Columbia Center on Sustainable Investment
A JOINT CENTER OF COLUMBIA LAW SCHOOL AND THE EARTH INSTITUTE, COLUMBIA UNIVERSITY

DEVELOPMENT BANKING IN THE GLOBAL ECONOMY

STATE OF PLAY AND FUTURE DIRECTION

REPORT JANUARY 2021

WHO IS THIS REPORT FOR?

- **Policy-makers**, in national governments that are examining different financial institutions to support economic recovery from Covid-19 as well as long-term sustainable development solutions.
- **Academics and researchers**, who may be looking for research topics for under-examined aspects of the international financial system.
- **Donors** who are seeking opportunities to support institutional and organizational change in the development finance domain.
- **Investors** who are seeking to understand different scaled intermediaries with which to partner for sustainable and impact oriented investments.
- **Infrastructure project developers and Small and Medium Sized Enterprises (SMEs)** that are searching for new financing sources.
- **Students of** international development, economics and political science who wish to understand the structure of national developments banks.

"There exists more than 400 NDBs, with combined assets of an estimated US$ 8.5 trillion, equivalent to roughly 50 per cent of the assets of the entire United States banking sector"

Acknowledgments

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Cover image District Katni, Madhya pradesh, India. NABARD Indian government scheme displayed on smart phone screen. © shuttersrock/Chaturvedi.
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Agronomist with farmer in a cotton field, India.
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EXECUTIVE SUMMARY

National development banks (NDBs) are an under-appreciated and under-studied set of financial institutions in the global economy. As of 2020, there are at least 450 national development banks operating globally, with over US$ 8 trillion of collective assets and over US$ 2 trillion of annual disbursements. Despite the scale, reach and influence of these institutions, NDBs are not systematically understood by the academic, policy and financial communities.

In this report, we seek to bridge this knowledge-gap in three ways. First, we outline the basics of national development banking in terms of size, scale and scope. We provide recent data about the size of NDBs vs multilateral development banks (MDBs) and draw distinctions between these two sets of interrelated institutions. Second, we develop an analytical framework to guide our inquiry of NDBs. This analytical and diagnostic framework is a set of twelve questions that we believe can help guide the inquiries of academics and policy makers on how NDBs operate and how they may need to reform. Third, we undertake detailed case studies of six national development banks and their operations in order to bridge the divide between theory and practice. We undertook case studies for the following institutions: National Development Bank of Brazil (BNDES), China Development Bank (CDB), Development Bank of Southern Africa (DBSA), National Bank for Agriculture and Rural Development (NABARD) (India), KfW (Germany) and the development finance ecosystem of the United States.

We conclude the report with a set of ten conclusions based on the case study research. A summary of these ten conclusions is below:

1. Size: NDBs already play a significant role in development financing with the five largest banks representing over US$ 8 trillion in total assets.
2. Adaptability: NDBs are flexible, able to finance almost any type of industry and exist in both developing and developed economies.
3. Need: NDBs are a necessary form of financing when the private sector is unable or unwilling to invest in specific projects or industries where purely private capital is unavailable.
4. Role: NDBs can play a counter-cyclical role in catalyzing the private sector and providing necessary loan guarantees in a post-COVID economic environment due to their liquidity and scale of operations.
5. Private Sector Opportunity: NDB bonds are a secure, yet underutilized, form of financing for private sector investors as they are traditionally backed by government credit.
6. Best Practices: Cross-border sharing of best practices and information is needed in order to improve the relationship/trust between civil society and NDBs.
7. Life Cycle: Most development banks lack project retirement plans and as a result may stay in specific sectors and industries longer than is necessary. This limits the potential for outside funders to invest in projects and work alongside these banks. A retirement plan will help open up development projects to funders who otherwise would be unable to invest due to NDB involvement.
8. Size: NDBs have a great potential to play a larger role in promoting private sector finance and scaling up investable projects to help achieve the Sustainable Development Goals.
9. Unique Case of the US: The bureaucratic, sporadic, and disjointed nature of the US development finance ecosystem limits the ability of the US to play a catalytic role in financing sustainable development both at home and internationally.
10. Future Opportunity and Future Research: There is no one size fits all development institution, increased research is needed to determine what type of funding and governance mechanisms work in certain political climates. A fund or specific financial vehicle that serves as an intermediary between global pools of long-term, private capital and NDBs is needed to increase the amount and speed of investment in development related projects.

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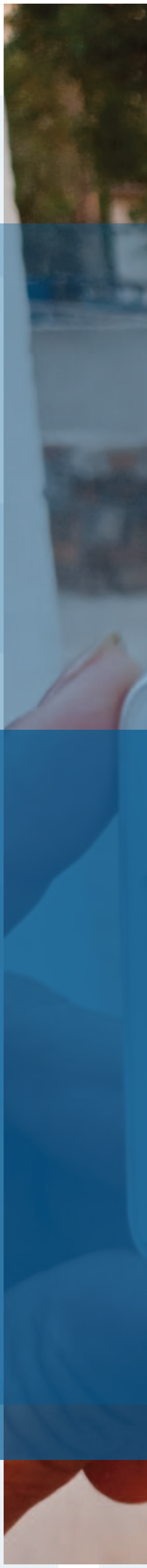

"The ability of NDBs to rapidly increase capital and disburse funds to all sectors of the economy, but especially to areas where the private sector tends to lag, make them the ideal partners to fund a recovery."

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