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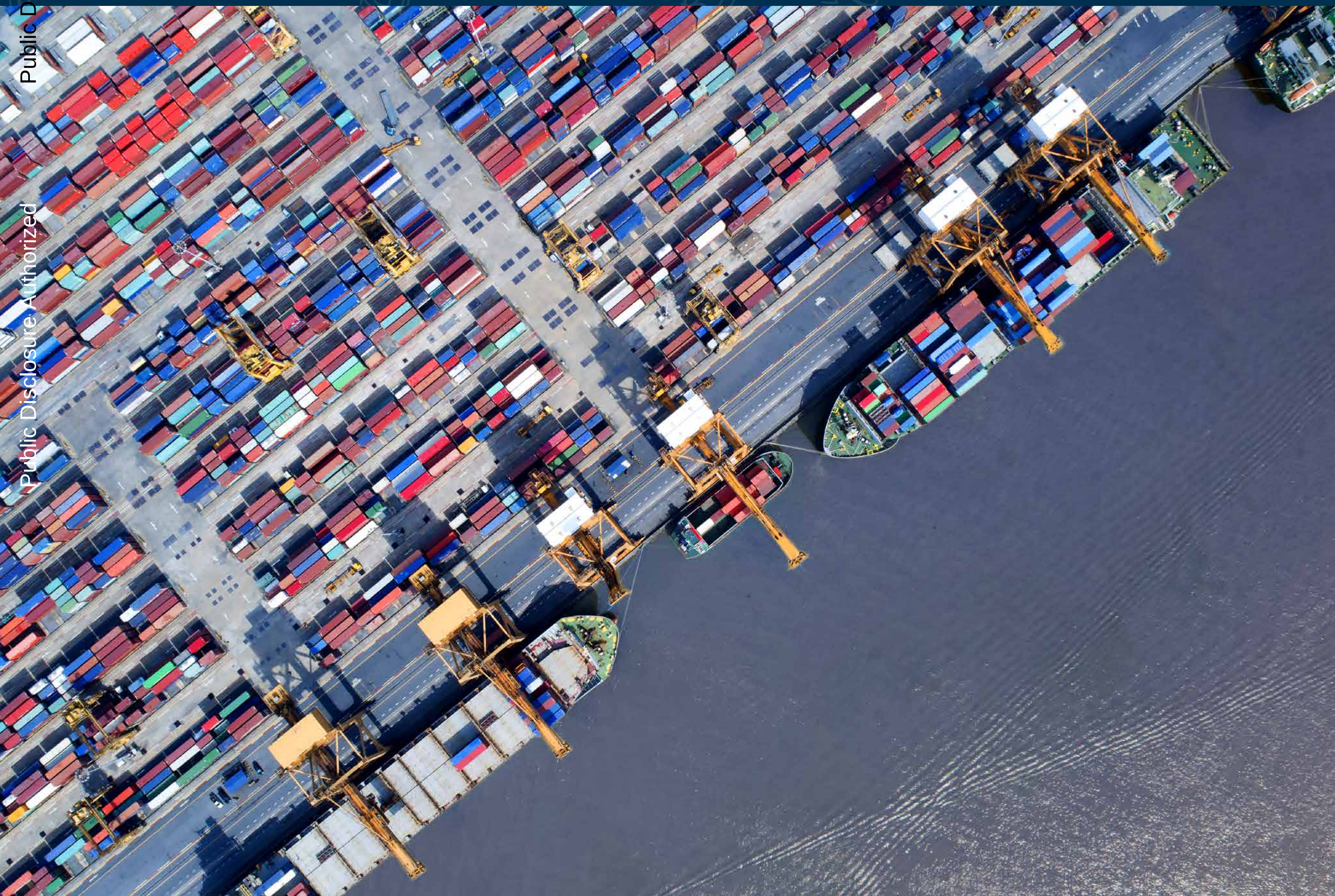
2017 SURVEY OF NATIONAL DEVELOPMENT BANKS



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Abbreviations

CEO	Chief executive officer
DB	Development bank
DFCC	Development Finance Corporation of Ceylon
DFI	Development financial institution
MSME	Micro, small, and medium enterprise
NPL	Nonperforming loan
ROA	Return on assets
ROE	Return on equity
SME	Small and medium enterprises
WBG	World Bank Group
WFDFI	World Federation of Development Financing Institutions

EXECUTIVE SUMMARY

This paper presents the main findings of the 2017 survey on national DBs that the WBG conducted in collaboration with the WFDFI. This is the second survey that the WBG has prepared; the first was published in early 2012. Sixty-four DBs from different parts of the world, mainly from middle-income countries, participated in the survey.

Based on analysis of the data collected through the survey, the report highlights the following findings. First, although DBs tend to be small in terms of assets, they are relevant, and governments use them to provide financial services in sectors or regions that private financial intermediaries do not serve sufficiently. New DBs continue to be established in developing and developed countries alike to expand infrastructure finance, provide financing for new types of environmentally friendly projects, and mobilize additional financing to meet a wide range of developmental objectives. One-fourth of DBs surveyed were established in the past 18 years. At the time this report was being written, FinDev, a new DB in Canada, was being established, and new DBs were being considered in other countries, such as Angola, Ghana, and Myanmar.

Second, DBs are highly diverse in terms of their size, financial performance, development objectives, business models, funding arrangements, and governance practices. DBs operate in multiple economic sectors and market niches (e.g., agriculture, infrastructure, international trade, housing, tourism, energy), and their ability to reach customers in sectors that private financial institutions do not serve sufficiently makes them a relevant actor in the global development agenda.

Third, most DBs serve the private sector in their jurisdictions. When asked who they saw as their target clients, 87 percent of DBs responded that they primarily target small and medium enterprises (SMEs), 78 percent serve large private corporations, and 64 percent finance private financial intermediaries, which borrow funds from DBs to on-lend to end-borrowers or use guarantees that DBs issue to mitigate credit risk in their lending. In addition to providing financing, DBs play an important role in structuring new deals, creating new channels to mobilize private sector resources, providing technical assistance, and building capacity of private sector firms and public institutions.

Fourth, DBs face challenges, and many need to be reformed and strengthened. Although some DBs seem to fulfill their policy mandates sustainably and innovatively, others struggle to do so. Some DBs (5 percent of DBs surveyed) generate a high amount of nonperforming loans (they exceed more than 30 percent of their total loan portfolio) that undermine their long-term solvency and profitability. Government representatives dominate the boards of 51 percent of DBs; in those institutions, the participation of "independent" board members is limited or nonexistent. Others do not have a well-defined development mandate and compete with private financial intermediaries or even crowd out other market participants. Addressing those challenges is critical to enhancing the performance of DBs and mitigating the distortions they can create.

Many institutions that participated in this survey indicated that they face various challenges. For them, the greatest challenge and most important priority is to strengthen their own risk management capacity given the nature of their business activities and the fact that they serve clients that private financial institutions are not willing to serve and take risks that private financial institutions are not willing to take.

Striking the right balance in risk management is challenging. Although their shareholders and supervisors require that DBs be financially sound, risk reduction can come at the expense of providing inadequate support to the sectors they are expected to serve. Moreover, 15 percent of DBs indicated that they do not have the power or flexibility to adjust the interest rates of their lending products to reflect the risk profile of their customers. In principle, DBs should have the flexibility to adjust the "pricing" of their lending products at their own discretion and judgement, based on the risk profile of individual customers, to be able to lend in a sustainable manner.

DBs need to adopt better monitoring and evaluation frameworks to enable them to assess the economic impact of their business operations, examine what works and what does not, and ultimately quantify and evaluate their success. Many assess their performance purely on financial terms, focusing on their soundness, profitability, efficiency, and disbursement ratios, just like private financial institutions do, rather than the economic impact they will have. DBs lack the tools and analytical capability to assess their economic and development impact in the market niches in which they operate.

Many DBs indicated that their ultimate ability to meet their goals requires that governments put structural policies and reforms in place in their sectors to improve the business environment and attract private sector investment. DBs' success is also linked to the ability of governments to develop an ecosystem of financial institutions, including domestic capital markets, that serve the needs of various customers and thus enable DBs' customers to "graduate" and be served by other financial institutions.

Given the important role that DBs play, greater understanding of their role and operating methods is crucial to enhancing their effectiveness and contribution to development. Thus, this report concludes by highlighting potential areas for future research.

INTRODUCTION

In the next 15 years, the international community will need to mobilize trillions of dollars to achieve the 2030 Sustainable Development Goals, fulfill the commitments of the Paris Agreement, modernize and expand existing infrastructure in developing and developed economies, and lift millions of people out of poverty.

Existing sources of finance are insufficient to meet the world's development aspirations, so more-effective instruments are needed to mobilize private sector capital.

National DBs, along with multilateral DBs, can play an active role in mobilizing public and private sector resources to support new investments around the world. DBs not only finance projects that the private sector is unwilling or unable to finance, they also help to create and develop new market niches, develop innovative schemes to attract and channel private sector resources to large infrastructure projects, build capacity in public and private sector institutions, conceive and structure new investment projects, and facilitate the execution of public-private partnerships.

There are DBs in practically all countries, regardless of the country's stage of economic or financial sector development. They typically support such areas as agriculture, international trade, infrastructure, tourism, housing, and SMEs. In recent years, new DBs have been created to address various development challenges. FinDev in Canada (2017), Société de Financement Local in France (2013), PT Sarana Multi Infrastruktur in Indonesia (2008), and Development Bank of Nigeria (2013) are examples of recently created development banks.

New DBs have also emerged at the international level, such as the Asian Infrastructure Investment Bank and the New Development Bank, formerly known as BRICS Bank. Even some of the largest multilateral DBs, such as the WBG, are substantially increasing their capital to expand their business operations in the future. In recognition that some countries in the European Union were considering the establishment of new DBs, the European Commission issued a set of guidelines and good practices for setting up new DBs in 2015 (European Commission 2015).

Traditionally, the literature on DBs (and generally on state-owned financial institutions) has been polarized between two types of views, namely the "interventionist view" and the "laissez-faire view. The former favors active government participation in the provision of financial services, and the latter opposes government interference in the economy because of the distortions it can create. The laissez-faire view has dominated academic discussions in recent decades.

Much of the literature on state-owned financial institutions has focused on examining their financial performance (e.g., Micco et al. 2007). For example, using traditional ratios of profitability and efficiency, a study of state-owned banks in the Middle East and North Africa found that state-owned banks underperform private sector institutions (Farazi et al. 2011), mainly because they have larger holdings of government securities, higher costs because of larger staffing numbers, and larger loan loss provisions because of their weaker asset quality.

Other studies (e.g., La Porta et al. 2000) have concluded that poorly performing state-owned banks can hinder financial sector development, particularly in low-income countries, mainly because of governance problems that lead to failure of institutions and misallocation of resources. In high-income economies, this is not necessarily the case. For instance, a study of German banks from 1995 to 2007 concluded that state-owned banks are more stable, although less profitable, than private banks (Beck et al. 2009).

