

# The Renaissance of Development Banks

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– European Association of Public Banks and Funding Agencies –

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# Development Banks: Back in Fashion or Never out of Fashion?

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## After years of unpopularity, development banks found a renewed purpose during 2008-09

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- The financial crisis was a huge 'boon' to development banks and export credit agencies globally.
- After some years of a steady march towards obsolescence, these entities were asked by their respective governments to provide a critical lifeline to the national economies during the financial crisis.
- Market gaps which had all but closed in the previous decade were now being experienced in all areas of the economy.

## During the financial crisis, development banks emerged as critical public policy tools

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- ❑ Those countries with fully functioning development banks were able to shift into gear quickly and effectively, thus avoiding massive and systemic interruptions in access to capital.
- ❑ Those countries without development banks scrambled to cobble together temporary solutions to address the market gaps which had opened up.
- ❑ The on/off switch of development banks made them ideal as crisis response mechanisms.

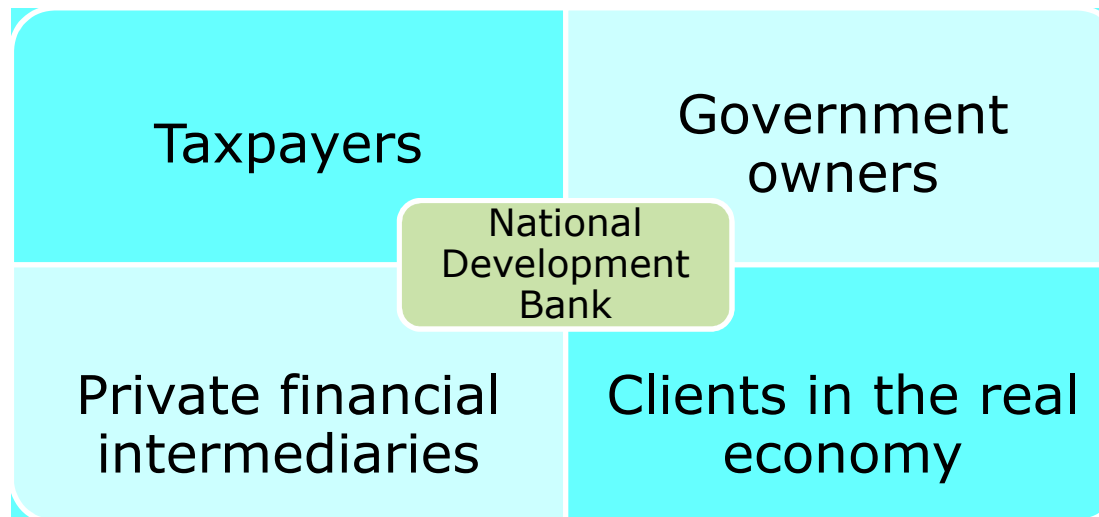
## A development bank is handy to have in a financial crisis, so too in normal times

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- ❑ Market gaps can exist in normal times for two main reasons:
  1. The private financial sector's unwillingness to accept certain risks which they deem too high or too large; or
  2. The private financial sector's inability to accept certain risks or to fund certain tenors because of their own internal limitations (access to funding, credit limits, etc.)
  
- ❑ Just because a market gap exists does not justify the involvement of a development bank as there may be very good and valid reasons why the private sector is avoiding providing financial services.
  
- ❑ Development banks can have larger risk appetites, ability to offer longer tenors and require lower hurdle rates than commercial banks.

## A healthy development bank plays a catalytic role and balances the needs of stakeholders

- ❑ A healthy development bank is one that effectively balances its stakeholder needs in a financially sustainable basis while accomplishing the ultimate goal: meeting its public policy objective



- ❑ Because of the variety of business models and mandates of national development banks, there is no one definition of what constitutes perfect health

# What is a Healthy Development Bank?

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# The Health Diagnostic Tool measures the health of a development bank in three major areas

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Parameters

Public Policy and Corporate  
Governance

Development Impact

Financial and Operational  
Performance

# Summary of Health Diagnostic Tool

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## Public Policy and Corporate Governance

- ➔ The government has a clear strategy for developing and promoting a target area and this strategy has been a key input in drafting the Bank's vision, strategic plans and budget
- ➔ The Bank's mission statement and resources are clearly defined by law, company act or company by-laws
- ➔ The Bank has a solid code of corporate governance
- ➔ The Bank has clearly defined the market gap and has a complementary role to private sources of capital

# Summary of Health Diagnostic Tool

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## Development Impact

- ➔ The Bank has clearly defined development objectives
- ➔ The Bank has clearly defined ex-ante development criteria incorporated in its lending/investment policies and processes
- ➔ The Bank regularly monitors ex-post development impact and the lessons learned are integrated in subsequent strategic plans
- ➔ An independent evaluation unit carries out an ex-post review of the Bank's development impact

# Summary of Health Diagnostic Tool

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## Financial and Operational Performance

