United Nations TD/490

United Nations Conference on Trade and Development

Distr.: General
14 May 2012

Original: English

Thirteenth session
Doha, Qatar
21–26 April 2012

Development banks

UNCTAD XIII special event

Held at the Qatar National Convention Centre, Doha, on 26 April 2012

Summary prepared by the UNCTAD secretariat

1. This was a joint event organized by UNCTAD and BNDES, the Brazilian Development Bank. The event brought together a range of experts from national and regional development banks, academia and civil society who examined new development models and new modalities of development finance, and compared and contrasted experiences across different countries. They also considered the role of the financial industry in causing the current global financial crisis, the role of public development banks in the emergence from the crisis and their potential contribution to macroeconomic stabilization.

2. Participants agreed that development banks were becoming increasingly significant in economic debates, leading even traditionally reluctant countries and large economies to consider the role of development banks in their economies for several reasons. One reason was the growing recognition that private financial institutions tended to exacerbate real and financial bubbles and often invested in less socially relevant areas. That implied that there should be a specialized public agency counteracting such behaviour and securing sufficient investment in socially relevant areas.

3. Extensive research showed that private finance – especially in circumstances of financial liberalization – tended to exclude major social groups from the financial system, including small and medium-sized enterprises, especially those operating in rural areas, as well as strategic economic sectors and those sectors offering potentially significant externalities and economies of scale. Those problems could not be resolved simply by proliferating microfinance and microcredit institutions, which had been the subject of considerable controversy. It was argued that private finance was not very efficient at financial intermediation, especially in developing economies, and in circumstances of high

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capital mobility. In those cases, capital tended to be rapidly exported to advanced economies running current account deficits.

4. Investment was essential for growth, infrastructure, the creation of competitive capabilities, the absorption of new technologies – often requiring both resources and time – employment growth, support for small and medium-sized enterprises, poverty reduction and other priorities across economic sectors. The potential contribution of development banks to achieving social and financial inclusiveness was discussed, as well as the validity or otherwise of conventional approaches proposed by international financial institutions. In order to maximize their impact, development banks must have both a large scale and a wide scope. For this, they needed adequate resources, a sufficient technology base for complex operations and qualified staff. The banks must also be flexible and adapt to the changing needs of a developing economy and society.

5. There was a lengthy discussion on the role of development banks during economic crises. Participants agreed that, in every country with an active development bank, these institutions had played a positive and stabilizing role during the global financial crisis: They had expanded lending, often in a significant way, precisely when the private sector was contracting loans. Thus, many development banks had proven instrumental in counteracting the economic downturn.

6. The session also discussed several successful cases of the use of national and regional development banks to foster growth and development, as well as macroeconomic stability. Such an option could include a large number of country members. The cases showed that development banks were not necessarily opposed to the private financial industry: The development agenda was so vast that it required the contribution of all financing agencies.

7. There was a consensus among the participants that development banks must be efficient and financially stable to be sustainable. They could also have widely different structures, including, as in Germany, the use of the branch network of other banks to provide credit. Development banks may or may not support overseas transactions, such as export-import or aid operations, or South–South and other forms of cooperation, and they could extensively use credit guarantee programmes as part of their activities.

8. There was much debate about the relationship between development banks and the private sector, and the extent of competition between development banks and private banks. Participants considered the use of public-private partnerships as an alternative to development banks, including the offer of credit guarantees and legally guaranteed returns through those partnerships. However, experience suggested that they had often failed to achieve expected outcomes, indicating that it was often cheaper and more effective to use development banks in lieu of public-private partnerships.

9. Concluding the session, participants reviewed the sustainability of development banks. However, the importance of commercial banks should not be downplayed to protect the role of development banks. Conventional claims that development banks could cause fiscal deficits and even trigger fiscal crises though poor lending decisions should be put into the context of the global financial crisis, which had been caused by the behaviour of private banks. The ensuring salvage operations had, in turn, led to fiscal crises in several countries.