Most of the literature does not distinguish between the different types of state-owned financial institutions, such as commercial banks, postal banks, investment banks, DBs, and guarantee funds, examining them as a group without distinguishing their unique features and mandates. Moreover, few studies consider that DBs are not created as profit-making organizations and that comparisons with private sector institutions on purely financial terms might therefore not be appropriate.

Only a few studies have focused exclusively on national DBs and tend to examine a single or small set of institutions, such as Brazil's National Development Bank (Lazzarini 2015), China Development Bank (Sanderson 2013), Kreditanstalt fuer Wiederaufbau (KfW) in Germany (Griffith-Jones 2016), and Fannie Mae and Freddie Mac in the United States (Acharia et al. 2011). Some authors have analyzed specific types of national DBs in certain regions of the world such as agriculture banks in Latin America (e.g., Trivelli 2004). A few case studies have recently been conducted on the role of DBs in specific market niches such as climate change (e.g., Smallridge, 2017). The study of national DBs on a systematic and comprehensive basis through larger samples is limited.

In 2012, the World Bank published its first Global Financial Development Report, which examined the role of the state in finance. Among other topics, the report examined government ownership of banks, presenting new evidence that state involvement can help mitigate adverse effects of a crisis, such as during the global financial crisis of 2008 and 2009. Lending by state-owned banks was countercyclical in some jurisdictions, helping soften the effects of the credit crunch and deleveraging of private banks. That said, the report cautioned that, over longer periods, direct state involvement can have important negative effects on the financial sector and the economy. Therefore, as crisis conditions recede, the evidence suggests that it is advisable for governments to shift from direct (using public banks) to indirect (e.g., policy reforms) interventions.

In academic circles, a new model of the role that DBs should play has started to emerge – the pro-market activism model – that acknowledges that DBs, and more generally public banks, could play a key role in developing specialized knowledge and tools to address problems of access to finance by working closely with the private sector. From this new point of view, DBs are well suited to detect un- or under-served market niches and fill gaps. In addition, their scope of action is limited to playing a supporting role to private agents, backing "market friendly" interventions that help actors in the private sector develop solutions to problems of access. Implementing this third model requires that DBs be professionally managed and independent (see Schmukler 2017).

De la Torre, Gozzi, and Schmukler (2017) reviewed and analyzed the experience of Latin America, where the state has traditionally played a central role in providing access to finance. They offer examples of innovative public-private partnerships in Brazil, Chile, and Mexico that illustrate the importance of the state in overcoming coordination failures, first-mover disincentives, and obstacles to risk-sharing and distribution. They demonstrate how the state can play a useful catalytic role in developing financial products and services.

Recognizing the importance of national DBs, in 2012, the World Bank, in collaboration with the WFDFI, published the first Global Survey on Development Banks, which constituted one of the first attempts to better understand what national DBs do and how they do it. The survey examined various features of national DBs, including their policy mandates, ownership structures, business models, lending products, corporate governance arrangements, and regulation and supervision and the challenges they faced.

Given the interest in the first survey, the World Bank and WFDFI agreed to work together again to update the survey in 2017. This second survey on DBs presents new data collected during 2017. The questionnaire was expanded from 72 to 138 questions to explore more deeply some of the areas covered in the first survey and to include new topics that various DBs suggested. Several questions were added about how DBs monitor the economic impact of their business operations, how often the policy mandates of DBs are reviewed, and how DBs finance loans granted at subsidized interest rates. (See Annex 1 for full list of questions.)

This paper presents the main findings of the second survey, which 64 institutions from around the world, many of which did not participate in the first survey in 2012, responded to voluntarily. As with the first survey, this second survey was distributed to the members of the WFDFI. The full database will be available upon request to anyone interested in the topic by emailing any of the authors of this paper.

The paper is divided in four sections. The first section analyzes the general features of DBs, including their age (year of establishment), ownership structure (government, private sector, international financial institutions, or other shareholders), and size in terms of assets, and the countercyclical role of DBs during the recent past.

The second section examines the business operations of DBs, focusing on DB funding instruments (retail deposits vs. other instruments), the types of clients they serve (e.g., households, SMEs, financial intermediaries), the financial and nonfinancial products and services that they offer, how they price their loans, and how they use subsidies.

The third section analyzes the recent financial performance of DBs in terms of their profitability and soundness, their corporate governance arrangements, how they are regulated and supervised, and what instruments they use to monitor and evaluate their business activities.

The fourth section analyzes the challenges that DBs reported in the survey and highlights areas for further reform of DBs. We hope the data collected through this second survey will be useful. Although the survey answers some questions and provides new data on DBs, it also raises new questions and concerns. We expect that the findings will encourage others to use the data, analyze the issues discussed in the paper in more detail, and conduct their own analyses.

SAMPLE AND METHODOLOGICAL NOTES

The use of the term "development banks" is not universal. In some jurisdictions, such as China and Vietnam, DBs are known as policy banks. In Malaysia, they are called "development financial institutions" (DFIs). In Latin America, they are referred to as public banks or DBs. In the European Union, they are known as national promotional banks. In some areas, DBs hold a bank license; in others they do not and are established as specialized financial institutions. In this survey, the term DB will refer to any type of financial institution that a national government fully or partially owns or controls and has been given an explicit legal mandate to reach socioeconomic goals in a region, sector, or market segment.

The survey is based on a questionnaire with 138 questions (Annex 1) that the World Bank prepared with input from the WFDFI. The questionnaire was sent to the 230 members of the WFDFI in 2017, and 64 responses were received. (See Annex 2 for the list of respondent DBs.) Participation in the survey was voluntary, with no bias in favor of any particular type of DB or region.

To a large extent, data are representative of DBs in middle-income countries. Seventy-eight percent of responses were from DBs based in middle-income countries, 19 percent in high-income countries, and 3 percent in low-income countries.[1] In terms of regional coverage, 21 percent of responses were from institutions based in Africa, 30 percent in Asia, 25 percent in Europe, 19 percent in Latin America and the Caribbean, and 5 percent in the Middle East.

There are four important caveats with regard to the data in the survey. First, the data come directly from responses of senior managers of each DB. There was no third-party assessment or validation of the data. These senior managers had the opportunity to review and validate their institution's data. The World Bank made its best effort to clean the data and ensure its consistency in the database. If a question was not answered, the team left a blank space in the master database. Only questions for which there was at least a 90 percent response rate are included in this report.

Second, several topics were intentionally omitted from the scope of the survey. For instance, the survey does not explore the effectiveness of DBs in terms of fulfilling their mandates or examine the effect of DB operations on development of local financial systems. These are important topics, but given their complexity, they should be treated separately using a different methodology.

Third, the distinction between a DB and a commercial bank is not always clear. Some observers consider a few of the institutions included in the survey, such as the Development Finance Corporation of Ceylon (DFCC), which describes itself as a DB, to be commercial banks because of the scale of their commercial banking operations. The authors decided to keep these types of institutions in the survey as long as they fit the definition of a DB given earlier.

Finally, multilateral, regional, and subregional DBs were excluded from the survey to concentrate the focus on national DBs, in particular DBs in middle-income countries. The survey also excluded institutions with a regional focus within a country, such as the New Development Bank of Sarawak, which was recently established to support the development of the Sarawak region in Malaysia.

1 We follow the World Bank classification of countries according to income level. Countries with a gross national per capita income of US$1,025 or less in 2015 are classified as low-income economies, those with a gross national per capita income of US$1,026 to $12,475 as middle-income economies, and those with a gross national per capita income of US$12,476 and greater as high-income economies.

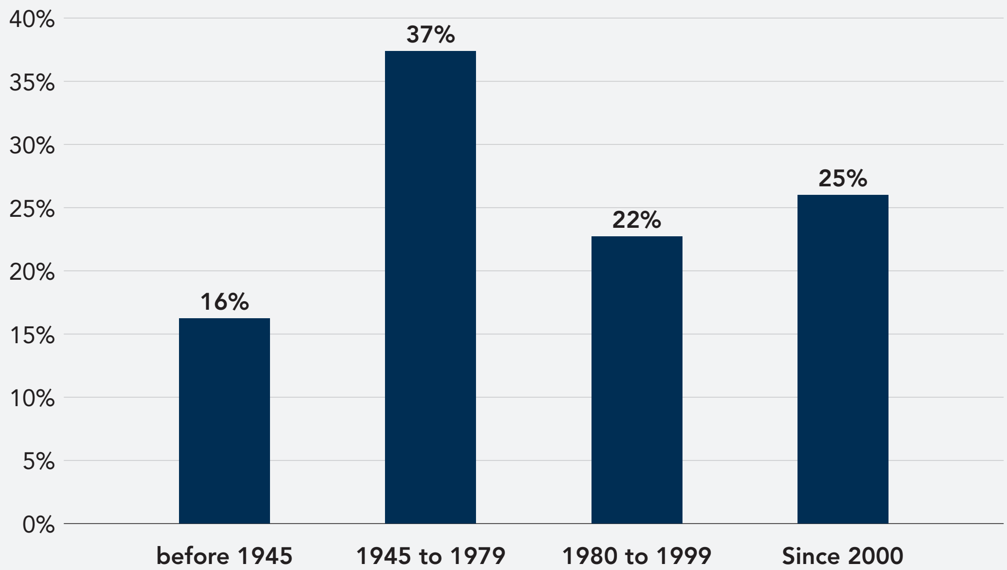
1 What Are the Key Features of DBs?

a) Age and Ownership Structure of DBs

Historically, DBs have been important instruments that governments use to promote economic development. Regardless of their stage of economic development, countries have established DBs to finance construction of roads, highways, airports, energy plants, dams, and telecommunication infrastructure; foster incipient industries and SMEs; and provide financial services to low-income households.

In emerging market economies, for instance, DBs provide long-term credit, guarantees, and other financial services in the infrastructure, housing, and agriculture sectors. Even in some advanced economies, where private financial institutions and capital markets satisfy the financial needs of firms and individuals, DBs continue to play active roles in providing financial services to strategic economic sectors. More recently, DBs are being established to finance green projects and accelerate adoption of the digital economy.

