

Public development banks are back

Commentary on papers by Sebastian Schich, Christoph Scherrer, Dominique Plihon and Sandra Rigot

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Historical perspective: public development banks are back

- 1970s: a general decline in PFIs
 - Financial repression: liberalized financial markets are more efficient
 - Financial liberalisation + neoliberal ideology of the European Commission
 - Inefficiency of public development policies
 - Post-Bretton Woods area (financial globalisation, petrodollars, international banks, developing countries debt)
- The global financial crisis (2008)
 - The EIB as a «climate bank». EIB Group priorities have evolved over time
 - EIB: a new climate strategy (Sebastian Schich 2021)
 - KfW (Christoph Scherrer 2021)
 - Finance in Common 2020
 - Griffith-Jones, Ocampo, Stiglitz, Mazzucato...
 - UNCTAD 2005
- A new paradigm of long-term financing



Rethinking the role of National Development Banks

Third Regional Consultation on

"Rethinking the Role of National Development Banks in Africa"

Johannesburg, South Africa, 22-23 November 2006

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A new 'financial paradigm' (Aglietta & alii)

- Greening the financial system
 - Aglietta & Espagne, Dron, Svartman, Davron, Plihon & Rigot, Cahen-Fourot...
 - *“to provide the massive financing required for the transition*
 - *“to deal with the financial risks associated with climate change”*
- Building the new financial paradigm
 - Secret of KfW's success (Christoph Sherrer 2021): political, finance capital as well as civil society supports
- Academic rethinking: to go beyond the traditional approach in terms of 'market failures'
 - Missions combining a “counter-cyclical financing policy according to a **Keynesian** logic of economic and financial stabilization” and a “the financing of risky operations and innovative companies according to a **Schumpeterian** logic of innovation support
 - What about **degrowth** and **ecological economics**?

PDBs in the face of climate challenges

Innovative financing: the nature of resources and public financing instruments

Bonds issued on financial markets vs. budget allocations (budgetary transfers)

Financial innovative public-private partnerships

PFI have a strategic function as "**catalysts**" for financing that banks and private investors cannot achieve alone

Restructuring private banks?

Green central banking and PFIs

"Public development banks can resort to money creation to finance their operations" ???

