.0	Yes	Latin America and Africa	Yes, in the aftermath of the global financial crisis
	CDB	National development; infrastructure projects; international cooperation.	1484.7		All developing regions	
	China Exim bank	China's exports and imports; overseas investment of Chinese companies; south-south cooperation.	341.9		Asia, Africa and the Caribbean	
	IDC	Industrial development and innovation.		Yes	African continent	No
Sub-regional	CAF		21.8	Regional	Latin America and the Caribbean	Yes
	CABEI;	Regional integration; poverty and inequality reduction.	6.1	Sub-regional	Central America	
	Caribbean Development Bank	Sustainable development and regional integration.	1.0		The Caribbean	
	BDEAC; BOAD; DBSA; EADB; TDB	Regional integration.	0.4-5.5*	Sub-regional	African countries	No
	Islamic Development Bank	Economic development and social progress.		Cross-south	All developing regions	
Cross-south	BRICS NDB	Infrastructure and sustainable development; initial focus on renewable energy projects.	1.6	Cross-south	BRICS countries; other developing countries	Not yet
	AIIB	Infrastructure development	1.7	Cross-south	All developing regions	Not yet
	Bank of the South	Economic development and regional integration in the South-American sub-region		Sub-regional	South America	

Source: Authors' elaboration, based on various sources. *Banks' total assets, 2015.

Table A.3. **Long-term investment finance and selected Sustainable Development Goals**

Sustainable Development Goal	*Selected examples of South-South Solidarity*
SDG 6: Ensure sustainability and sustainable management of water and sanitation for all	Water is the most difficult of activities to finance through private means and gets only negligible support from Public-Private Partnerships. Many countries or regions are returning to public systems, at national or city level. Thus the southern-led institutions are promising in their apparent willingness to lend for water and sanitation, such as IsDB of $595 million in 2016 for water, sanitation and urban services; CAF of $510 million in 2016 for water alone; and by AIIB of $630 million in 2016-17 for urban/water/sanitation projects. Compared to x% from traditional lenders.
SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all	Energy is one of the poster-children of recent development finance initiatives, including 9 out of 20 projects approved by the AIIB in its first two years. In the biennium 2016-17, loan approvals by AIIB to the energy sector reached $1.9 billion; and in 2016, loans from IsDB and CAF reached $1.9 and $1.3 billion, respectively.
SDG 8: Promote inclusive and sustainable economic growth, employment and decent work for all	This SDG is intrinsically related to the others, e.g., manufacturing cannot take place without electricity or. In theory these activities should be more able to attract private investment but in practice, private capital in infrastructure is concentrated in the energy and telecoms sector. In 2016-2017, AIIB approved loans to the transport sector amounting to $1.2 billion; and in 2016, loans by IsDB to the sector reached $1.4 billion, by NDB, $350 million, and CAF, $707 million.
SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	Infrastructure is a critical input for economic growth and diversification, and social welfare. AIIB, fully focused on infrastructure, approved in its first two years of operation $4.2 billion of loan approvals for projects in the energy (45%), transport (29%), water & sanitation (15%) and telecoms sectors. In 2016, IsDB's sums of loans to infrastructure amounted to $4.1 billion, NDB $1.5 billion and CDB $12.6 billion to the Belt and Road Initiative alone, much of it is in infrastructure.
SDG 11: Make cities and human settlements inclusive, safe, resilient and sustainable	IsDB, over $900m in housing sector AIIB loans for housing in Indonesia
SDG 13: Take urgent action to combat climate change and its impact	Increased finance for climate related programmes is critical both for prevention and adaptation purposes. AIIB has given 5/6 of its loans to the energy sector (?) for renewable energy. (Check source) Of NDB's loan approvals in its first year of operation (2016), 6 were for renewable energy, totaling $1.2 billion.
SDG 17: Strengthen the means of implementation and revitalize global partnership for sustainable development	South-south collaboration is valuable in its own right and can also be a stepping stone to more equitable forms of global partnerships. Collaboration can take the form of mobilizing financial resources as described in this chapter; but also supporting developing countries in attaining long-term debt sustainability through coordinated policies. At the more ambitious end of the scale it includes enhancing North-South, South-South and triangular regional and international cooperation; enhancing global macroeconomic stability including through policy coordination and policy coherence. It may also simply be a matter of providing technical assistance, especially useful in large regional projects involving high levels of complexity.

Source: Development Banks' annual reports and AIIB (2018).

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