Figure 1: Establishment of Development Banks



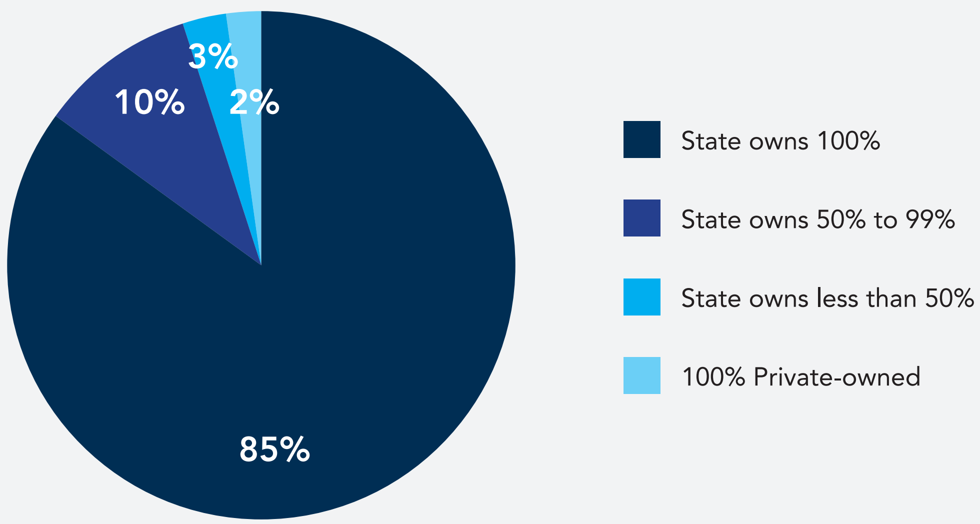
Sixteen percent of responding DBs were established before 1945 (Figure 1). Some institutions in this group were established in the 19th century, such as Banco Estado (Chile, 1855), T.C. Ziraat Bankası A.Ş. (Turkey, 1863), and Banco de la Republica Oriental del Uruguay (1896). These are the oldest institutions in our database.

Another 37 percent were established between 1945 (after the end of World War II) and 1979, including Bank Pertanian Malaysia Berhad (1969), Fideicomisos Instituidos en Relacion con la Agricultura (Mexico, 1954), Investment Fund for Developing Countries (Denmark, 1967), and Uganda Development Bank (1972).

Twenty-two percent of DBs were established between 1980 and 1999, during which time there was massive privatization in many parts of the world. Examples of DBs established during this period include Bancoldex S.A. (Colombia, 1992), Bhutan Development Bank (1988), and Hungarian Export-Import Bank (1994).

Twenty-five percent of institutions in the survey were established after 2000. New DBs are being established not only in developing countries, but also in countries with large and sophisticated financial systems to support SMEs, provide infrastructure finance, or help mitigate climate change challenges (e.g., green finance). Institutions created since 2000 are mainly in Europe, followed by Asia, Latin America, and Africa. Examples of new institutions include Société de Financement Local (France, 2013), PT Sarana Multi Infrastruktur (Indonesia, 2008), and Development Bank of Nigeria (2013). A new DB, FinDev, is being established in Canada, and new institutions are being considered in Myanmar, Angola, and Ghana, among other countries.

Figure 2: Ownership of Development Banks



National governments typically own, administer, and control DBs, providing strategic direction and appointing senior management and board members, although the extent of government ownership can vary. Governments fully control and own 85 percent of DBs surveyed, and 10 percent of DBs have minority private sector participation – between 1 percent and 49 percent of total shares (Figure 2), for example Credit Guarantee Corporation (Malaysia) and Industrial Bank of Kuwait. In this type of DB, the government maintains control of the institution, and the private sector owns part of its capital.

There are DBs in the sample that international financial institutions partly own. For example, the International Finance Corporation (an entity of the WBG) is a minority shareholder of Financiera de Desarrollo Nacional (Colombia), an institution created to promote participation of private companies in Colombia's efforts to revamp its infrastructure sector. The WBG has assisted some of its member countries in creating or reforming their national DBs. In 2013, for instance, the Nigeria Development Bank was established with the assistance of the World Bank and other international financial institutions (e.g., African Development Bank, Kreditanstalt fuer Wiederaufbau, European Investment Bank, African Development Bank) to help address financing challenges that micro, small, and medium enterprises (MSMEs) face in Nigeria. As discussed in subsequent sections of this report, international financial institutions are a significant source of funding and technical assistance for national DBs.

In 3 percent of DBs surveyed, the government owns less than 50 percent of the capital of the DB, with the private sector being the majority shareholder. The private sector fully owns a few DBs, for example, the DFCC in Sri Lanka, even though Parliament created it with a clear development mandate. Another example is the Development Bank of Austria, which was created to focus on long-term financing of sustainable investment and supporting the preparation and implementation of private-sector projects in developing countries. Even though the private sector fully controls these DBs, their overall development mandates are the core of their business activities.

There is no consensus among policymakers about the benefits of private sector ownership of DBs. Although the private sector can bring capital, corporate governance and managerial skills, and risk management to DBs, a privately owned DB runs the risks of abandoning its development mandate, focusing too much on profitability, and competing with other private institutions. This is an area in which more research is warranted. Privately owned and controlled DBs are a small minority, with national governments owning and controlling most, in some cases with participation of international DFIs, which tend to emphasize development and sustainability over profit maximization.

A key question facing policymakers is whether to establish a DB as a company or through legislation. Establishing a DB as a company – which the relevant regulators then license – often facilitates participation of nongovernment shareholders (e.g., private sector and international financial institutions) and tends to force the DB to comply with strong governance requirements applicable to corporate entities.[2] Nonetheless, establishing the DB through legislation has advantages, allowing provisions or requirements specific to DBs as public policy institutions to be included. The results of this survey show that 25 percent of DBs were established as companies and the remaining 75 percent through an act of Parliament or government decree. More DBs established as companies are supervised by the same regulator as commercial banks (88 percent) than of those established through an act of Parliament (66 percent).

2 One of the main questions is to what extent DBs have flexible human resources policies that enable them to be restructured if needed. If a DB is created using a charter, it may not be subject to a bank resolution framework.

BOX 1

Development Finance Corporation of Ceylon: Combining a Developmental Mandate with Private Ownership

The Development Finance Corporation of Ceylon (DFCC) was established in 1955 as a result of a recommendation of the first World Bank mission to Ceylon (now Sri Lanka) to set up a strong institution to support private sector access to medium- and long-term capital. At the time, commercial banks that offered mainly short-term loans dominated Sri Lanka's financial sector, and there was a need for a development financial institution to help meet the medium- and long-term financing needs of the economy.

The DFCC became a legal entity through an act of Parliament. The government was not a direct shareholder of the institution, but it provided two non-interest-bearing long-term loans equivalent to the initial paid-up capital. The act provided for private sector shareholders, with a board of directors that such shareholders elected. Although the government did not hold any share capital, it reserved for itself the right to nominate a director. The act provided for two nonvoting ex officio directors, including the chief executive officer. All of the usual procedural practices characterizing a company, such as holding annual general meetings and passing special and general resolutions, were incorporated into the act directly or by reference to the companies ordinance.

Because the act was a piece of legislation that parliament passed, only parliament could amend it. Thus, a unique situation emerged of an entity that private shareholders owned whose shares could be transacted on the stock exchange but whose objectives – or, for that matter, even simple provisions in its incorporating document – the owner shareholders could not change.

The hybrid structure that resulted from the above provisions represented a desire on the part of the government and the World Bank to establish a public-private partnership that would support the private sector. The model took into account the pivotal role that governments play in most developing countries, particularly in economic development. The presence of private sector shareholders ensured that the institution was operated on a commercial basis.

DFCC has been one of the more profitable institutions on the Colombo Stock Exchange. During the past 60 years, it has played a pioneering role in supporting new entrepreneurs, investment ideas, and sectors. It has expanded its product and service range to the extent that it can now provide a comprehensive package of financial products and services to its clientele. In doing so, it has contributed significantly to the widening and deepening of the country's financial sector.

In 2014, DFCC was incorporated under Companies Act No 7 of 2007. It merged with a fully owned commercial banking subsidiary (DFCC Vardhana Bank) and become a commercial bank in 2015, with a mandate to maintain 25 percent minimum development or project lending portfolio (current position 36 percent).

Source: World Bank 2007

b) Policy Mandates of DBs

DBs have historically been established for economic and social reasons. Typically, they have been set up to address scarcity of financing and other market failures that may lead to lack of investment and, thus, slow growth. DBs have also been established in countries with a low level of financial intermediation to complement the credit that existing financial intermediaries provide. In countries with large, sophisticated financial systems (e.g., United Kingdom), new DBs have been established to promote specific market niches (e.g., green finance).

The DBs surveyed have been given a wide range of policy or development mandates, which are usually stated in their founding acts or statutory documents. On the basis of their mandates, DBs can be divided into two groups: institutions given a narrow, specific mandate that explicitly refers to the sector(s) or type(s) of customers or activities that a DB is expected to support (e.g., SMEs) and institutions with broad mandates formulated in general terms without reference to any particular sector, activity, or customer. Examples of this latter type of mandate are to promote social and economic development or development of key growth sectors.

Forty-nine percent of DBs surveyed have narrow policy mandates (Table 1) and include institutions that were specifically established to support SMEs (15 percent), infrastructure projects (13 percent), agriculture (10 percent), export and import activities (8 percent), local governments (5 percent), and housing (2 percent). Examples of DBs in this group are the Credit Guarantee Corporation of Malaysia, Hungarian Export-Import Bank, and Banobras of Mexico (which specializes in large infrastructure projects).

Some of the DBs in the survey support more than one sector. For example, the Export-Import Bank of Malaysia Berhad provides credit facilities to finance and support traded capital goods and infrastructure projects. Other DBs, such as Financiera de Desarrollo Nacional S.A. (Colombia), have broad mandates but in practice focus on a specific sector, such as infrastructure finance.

Table 1: Development Banks According to Type of Mandate

1. Narrow	49
Agriculture	10
Small and medium enterprises	15
International trade	8
Housing	2
Infrastructure	13
Local governments	5
2. Broad	51
TOTAL	**100**

The remaining 51 percent of DBs are institutions with broad legal mandates that are expected to support a broad range of activities and sectors. Examples include the Finnish Fund for Industrial Cooperation, an institution established to "support the economic and social development of developing countries," and Swaziland Development and Savings Bank, which was established to "conduct the business of banking in all its aspects, having regard to the needs of the individual citizen of Swaziland and of Swaziland as a whole."

There are advantages and disadvantages to adopting narrow versus broad development mandates. An institution with a narrow mandate can focus its business activities on specific market gaps and specialize in its target market. Monitoring and assessing the performance and success of this type of institution is feasible because market gaps can be measured and tracked over time. Some DBs, such as the Fideicomisos Instituidos en Relación con la Agricultura (FIRA) of Mexico, quantify the financing gaps in the markets in which they operate and are able to track their progress over time. The data that FIRA collects and analyses can show what percentage of SMEs, farmers, and other types of borrowers are unable to obtain financing per year and to what extent the DB is helping fill that gap.

DBs with broad mandates have flexibility to finance a wide range of activities and sectors that the government deems important and even reduce their credit risk by diversifying their loan portfolios, although if not properly managed, DBs can lose focus and effectiveness because of the large number of sectors they are expected to serve, be subject to different and competing demands from different ministries and other government institutions, or simply have their policy mandates translate into diffuse tasks and activities, ultimately trying to displace instead of complement the private sector.

A critical challenge regarding the mandate of a DB is how often it is revised to ensure that the DB remains relevant. A revision of the mandate can reveal the need to adjust the purpose and objectives of the institution, given changes in the economy or the sector it is serving. In this survey, 43 percent of institutions reported that they review their mandate periodically. Twenty percent of respondents, such as the Industrial Development Corporation (South Africa), revise their mandates annually. Others, such as TIB Development Bank (Tanzania) and the Swiss Investment Fund for Emerging Markets, both of which have broad mandates, revise theirs every three or five years.