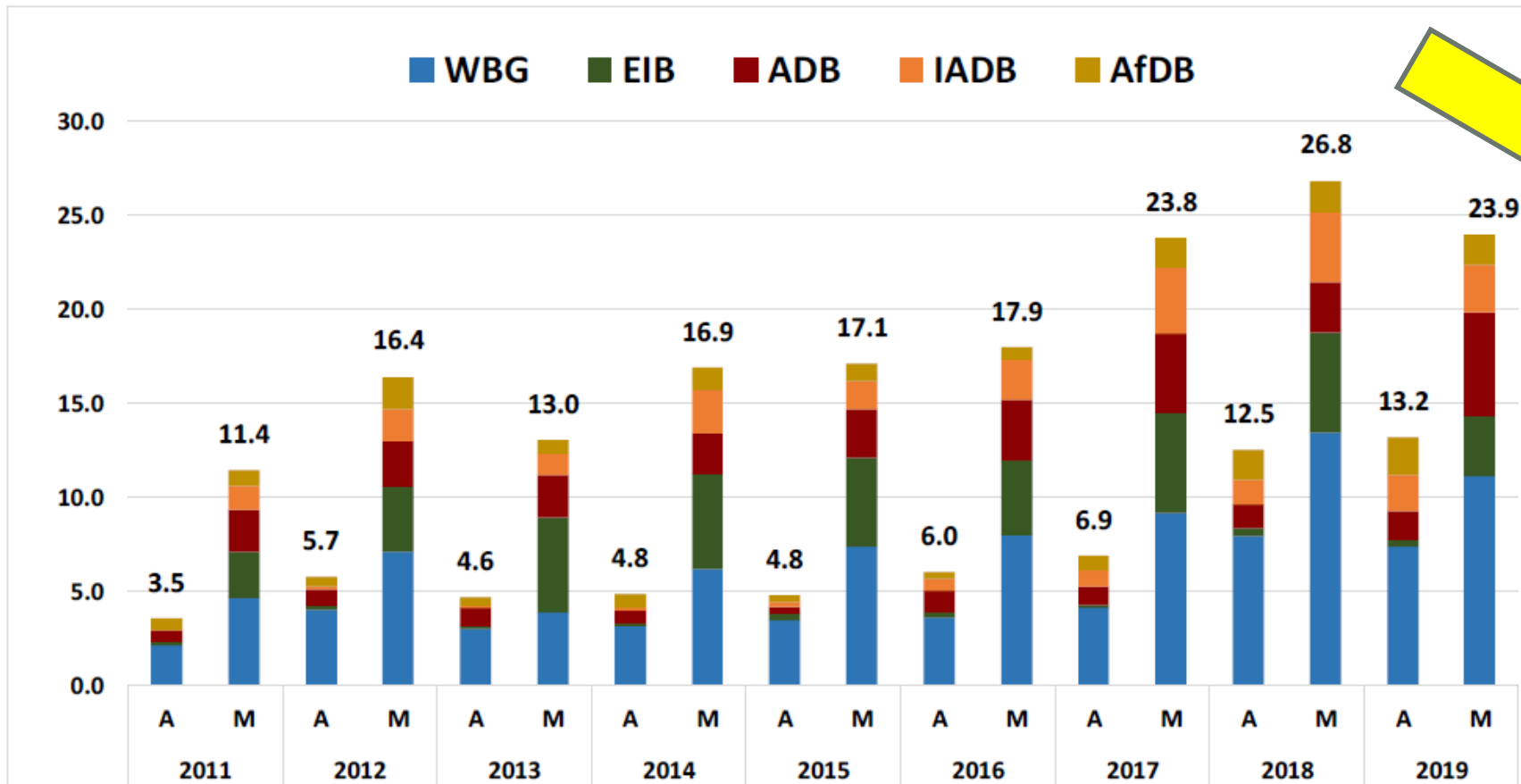
Capital injections by central banks?

Domestic financing vs. international financing

Post-Covid impact on financing low-carbon transition

Figure 3. MDBs climate finance on Adaptation (A) and Mitigation (M)(USD billion)

Source: Joint reports on Multilateral Development Banks Climate Finance, 2011-2109 annual issues.



CROWDING OUT EFFECT?

The pandemic has added further uncertainty to COP26, which has already been delayed by a year.

Source: AFD, 2020

Political economy perspective

A coherent architecture of PFIs (AFD 2020)

PFIs and global/regional leadership

Competition between NDBs/MDBs: the case of the BNDES (Brazil)
'Chinese Development Banks' (Gallagher)

Southern-led development finance

Diana Barrowclough, Kevin P. Gallagher and Richard Kozul-Wright (2021)
Washington Consensus vs Pekin Consensus
BRICS NDB (2015)
AIIB (2016) Environmental and Social Framework (ESF)



Table 1. Major Distinctions between the NDB and the AIIB

	NDB	AIIB
Origins	BRICS initiative based on Indian proposal	Chinese initiative
Scale	<ul style="list-style-type: none"> ● US\$ 50 billion in subscribed capital ● Limited access to international capital markets 	<ul style="list-style-type: none"> ● US\$ 100 billion in subscribed capital ● Expansive access to international capital markets
Governance	<ul style="list-style-type: none"> ● Equal shares and voting power among members ● No member has veto power 	<ul style="list-style-type: none"> ● Differentiated shares and voting power among members ● Chinese veto power on major issues
Transparency	<ul style="list-style-type: none"> ● Limited information about projects 	<ul style="list-style-type: none"> ● Detailed information about projects, including safeguards
Safeguards	<ul style="list-style-type: none"> ● Country systems 	<ul style="list-style-type: none"> ● International ‘best practice’
Main partners	<ul style="list-style-type: none"> ● National authorities and banks 	<ul style="list-style-type: none"> ● Traditional MDBs

Source: ADB