- ➔ The Bank has a comprehensive marketing strategy that is coherent with its mandate
- ➔ The Bank has put in place an independent risk function covering the entire risk taxonomy (credit risk, market and liquidity risk, operational risk)
- ➔ The Bank has a clearly defined risk strategy, supported by a risk and development adjusted financial reporting system, and a capital management framework
- ➔ The Bank is operating in a cost-efficient and productive way and remains financially sustainable

# Summary of Health Diagnostic

Parameters	Dimensions
<b>Public Policy and Corporate Governance</b>	<ol style="list-style-type: none"> <li>1. The government has a clear strategy for developing and promoting a target area and this strategy has been a key input in drafting the Bank's vision, strategic plans and budget.</li> <li>2. The Bank's mission statement and resources are clearly defined by law, company act or company by-laws.</li> <li>3. The Bank has a solid code of corporate governance.</li> <li>4. The Bank has clearly defined the market gap and has a complementary role to private sources of capital.</li> </ol>
<b>Development Impact</b>	<ol style="list-style-type: none"> <li>1. The Bank has clearly defined development objectives</li> <li>2. The Bank has clearly defined ex-ante development criteria incorporated in its lending/investment policies and processes.</li> <li>3. The Bank regularly monitors ex-post development impact and the lessons learned are integrated in subsequent strategic plans.</li> <li>4. An independent evaluation unit carries out an ex-post review of the Bank's development impact.</li> </ol>
<b>Financial and Operational Performance</b>	<ol style="list-style-type: none"> <li>1. The Bank has a comprehensive marketing strategy that is coherent with its mandate.</li> <li>2. The Bank has put in place an independent risk function covering the entire risk taxonomy (credit risk, market and liquidity risk, operational risk).</li> <li>3. The Bank has a clearly defined risk strategy, supported by a risk and development adjusted financial reporting system, and a capital management framework.</li> <li>4. The Bank is operating in a cost-efficient and productive way and remains financially sustainable.</li> </ol>

# Who we are



# International Financial Consulting Ltd. is the leading advisory firm specializing in government-owned financial institutions

- ❑ Specific expertise and experience with respect to Development Banks, Export Credit Agencies and Ex-Im Banks.
- ❑ Among others, we have worked directly with:

## **Multilateral and Regional Development Banks**

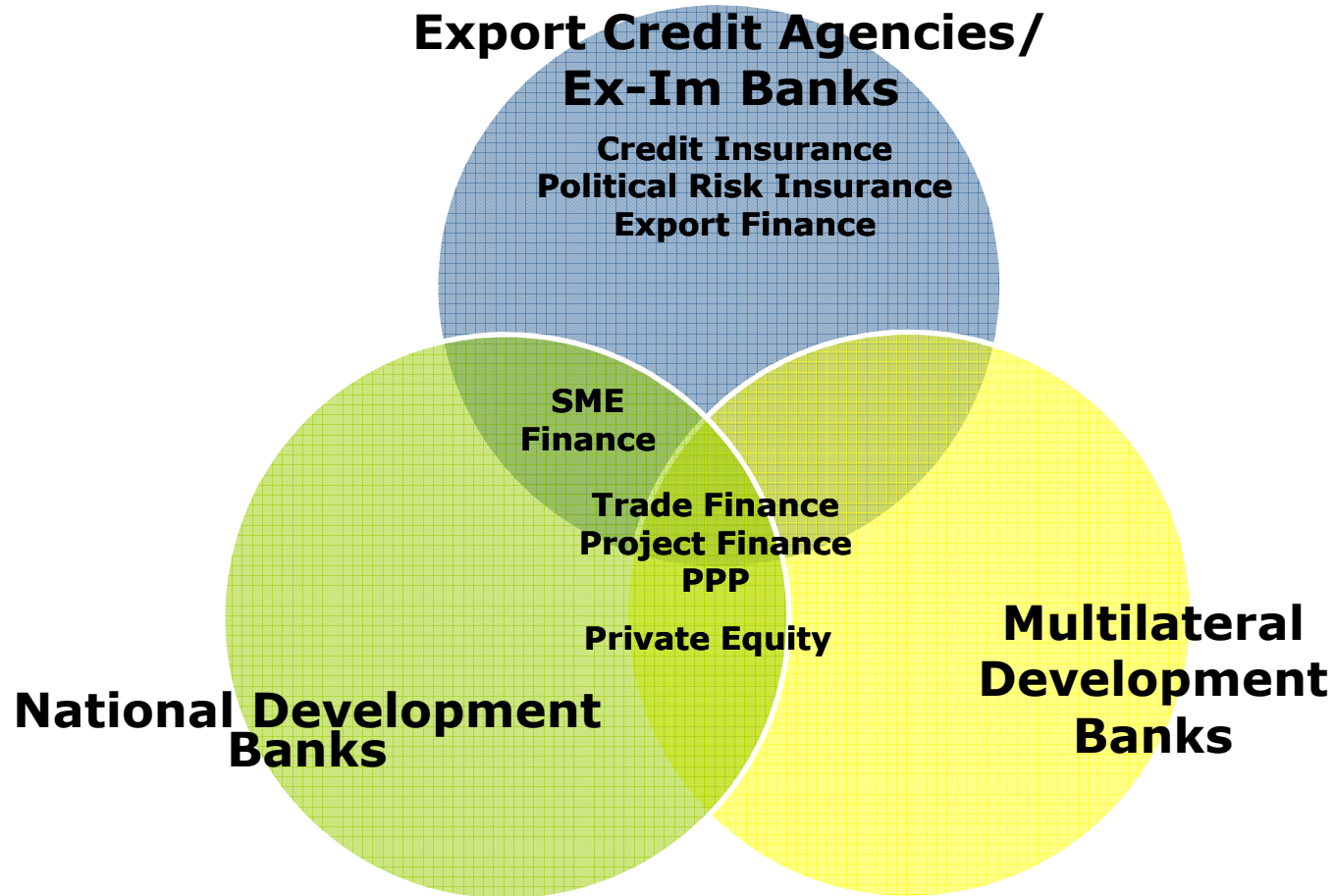
- Asian Development Bank
- Caribbean Development Bank
- Central American Bank for Economic Integration
- Development Bank of Southern Africa
- European Bank for Reconstruction and Development
- International Finance Corporation
- Inter-American Development Bank
- Islamic Development Bank
- World Bank