Most DBs are not subject to a periodic mandate review. Reviewing the mandate of an institution helps shareholders ensure that it remains relevant and fulfills its development role. Not reviewing the mandate may prevent an institution from evolving and adjusting to the ever-changing environment in which it operates. Moreover, institutions not reviewing their mandates at all may become obsolete – a concern that several DBs in Asia expressed, where thanks to rapid economic growth during the past three decades, the financing gaps they were supposed to fill have been narrowing, and they are now in a situation in which they need to think seriously about their future.

BOX 2

The National Savings Bank of Malaysia: What's Next After Reaching Universal Inclusion?

Bank Simpanan National (BSN) was established in 1974 to "encourage the development of savings and investment among Malaysians from all walks of life." At that time, only a small part of Malaysia's population had a savings account. Since its establishment, BSN has played an active role in terms of financial inclusion in Malaysia. Many of its programs and initiatives have been successful in increasing the rate of financial inclusion, particularly among low-income households and youth.

BSN serves 9.1 million Malaysian customers (39 percent of Malaysia's adult population) and is one of the nation's leading financial institutions in terms of the number of clients it serves. As of December 2016, it had more than 7,000 employees in 403 branches nationwide, 732 automated teller machines, 407 cash deposit machines, and 6,876 banking agents.

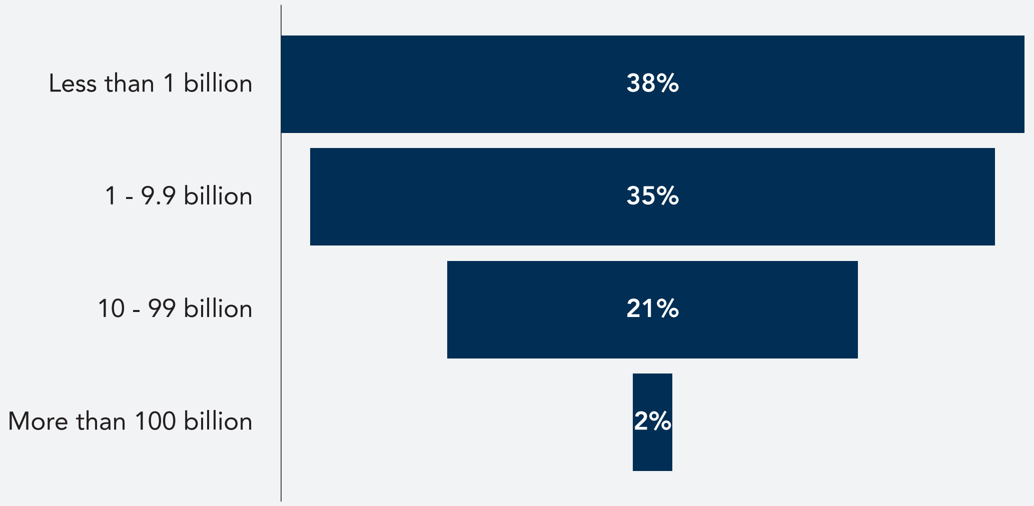
The 2018 data from Bank Negara Malaysia (Malaysia's central bank) indicate that Malaysia has reached a rate of financial inclusion of 95 percent (adults with a savings or deposit account) and that it is on the way to achieve universal financial inclusion in just a few years.

Given this new reality, what should BSN's role be in the future? What value can BSN continue to provide to low-income customers? Is it still needed in certain areas of Malaysia? There is almost no more room to grow in terms of offering savings accounts to the population, so should it focus on enhancing the quality of its financial services to its customers? Does BSN have a role to play in providing services beyond basic savings accounts to low-income households (e.g., micro-insurance products, consumer lending, pension, investment)? Should BSN be transformed into a full-fledged universal bank? BSN All stakeholders are examining these questions.

c) Size of DBs

At the end of 2015, the DBs in the survey reported total assets of US$940 billion. In terms of assets, DBs can be categorized as small (less than US$1billion in assets), medium (US$1 billion to $9.9 billion), large (US$10 billion to $99 billion), and mega (more than US$100 billion) (Figure 3). In 2015, 38 percent of the surveyed DBs were categorized as small, 35 percent medium, 21 percent large, and 2 percent mega.

Figure 3. Development Banks by Assets in 2015 (US$)



In terms of market share, 47 percent of the surveyed DBs are small, holding far less than 10 percent of the total assets of their national banking systems. Of these, 16 percent account for less than 1 percent of the assets of the banking systems of the countries in which they operate, such as Vietnam's Ba Ria-Vung Tau Development Investment Fund, although a small group of DBs have become large players in their banking systems, some of them in small economies. For example, the Bhutan Development Bank accounts for 25 percent of total assets of its banking system, Swaziland Development and Savings Bank 12.3 percent, Banco de La Republica Oriental Del (Uruguay) 42.8 percent, and the Agricultural Bank of Sudan 13 percent.

In a few larger economies, some surveyed DBs have a significant share of their market niches, for example, the Vietnam Bank for Social Policies, which provides 60 percent of all micro-loans in Vietnam, and Fideicomisos Instituidos en Relación con la Agricultura (Mexico), which accounts for 67 percent of total lending to the agriculture sector (loans are channeled through private commercial banks that on-lend funds to end-borrowers.) As mentioned earlier, the National Savings Bank of Malaysia provides savings accounts and other basic financial services for 39 percent of the adult population, especially low-income households.

d) Countercyclical Role of DBs

There is a rich economic literature that evaluates the countercyclical nature of lending by state-owned banks and DBs. The first survey of DBs (Luna-Martinez and Vicente 2012) showed that, between 2007 and 2009, the DBs in the sample increased their lending by an average of 36 percent, versus a 10 percent increase in private bank credit for the countries surveyed during the same period. This countercyclical role of DBs came for the most part in the form of an increase in the supply of credit to private firms as a way to compensate for the credit crunch resulting from the global financial crisis. Similarly, Bertay, Demirguc-Kunt, and Huizinga (2015) show that lending by state banks is less procyclical than lending by private banks, especially in countries with good governance, and even countercyclical in high-income countries. They also show that state banks can play an important role in stabilizing credit throughout the business cycle and during periods of financial instability.[3]

Choi, Gutierrez, and Martinez Peria (2016) found that government-owned banks played a countercyclical role during the financial crisis in all regions, having experienced a faster increase in their loan portfolios than private institutions. Ferrari, Mare, and Skamnelos (2017) show that all state-owned financial institutions in Europe and Central Asia expanded their loan portfolios faster than did the banking sector overall after the global financial crisis. Commercial state-owned financial institutions expanded their loan portfolios faster than DBs and seem to have turned after 2011 to investment instruments such as government bonds.

This survey appears to confirm prior research and shows that DBs can play a significant countercyclical role in times of crisis or economic downturns. Half of respondent DBs indicated that they increased their lending or guarantees during the global financial crisis of 2007/08 to compensate for the temporary reduction in lending by private sector banks and financial institutions.

More than half of the DBs surveyed experienced greater growth in their gross loan portfolios than the national average in their respective countries between 2010 and 2015, confirming the countercyclical role they can play in difficult times. Fifty-six percent of DBs surveyed saw considerably greater growth in their gross loan portfolios between 2010 and 2015 than average growth in domestic credit that the financial sector in their countries provided. This is not limited to a particular region; DBs from several regions experienced a similar trend. For instance, Banco Nacional de Comercio Exterior of Mexico saw average growth in its gross loan portfolio of 136.8 percent between 2010 and 2015, whereas the domestic credit that the financial sector in Mexico provided grew on average by 39.9 percent over the same period. Similarly, the Brazilian Development Bank experienced 90.1 percent growth in its loan portfolio, whereas Brazil overall experienced an average 20.9 percent increase in domestic credit that the financial sector provided. Land Bank of Philippines saw a similar trend, with an average increase of 102.2 percent in its gross loan portfolio, versus 59.8 percent nationally. Of all DBs that have experienced greater growth in their loan portfolios than the national average, 70 percent are based in developing countries, with the remaining 30 percent in high-income economies. This finding indicates the continued major role that many DBs play in their countries' economies and confirms the countercyclical role identified earlier in our analysis.

3 If credit allocation is poor, the effectiveness of the countercyclical role is questionable.

DBs used serveral measures to ease the lack of financing during the global financial crisis. Some of these measures included reviewing loan accounts and restructuring loan repayment terms (e.g., interest rate reduction and maturity extension) where applicable, increasing availability of liquidity for financial intermediaries and MSMEs, introducing guarantees for financially constrained SMEs, and increasing financing to local governments because of the reduction in federal transfers during the crisis.

Only 41 percent of DBs surveyed reversed their countercyclical measures as private sector lending improved after the financial crisis. Data obtained through this survey reveal that, in the aftermath of the global financial crisis, most DBs have continued to expand in their business activities. For instance, as a group, DBs experienced 64 percent growth in their lending portfolios from 2010 to 2015 (13 percent per year). Moreover, the loan portfolios of 82 percent of DBs surveyed grew, whereas those of only 18 percent shrank during this time.

There are differences between the countercyclical role of DBs in high-income and developing countries. In developing countries, 44 percent of DBs adopted countercyclical measures during the global financial crisis, whereas 67 percent of those in high-income countries implemented such measures. This might suggest that DBs in high-income countries are better prepared to adopt measures designed to mitigate the effects of a major financial crisis, but the results of reversing these measures after the crisis are very similar; 41 percent of DBs in developing countries and 42 percent in high-income countries have reversed the countercyclical measures implemented during the crisis.

2 What Are the Business Models of DBs?

a) Funding

DBs rely on multiple sources of funding to support their business activities (Table 2). Sources available to the majority of DBs include borrowing from international capital markets and other financial institutions, obtaining official development assistance through international financial institutions such as the WBG or any of the other regional DBs, and issuing debt in local debt markets. Many DBs have an implicit or explicit sovereign guarantee on their liabilities, which enables them to enhance their risk profile and access capital markets or borrow from banks on the same terms that their governments do.[4]

Only 21 percent of DBs take deposits from the general public. This is not surprising, given that DBs are usually established to address financing constraints (e.g., long-term, agricultural, SME financing). The few retail deposit-taking DBs covered in the survey tend to be institutions with a specific mandate to provide financial services to un- or underserved households. Examples include National Savings Bank (Malaysia), Vietnam Bank for Social Policies, Banco Estado (Chile), Banco de La Republica Oriental Del Uruguay, Banco do Nordeste (Brazil), Savings and Social Development Bank (Sudan), and Caisse de Depot et de Gestion (Morocco).

Although not allowed to take deposits from the public, some DBs are allowed to take deposits from government institutions. A larger percentage of DBs (46 percent) take deposits from government agencies, which are mandated to place a part of their deposits in DBs.

4 Approximately half of the participating DBs indicated that their governments guarantee their debt. A few described receiving implicit guarantees or guarantees from a municipal guarantee board rather than the central government or receiving guarantees only if required for multilateral loans.

Table 2: Development Bank Sources of Funding

Question	Yes (%)	No (%)
Does your institution take deposits from the general public?	21	67
Does your institution take deposits from government agencies?	46	54
Can your institution borrow from other financial institutions?	84	16
Is your institution a participant in the local interbank market?	56	44
Can your institution issue debt in local debt markets?	75	25
Can your institution borrow from international capital markets or institutional investors?	85	15
Is your institution allowed to obtain official development assistance funds provided by official agencies or multilateral institutions?	77	23
Does your institution receive regular direct budget transfers from the government?	29	71
Has your institution been recapitalized, that is, received government funds, subsidies, or transfers to cover losses or strengthen its financial situation in the past four years?	32	68

The DBs in the survey participate to various degrees in the financial markets in their countries, as well as in the international capital markets. Seventy-five percent of institutions in the survey can raise funds in the local market and 85 percent in international markets. Fifty-five percent of DBs participate in the local interbank market. Some have played innovative roles in their domestic capital markets. For instance, Nacional Financiera (Mexico) issued the first ever green bond in Latin America in 2016. Since then, other private banks have followed suit.

Seventy-seven percent of DBs in the sample are allowed to receive official development assistance from official agencies or multilateral institutions. Funding from official agencies or multilateral institutions is long term (usually more than 20 years) and is granted at concessional terms (below market interest rates with grace period, depending on eligibility). Historically, national DBs have been among the main recipients of loans and grants that multilateral DBs provide. DBs borrow funds of multilateral agencies and disburse them to end-clients, directly or indirectly through other financial institutions. Given that DBs usually borrow internationally in foreign currency and lend domestically in local currency, they absorb the currency risk associated with their borrowing activities.

The DBs covered in this survey reported a relatively low level of dependence on their respective governments. Only 27 percent reported receiving regular direct budget transfers from the government, including resources to cover interest rate subsidies under specific government programs that DBs execute. Of the DBs receiving regular transfers, only 16 percent indicated that their institution would not be able to operate on a sustainable basis (with its own generated income and profits) in the absence of government transfers.

Thirty-two percent of DBs indicated that they had been recapitalized over the past four years using government funds, subsidies, or transfers to cover losses or support balance sheet expansion. Although it is difficult to disentangle the financial strengthening role of recapitalization from the role of covering losses, a significant number of DBs apparently receive support, albeit not regular, from their governments.

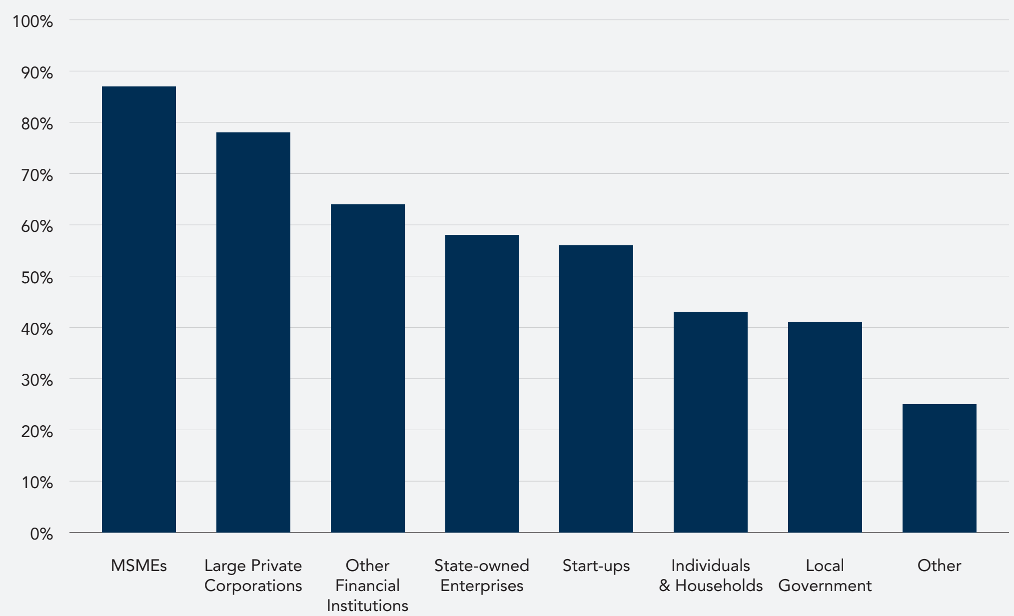
b) DB Clients

DBs serve varied borrowers, not only MSMEs, but also large private firms, individuals, local governments, and other financial institutions (Figure 4). In the case of export-import banks, borrowers can include foreign governments and enterprises.

Among DBs covered in the survey, there is a strong focus on serving local private sector enterprises. Eighty-seven percent of DBs indicated that they target MSMEs; 78 percent also target large private sector corporations. With the data from the survey, it is not possible to analyze what percentage of borrowers do not have access to other sources of financing, although knowing this would help measure the "additionality" that DBs bring to the market niches in which they operate.

Some DBs indicated that they serve only larger enterprises, given the nature of their policy mandates, with 100 percent of the loan portfolio granted to private sector firms going to large enterprises – Development Bank of Austria, Vnesheconombank of Moscow, and PT Sarana Multi Infrastruktur (Indonesia), for example.

Figure 4: Clients That Development Banks Target



Sixty-four percent of DBs target and support private financial intermediaries, which borrow (and also take guarantees) from DBs to on-lend to end-borrowers. For example, Fideicomisos Instituidos en Relación con la Agricultura (Mexico) provides funding (and loan guarantees) to private banks (domestic and foreign) and other nonbank financial intermediaries at attractive (below market) interest rates so that they can on-lend to firms along value chains in the agriculture and agribusiness sectors in Mexico.

58 percent of all DBs report that they lend to state-owned enterprises. However, there is a clear differentiation between DBs in developing countries and DBs in high-income countries; 62 percent of DBs in developing countries and 38 percent of DBs in high-income countries target state-owned enterprises.

Only 43 percent of all DBs indicated that they serve financing needs of individuals (households). Many institutions serving individuals are agriculture DBs that target smallholder farmers such as Agro-bank (Malaysia) and Agriculture Bank of Sudan. Although most DBs' lending portfolios consist of loans granted for the business activities of their borrowers, some institutions provide consumer loans, such as Agro-bank (Malaysia) (borrowers located in rural areas), Banco Estado (Chile), and Vietnam Bank for Social Policies. DBs in developing countries appear to cater more to the financing needs of individuals and households than those in high-income countries; 46 percent of DBs in developing countries serve individuals and households, versus 31 percent in high-income countries.

Although some DBs provide loans to individuals and corporations (and to some extent, local governments), a few DBs lend only to private enterprises, such as Development Bank of Turkey, Bank Pembangunan Malaysia Berhad, and Vung Tau Development Investment Fund (Vietnam).

Some DBs that serve local governments include Bank Gospodarstwa Krajowego, which makes 25 percent of the value of its loans and guarantees to the local government; Municipality Finance Plc (Finland), which makes 56 percent of the value of its loans and guarantees to the local government and companies that the local government controls; and Caisse des Dépôts et de Développement (Mauritania), which makes 46 percent of the value of its loans to the local government. Ninety percent of the loans of the Société de Financement Local (France), which was established in 2013 with the objective of promoting stability in local public sector financing in France, are to local governments.

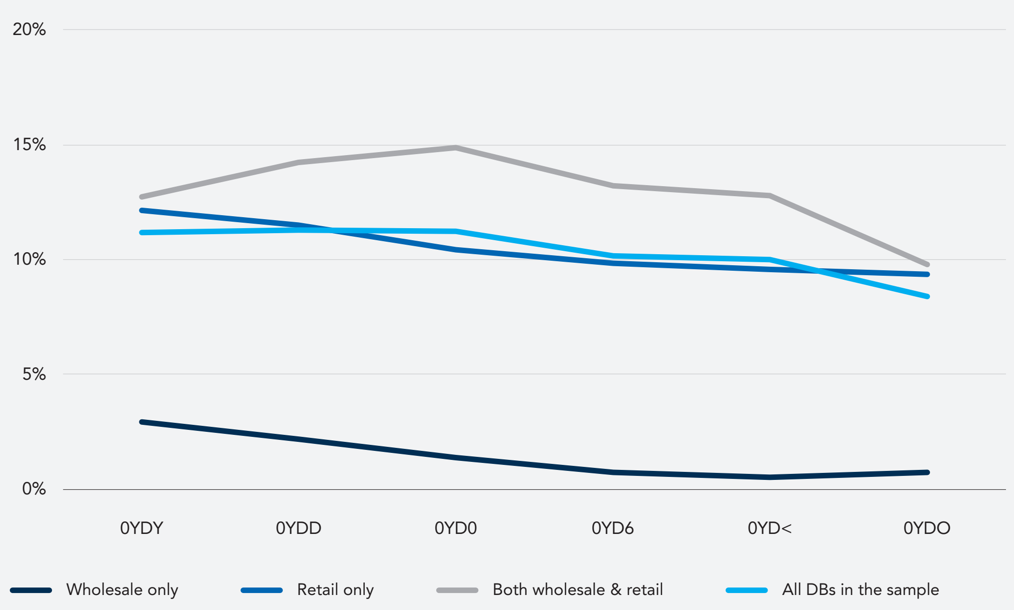
c) Business Models

Lending is the core business activity for most DBs. DBs were asked which business model they used to lend to their customers: wholesale lending (other financial intermediaries borrow from DBs and then on-lend funds to end customers), lending directly to end borrowers, or a combination of these two models. Ten percent of DBs indicated that they only lend wholesale, 40 percent only retail, and 50 percent a combination of wholesale and retail. There are however, certain differences between DBs based in developing countries and those based in developed economies. Indeed, DBs based in developing countries appear to focus more on the retail-only model - 44 percent versus 29 percent in the case of DBs based in developed countries. On the other hand, a greater share of DBs based in developed countries seem to pursue the wholesale model (18 percent versus 12 percent for DBs based in developing countries), as well as the mixed model (53 percent versus 44 percent for DBs based in developing countries).

There are various advantages and disadvantages of first- (retail) and second-tier (wholesale) lending. Under the first-tier (retail) lending model, DBs interact directly with end-customers, which can require the DB to have many branches to access its target customers. This can impose enormous operating costs on agriculture, housing, and SME banks, which usually have a large clientele dispersed throughout a country. Other things equal, the interest rate offered to end-customers can be lower with this model because resources are not channeled through other financial institutions. In addition, the credit risk stays completely with the DB.