## **National Development Banks**

- Business Development Bank of Canada
- Czech Export Bank
- Development Bank of Mauritius
- EDC (Canada)
- EFIC (Australia)
- Finnvera (Finland)
- JBIC (Japan)
- KfW (Germany)
- Sinosure (China)
- Turk EXIM Bank

# Our Technical Expertise

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# Primary Services Offered

## Institutional Development

- ☑ Strategic Planning
  - Development of a Strategic Plan using our propriety toolkit *Full Potential* ©
  - Performance Measurement System / Balanced Scorecard
- ☑ Program and product development
  - Product Development
    - Credit and political risk insurance
    - Export Finance
    - Trade Finance
    - Bonding
    - PPP and Project Finance
    - SME Finance
    - Private Equity and Mezzanine Finance
  - Program structuring
  - Pricing
- ☑ Process review and development
  - Efficiency review and process re-engineering
  - Key corporate process development
- ☑ Risk Management
  - Credit, operational, market risks
  - Portfolio Management
  - Risk Management for Financial Institutions
- ☑ Stakeholder Relations
  - Surveys of stakeholders
  - Stakeholder strategies
- ☑ Training

## Governance and Advisory Services

- ☑ Status and mandate review
- ☑ Advice on role and performance of institutions
- ☑ Advice on establishment of institutions
- ☑ Shareholder structure and capitalization strategy
- ☑ Advice on privatization of commercially viable businesses
- ☑ International agreements
  - OECD
  - WTO
  - Basel III/Solvency II
- ☑ Program Evaluation
  - Input-Output-Impact Measurement
  - Stakeholder assessment
  - Financial sustainability
  - Intervention logic
- ☑ Strategic and Financial Due Diligence for Financial Institutions
- ☑ Financial Advisory for Project Finance

## Research

- ☑ International best practices
- ☑ Peer analysis
- ☑ Market trends
- ☑ Information

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# International Client Base

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- Public sector financial institution clients from around the world:

Armenia	Finland	Qatar
Australia	France	Romania
Bahamas	Germany	Russia
Bangladesh	Japan	Saudi Arabia
Barbados	Kenya	South Africa
Bosnia	Malta	St. Kitts
Canada	Mauritius	St. Lucia
China	Mexico	Turkey
Czech Republic	New Zealand	United States
Fiji	Philippines	

**Our clients cover the full spectrum of development from high income OECD to developing economies**

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# Corporate Executives

## Malcolm Stephens, CB Group Chairman

- ☑ 40+ years experience in the export credit, export finance and political risk field
- ☑ Chief Executive of UK's Export Credit Agency (ECGD) – 1987-91
- ☑ Secretary-General of the Berne Union – 1992-98
- ☑ Visiting Scholar to the IMF – 1998
- ☑ Has worked with over 30 countries in the last ten years
- ☑ Authored book on "*The Changing Role of Export Credit Agencies*" published by the IMF

## Diana Smallridge President

- ☑ Expert in the area of Export Credit Agencies, Export Finance Institutions and National and Multilateral Development Banks, worked in nearly 40 countries
- ☑ 12 years with Export Development Canada (EDC) as Director of International Relations and Director of Strategic Planning and Performance Measurement
- ☑ 11 years as Conference Chairman for the Annual Global Convention on Export Credit and Political Risk
- ☑ Publication of paper with Inter-American Development Bank called, "*A Health Diagnostic Tool for Public Development Banks*"