Under the second-tier (or wholesale) lending model, DBs tend to have lower operating costs because they provide financing to private financial institutions that then select and assess loan applications of end-customers. Under this model, the DB can reach more end-customers and cover more locations without incurring high operating costs. This model also promotes the growth of private financial intermediaries that become the arms of DBs and reach underserved sectors and clients. Moreover, the private financial institution that intermediates the DBs' funds partially absorbs the credit risk. Second-tier DBs tend to report lower NPL ratios than first-tier DBs, although interest rates for end-customers tend to be higher because private financial institutions pass on their cost of financial intermediation plus any other margins. Indeed, as illustrated in Figure 5 below, second-tier DBs have reported significantly lower NPL ratios throughout the entire 2010-2015 period than first-tier DBs or DBs using the combined model, although the latter have seen their average NPL ratios declining since 2012.

Figure 5: Average NPL Ratio by Type of DB



d) Products and Services

The DBs in the sample offer a wide range of lending and financial products and services (Figures 6 and 7). The most popular lending products that the DBs in our sample offer are long-term loans (90 percent of DBs), loans for working capital (79 percent), bridge or short-term loans (72 percent), and syndicated loans (66 percent). Although not among the top three types of loans, a high percentage of DBs offer loans related to new product launches (64 percent) or start-up activities (58 percent), which signals strong support for innovation and entrepreneurship. This is even more prevalent in DBs in developing countries, 63 percent of whom indicated that they offer loans for start-up activities, versus only 50 percent in high-income countries.

DBs provide a wide range of financial products and services beyond lending. More than 55 percent offer loan guarantees, 47 percent private equity (PE) and venture capital (VC), and 44 percent deposit accounts. At the other end of the spectrum, only 12 percent offer debt collection, 10 percent offer microinsurance, and 5 percent sell or broker property or assets.

DBs also play an important role in trade finance, which in many countries is critical to promoting export and import development. Of the DBs that offer trade finance products, three such products appear to dominate: export credits (76 percent of DBs), guarantees (70 percent), and import credits (62 percent). DBs in developing countries are more focused than in high-income countries on guarantees (76 percent vs. 50 percent) and import credits (67 percent vs. 50 percent) and less focused on export credits (71 percent vs. 89 percent).

DBs are core players in infrastructure investments. For the DBs that provide infrastructure finance instruments, the top three instruments are loans, guarantees, and public-private partnerships. At least 59 percent of the DBs offer these infrastructure finance instruments, which demonstrates that many DBs remain committed to financing infrastructure projects.

Forty-four percent of the surveyed DBs offer credit guarantees, including export credit guarantees from those involved with trade finance. Most DBs that offer credit guarantees have business lines that include exporting and importing or providing accessible financing to MSMEs – Credit Guarantee Corporation (Malaysia), Export Import Bank of Malaysia Berhad, and Banco de Desarrollo de El Salvador, for example.

Many DBs maintain an active portfolio of nonfinancial products; 55 percent offer consulting and training, and 41 percent offer other types of advisory and technical assistance activities and networking and business matching. The value of DBs can go beyond the additional financing they provide in sectors that private financial intermediaries do not sufficiently serve. DBs can also play an important role in helping to structure complex deals, creating new channels to mobilize private sector resources, providing technical assistance and building capacity of private sector firms and public institutions, and creating and disseminating knowledge.

Figure 6: Percentage of Development Banks Offering a Particular Lending Product

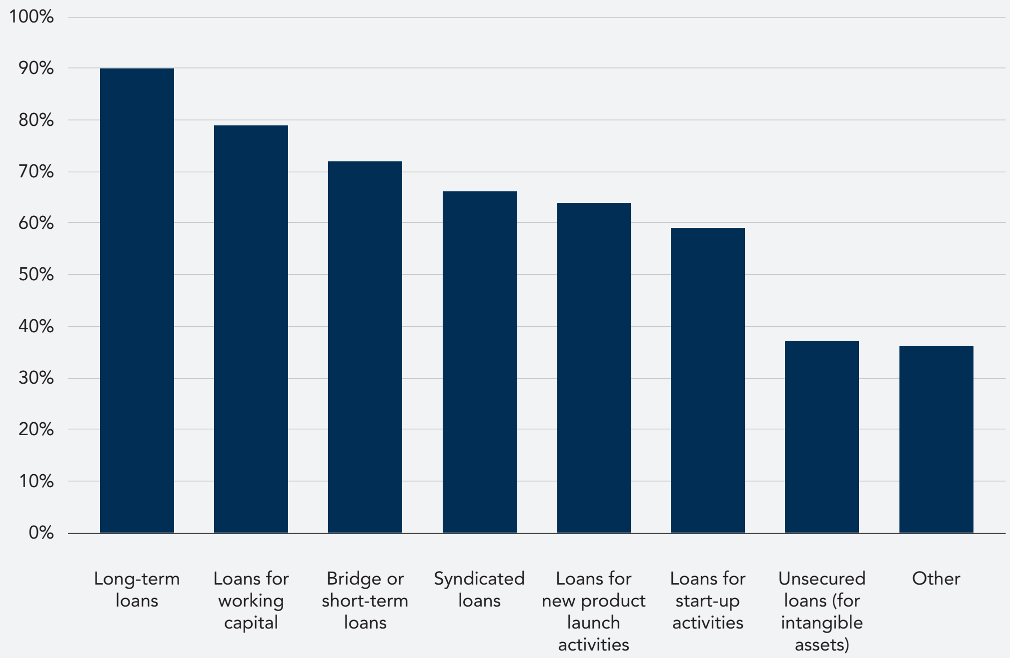
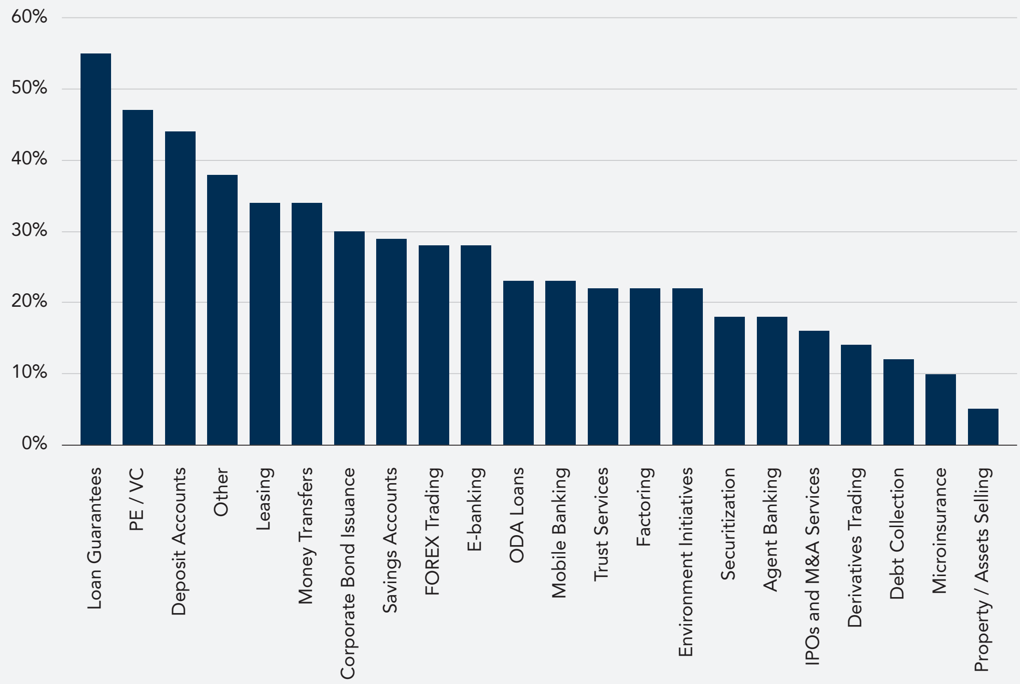


Figure 7: Percentage of Development Banks Offering a Particular Financial Product or Service



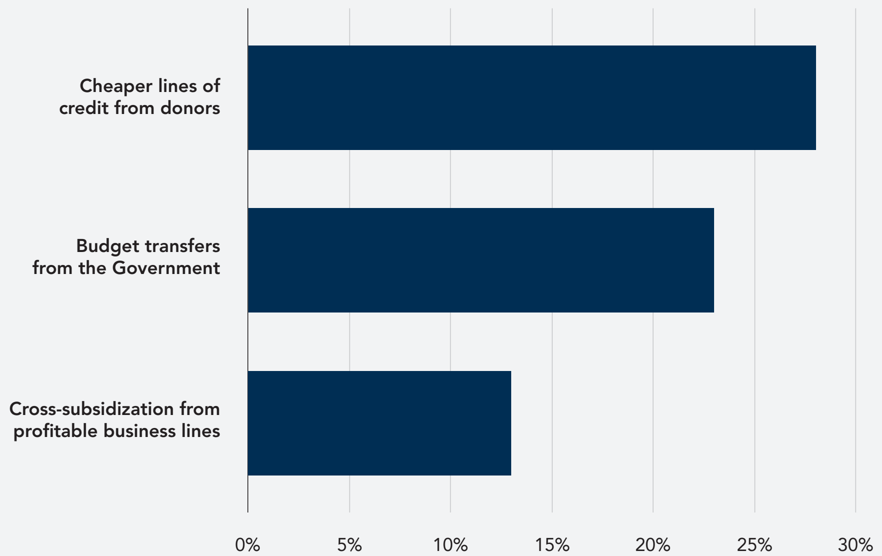
e) Pricing and Subsidies

A critical concern of DBs is how they price their financial products and services. Should they price their loans at market interest rates or subsidize the interest rate? If the latter, who bears the cost of granting credit at subsidized interest rates? Whether DBs should provide credit (or guarantees) at subsidized interest rates (or premiums) has been controversial. Some feel that this practice might undermine the solvency and profitability of DBs and distort the competitive environment, whereas others feel that the use of subsidized interest rates might be justifiable to support nascent enterprises, provided that subsidies are transparent and used for their intended purposes.

Forty-nine percent of institutions reported that they only offer loans priced at market interest rates, with the remaining 51 percent offering market-based and subsidized loan products. DBs in the second category indicated that they fund their subsidized lending through a combination of low-cost lines of credit from international donors or multilateral DBs (e.g., WBG), which offer concessional (interest free or subsidized) loans to them; government funding; and other profitable business lines that allow them to do so without incurring in losses.

Institutions that are not somehow compensated for the cost of providing lending at subsidized interest rates ultimately face losses and failure. Therefore, it is critical that subsidized lending does not compromise the financial soundness of institutions. For borrowers that private financial institutions do not serve, the ability to access credit in a timely manner is more important than the cost of it, as the success of the microfinance sector in various countries illustrates.

Figure 8: How Subsidized Loans are Funded



To prevent financial problems resulting from granting credit at subsidized interest rates, some DBs separate their lending portfolios into two groups. Some DBs whose governments require them to provide loans to certain groups of borrowers at subsidized interest rates book these loans (along with the funding associated with it) off their balance sheet, which is common and enables them to receive funding (from government and other sources) to provide loans at subsidized interest rates without incurring losses. Typically, the DB collects a fee for underwriting, disbursing, supervising, and collecting loans, but the performance of the borrowers does not affect it because the loans are not booked on the balance sheet. In the event of a borrower's default, losses are passed on to the source of funding. This practice enables DBs to keep loans that they grant using their own resources separate from loans that they grant on behalf of the government or other donors, which may have a higher risk profile.

BOX 3

The Industrial Bank of Kuwait

The Industrial Bank of Kuwait was established in 1973 with a mandate to provide medium- to long-term industrial loans for the establishment of new industrial units and the expansion and modernization of existing ones. At the end of 2015, it had assets of US$2 billion. The loan portfolio is separated into two parts. In one part (Project Division) loans are provided at a fixed, subsidized interest rate of 3.5 percent per annum. A long-term revolving facility of KD300 million that the government of Kuwait has granted to the bank funds this lending. In the other part (Banking and Finance Division), the bank provides a wide range of short-term credit facilities, including working capital financing, lines of credit, letters of credit, and guarantees on a commercial basis.

With 232 employees, the bank's business structure and organization are simple, designed to enable the institution to fulfill its developmental mandate.

The bank also has three small departments administering loans on behalf of the government of Kuwait: Islamic Financing Portfolio, Handicraft and Small Enterprises Portfolio, and Agriculture Finance Portfolio. The bank collects a fee for administering these portfolios but takes no credit risk in the event of client default. These loans are booked off the balance sheet.

f) Profitability and Asset Quality

DBs have mixed results on profitability and asset quality. Most report positive figures in terms of their return on assets (ROA) and return on equity (ROE). For example, for 2011 to 2015, 94 percent to 98 percent of DBs reported positive ROA and ROE ratios.

Although most DBs reported positive profitability figures, only a few (27 percent to 33 percent of DBs) outperformed their national averages in the period 2011 to 2015. Examples of the few institutions that consistently outperformed the ROA ratio in their banking systems for 2011 to 2015 include Agrobank (Malaysia), Fideicomisos Instituidos en Relación con la Agricultura (Mexico), Finnish Fund for Industrial Cooperation, Industrial Development Corporation of South Africa, and Small Industry Development Bank of India. Examples of institutions that outperformed their average ROE ratios in the same timeframe include Municipality Finance PLC (Finland) and Landeskreditbank Baden-Württemberg Förderbank (Germany). A few institutions reported negative numbers with regard to their profitability ratios during this time, such as the Infrastructure Development Bank of Zimbabwe.

A common criticism of DBs is that they are prone to asset quality problems. They are often portrayed as having a limited capacity to assess borrowers' ability and willingness to repay their loans and to collect debt on loans, resulting in NPLs, debt forgiveness programs, and financial losses that taxpayers ultimately bear. The survey collected data on the NPL ratios of DBs. At the end of 2015, 61 percent of DBs reported NPL ratios of less than 5 percent, 32 percent between 5 percent and 30 percent, and 7 percent more than 30 percent (Figure 9). This distribution remained somewhat consistent from 2011 to 2015.

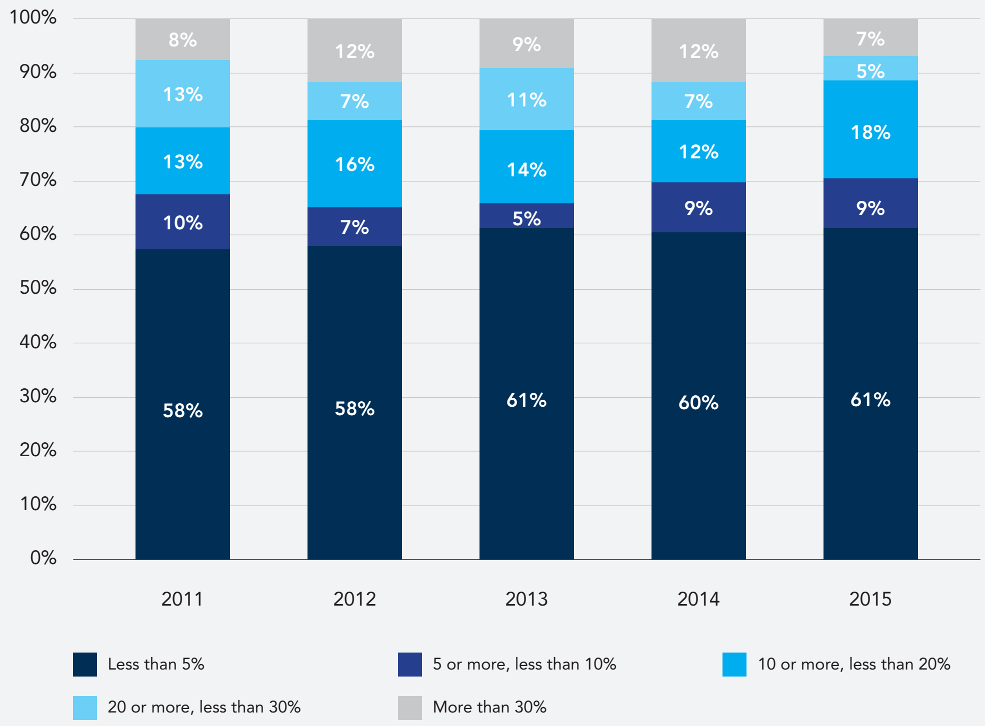
NPLs can be problematic for DBs, with more than half of the sample experiencing higher average NPL ratios from 2010 to 2015 than the average for the banking sector in their country.[5] A few of the DBs experienced consistently high NPL ratios from 2010 to 2015, often exceeding 30 percent. For instance, Bandesal of El Salvador had, on average, an NPL ratio of 47 percent; Infrastructure Development Bank of Zimbabwe, 36 percent; Uganda Development Bank, 34 percent; and Credit Guarantee Corporation of Malaysia, 33percent. TRNC Development Bank (Cyprus) reported a NPL ratio of 50 percent in 2015; the average NPL ratio in Cyprus's banking system in 2015 was reported to be almost as high (48 percent), so although its NPL ratio may have been noticeably higher than those of other surveyed DBs, it did not deviate much from the national average. More broadly, almost 58 percent of the DBs surveyed have experienced higher average NPL ratios than the average for the banking sector overall.

There are also DBs – in developing and high-income economies – that maintained healthy, low NPL ratios from 2010 to 2015. For instance, Banco Nacional de Comercio Exterior of Mexico maintained an average NPL ratio of 1 percent (versus 2.6 percent for the banking sector in Mexico), the EXIM Bank of Hungary kept its NPL ratio at 1.9 percent on average (versus 14 percent for the Hungarian banking sector overall), and the Small Industries

5 The average NPL ratios on banking systems were obtained from the International Monetary Fund, Financial Soundness Indicators Database.

Development Bank of India maintained an NPL ratio of 0.9 percent (versus 4.1 percent for the Indian banking sector in general). Some other DBs had NPL ratios that were zero percent. For example, the Development Bank of Austria, Agencia Financiera de Desarrollo (Paraguay), Ba Ria-Vung Tau Development Investment Fund (Vietnam), and Swiss Investment Fund for Emerging Markets all reported NPL ratios of 0 percent in 2015, all noticeably below the average NPL ratios in their respective banking systems.

Figure 9: Percentage of Development Banks in Each Nonperforming Loan Range[6]



DBs with high NPL ratios need to improve their performance and risk management, because such levels are not sustainable in the medium to long run and detract from the bank's mission by diverting resources from other development-related projects that could be better managed and thus have the desired developmental effect.

6 Only 70 percent of institutions provided data on their NPLs.

3 How Are DBs Managed and Governed?

a) Corporate Governance Arrangements

Good corporate governance is critical for the success of DBs. In broad terms, corporate governance refers to the process and structure for overseeing the direction and management of a corporation so that it carries out its mandate and objectives effectively. DB governance can be more challenging than in private financial intermediaries. The structure of DB ownership and control can be complex, involving many governmental institutions (e.g., ministries of finance, agriculture, housing, trade, labor) and sometimes even the legislature. These entities all have their own legitimate (and sometimes conflicting) expectations regarding the DB's goals (OECD 2015).

When the mandate of the DB is stated only in general, broad terms, senior government officials and elected politicians have more room to influence the DB's direction and activities. Unless the institutional framework of a DB is strong enough to withstand political pressure, a DB can become vulnerable to political interference or be captured by interest groups exerting pressure on it to take excessive credit risks, causing future financial losses for the DB.

As government-owned institutions, DBs rarely face the risk of takeover. This, combined with the absence of a sound monitoring and evaluation framework, can cause DB boards and management to become progressively more tolerant of the bank's inefficiencies and poor performance. Many of the problems that afflict state financial institutions, such as poor performance, financial problems, diffuse mandates, unfair competition with the private sector, and capture by interest groups, can be associated with, if not attributed directly to, weaknesses in corporate governance.

The survey examined features of the corporate governance framework of DBs. DBs were asked about the size and composition of their boards. On average, DB boards are composed of nine members, with 31 percent of DBs having more than 10 members on their boards. In terms of their composition, DB boards usually have a mix of government representatives (from various ministries) and independent members (persons not affiliated with the government or government agencies). Forty-nine percent of DBs indicated that the majority of their board members were "independent," 43 percent reported that independent board members were a minority, and the remaining 8 percent of DBs did not have any independent board members.

The survey also asked who appoints the members of the DB's board of directors, regardless of whether the members are independent. In 74 percent of cases, a government body such as the Ministry of Finance or the president of the country appoints board members. In the remaining cases, the board itself appoints its members.

In 75 percent of DBs, board members are appointed for fixed terms; 67 percent of these allow board members to serve up to a maximum of 6 years: an initial term and one renewal. A few institutions allow board members to serve longer than 6 years or have open-ended appointments. The survey also asked whether the terms of the board members are staggered such that they do not expire at the same time; 51 percent responded positively, whereas for the remaining 49 percent of institutions, there are no specific provisions requiring staggering of board appointments.

The survey asked whether the chairman of the board of directors was also the chief executive officer (CEO) or general manager. Eighty-five percent indicated the chairman of the board must be a different person than the CEO or general manager. The remaining 15 percent had chairmen of the board who served simultaneously as CEOs, such as Banco de Desarrollo de El Salvador and Development Bank of Turkey.

Who is and who appoints the director general or CEO of a DB? Fifty-four percent of institutions indicated that the relevant minister or the president of the country appoints their director general or CEO. In the remaining 36 percent of cases, the board of directors appoints the CEO. Each institution has different eligibility requirements for its CEO, some with clear, specific criteria, others with no specific criteria at all, leaving more room for political decisions. Sixty-three percent of DBs require a minimum level of education or technical qualifications, 42 percent require a minimum level of financial or banking experience, 65 percent require that the CEO have no bankruptcy record, and 70 percent require that their CEO have no conflict of interest. In 61 percent of cases, the CEO is appointed for a fixed term, and in 53 percent of those cases, the term is for 3 to 6 years.

The survey asked whether the performance of the board of directors is evaluated. Sixty-six percent of DBs responded that their boards are subject to performance evaluation, whereas the remaining 34 percent of boards are not. In institutions that require board performance evaluation, the appointing authority (39 percent of cases) is the main body conducting board evaluations, followed by peers (28 percent) and the central bank or bank supervisory authority (8 percent). A future survey should ask about what methodologies are used to evaluate performance and what happens in the case of poor performance.

The survey asked which ministry or government entity represents the national government as a shareholder in the DB. In 54 percent, it is the Ministry of Finance or the Treasury, and in 15 percent it is the Ministry of Finance along with other relevant ministries (e.g., economy, foreign affairs).

The survey also asked a few questions about the degree of managerial autonomy granted to the senior management of DBs. Specifically, DBs were asked whether they needed formal approval from the government of decisions affecting their business activities and operations. Thirty-three percent of DBs indicated that they needed approval from the government to set their annual budgets and operating expenses, 30 percent to define and modify salaries and benefits structures for their staff, 28 percent to modify their annual business plans, 15 percent to modify interest rates or prices of their financial products, 11 percent to hire or fire their senior management, and 2 percent to define their organizational structure, indicating that the degree of managerial autonomy of DBs is varied.

The survey examined the degree of information disclosure and transparency practices of DBs. Ninety-three percent indicated that they publish an annual report and make it available to the public on their website. Their annual reports contain their audited financial statements, although only 80 percent of institutions disclose off-balance-sheet information, 85 percent disclose their governance and risk management framework, and 79 percent disclose their regulatory capital and capital adequacy ratio. Ninety-six percent are required to undergo audits by a professional external auditor.

b) Regulation and Supervision of DBs

There is broad international consensus that [deposit-taking] DBs and other financial institutions that the government or state owns or controls should be subject to regulatory and supervisory standards,[7] which makes them subject to solvency, liquidity, governance, accounting, and transparency standards, whenever applicable. Moreover, in the event of financial problems in a DB, the regulator is expected to act and take the same preventive or remedial actions normally undertaken with private financial institutions, such as requiring capital injections and replacing management and board members.

Seventy-eight percent of DBs indicated that they are required to comply with the same standards of prudential supervision (e.g., minimum capital, minimum capital adequacy requirements, loan classification and provisioning) as private commercial banks or any other private financial institutions. The remaining 22 percent are subject to other standards, which are usually more lenient than the standards applicable to private banks. For example, some DBs in Africa (e.g., Uganda Development Bank) indicated that they follow the prudential standards of the African Association of Development Finance Institutions. Ninety-eight percent of deposit-taking DBs reported that they comply with the same prudential standards applicable to commercial banks in their jurisdictions.

Of the countries covered in this survey, Malaysia is an interesting example of how financial sector authorities have tried to build and enforce a sound regulatory and supervisory regime for DBs while recognizing their unique characteristics. In 2002, Malaysia created a separate legal regime for DBs by enacting the Development Financial Institutions Act. Before this act was enacted, acts applicable to other private or public financial institutions governed DFIs. The 2002 act redefined the roles and mandates of each DFI, gave Bank Negara Malaysia the authority to regulate and supervise six DBs (referred to as DFIs), included provisions to facilitate proportional regulation of DFIs, and clearly stipulated the role of the Ministry of Finance as owner of some of these institutions.

Under the act, some regulations for DBs are stricter than those applicable to private financial institutions, such as the "fit and proper criteria" for appointment of the CEO and directors. Moreover, there are regulations that are applicable only to DBs, such as regular reporting on the achievement of their social and economic mandates. In other aspects, regulations tend to be proportionate to the business activities of DBs. For instance, the application of Basel 3 capital requirements goes at a slower pace than for the rest of the banking system.

7 See Basel Core Principles for Effective Bank Supervision.

For 72 percent of DBs, the same institution that supervises private commercial banks in their countries, such as the central bank or the bank supervisory agency, regulates and supervises the DBs (Table 3). This is the prevailing model in most jurisdictions covered in the survey. In Thailand, for instance, legislation was amended at the end of 2015 to transfer supervisory responsibilities for all DBs (known locally as specialized financial institutions) from the Ministry of Finance to the Bank of Thailand. The same ministries and government agencies providing strategic direction (e.g., industry, trade, housing, agriculture, energy, labor) supervise the remaining 28 percent of DBs. Examples of DBs supervised by ministries include Samoa Housing Corporation, Export Credit Guarantee Agency of Oman, and Uganda Development Bank.

Table 3: Regulation and Supervision of Development Banks

	Yes (%)	No (%)
Does the same institution that supervises private commercial banks supervise the DB?	72	28
If you follow the Basel Capital Accord, do you apply:		
a. Basel 1	24	
b. Basel 2	44	
c. Basel 3	31	
Does an international rating agency rate your institution?	54	46

Having the ministry that provides the strategic direction also provide supervision raises multiple problems. The ministry or agency exercising the supervisory function usually does not have the expertise to monitor and assess the risks associated with the business of the DBs under its umbrella as a central bank or bank supervisory agency. In addition, conflicts of interest frequently arise, and in the event of financial problems, the supervising institution becomes forbearing, delaying prompt corrective action or even simple recognition and disclosure of problems.

Fifty-four percent of DBs in the sample are required to be rated by an internationally recognized rating agency. The unrated DBs tend to be small in terms of assets, although that does not constitute a strong argument against the need for a rating. Ninety-seven percent of DBs reported that is it a legal requirement that a professional external auditor audit them. Finally, of institutions that are required to follow the Basel Capital Accord, 24 percent indicated that they follow Basel 1, 44 percent follow Basel 2, and 31 percent are adopting Basel 3.

c) Monitoring and Evaluation Practices

By definition, DBs have a difficult role to play. Although they are expected to serve customers, regions, or sectors of the economy that private financial institutions are unwilling or unable to serve because of the high risk, they are expected to remain financially self-sustainable while fulfilling their economic objectives.

To be able to deliver good results, it is important that DBs have in place an effective monitoring and evaluation system. Without the tools and systems to monitor progress to make timely course corrections, to test and assess necessary innovations, and to evaluate results, it will be hard for DBs to achieve their goals. Moreover, without a proper evaluation system, DBs will not be able to understand which policies and programs work, in which context, and why. As a consequence, DBs could be spending a lot of time and resources only to discover that there was a better way to meet their goals (Heider 2017).

DBs exist to address specific market gaps where private banks do not deliver services. The market, therefore, will not signal to them success or failure. Instead, evaluation systems are needed to do so to ensure that they fulfill their mandate. Knowing which programs and financial instruments produce results and which do not is essential to ensure that DBs are efficient and effective (Heider 2017).

DBs are mostly publicly financed institutions and need to be accountable to a number of stakeholders for what they achieve with the given resources. Experience has shown that DBs can face challenges in governance, performance, and results. To help them fulfill their valuable role as part of a broader financial system, they need to monitor and evaluate performance and results.

BOX 4

Recommendations for Building Sound Evaluation Systems for Development Banks

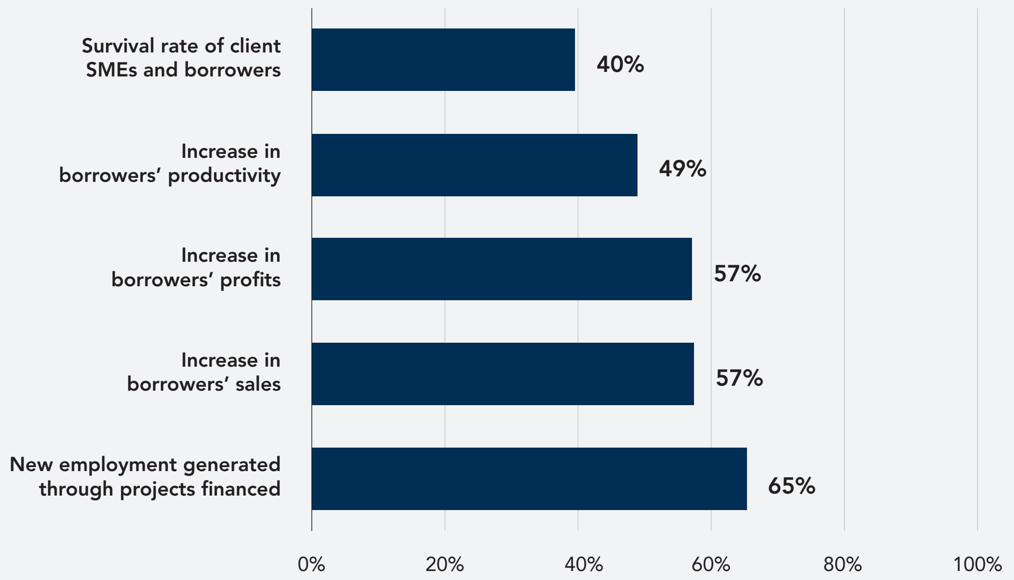
1. **Be clear about market failure and mandate in designing an effective evaluation system.** If the DB is not clear about the results it has to achieve, it will focus on services it wants to provide regardless of whether they help overcome market failures.
2. **Based on the mandate, select specific outcomes and meaningful metrics** and integrate indicators of financial performance with indicators of social, economic, and environmental outcomes because these can help or harm the financial performance of the DB.
3. **Be selective with indicators.** Many DBs are concerned about the cost of data. They do not need to collect all indicators, but should identify who else cares about relevant indicators and might be collecting data that can be used. In some cases, this can form the basis of new partnerships.
4. **Institute data collection and analysis capacity.** Without systems that encourage generation and interpretation of data in ways that are relevant to decision-makers, data will be collected in haphazard ways and therefore be useless.
5. **Embed and use data in decision-making.** This is one of the most important and often neglected steps. Improvements, course corrections, and learning cannot happen if evidence is not used. Evidence is not the sole driver of policy-making, but policy choices should take into account evidence and its implications.
6. **Lead by example.** DBs have an important role-modeling effect. Sharing data and demonstrating how the DB acted on evidence can send strong signals to other financial institutions.

Source: Heider 2017

Many DBs are not equipped with effective monitoring and evaluation systems that can help them assess their performance regularly and make timely corrections when needed. Only 56 percent of institutions in the survey responded that they have a dedicated monitoring and evaluation unit. Most DBs rely exclusively on financial indicators to measure their performance and results, such as profitability, capital, disbursements, numbers of clients served, and NPLs. They use essentially the same framework and tools that private financial institutions use to monitor their business activities, financial soundness, and profitability, but most lack the tools to assess their developmental effect quantitatively or qualitatively.

Only 49 percent of institutions reported that they conduct economic effect evaluations of their products and services, and 37 percent indicated that they use third parties to conduct such evaluations on their behalf. The range of indicators that DBs use to measure the economic impact of their activities is limited. For instance, for DBs dedicated to serving SMEs and that reported that they perform impact evaluations, only 65 percent reported that they monitor new employment that the projects that they finance generate. Only 49 percent of DBs monitor the increase in the productivity of their clients, and only 40 percent consistently monitor the survival rate of SMEs and clients they serve. In a few cases, such as the Export-Import Bank of Hungary, the DB measures its contribution to gross domestic product.

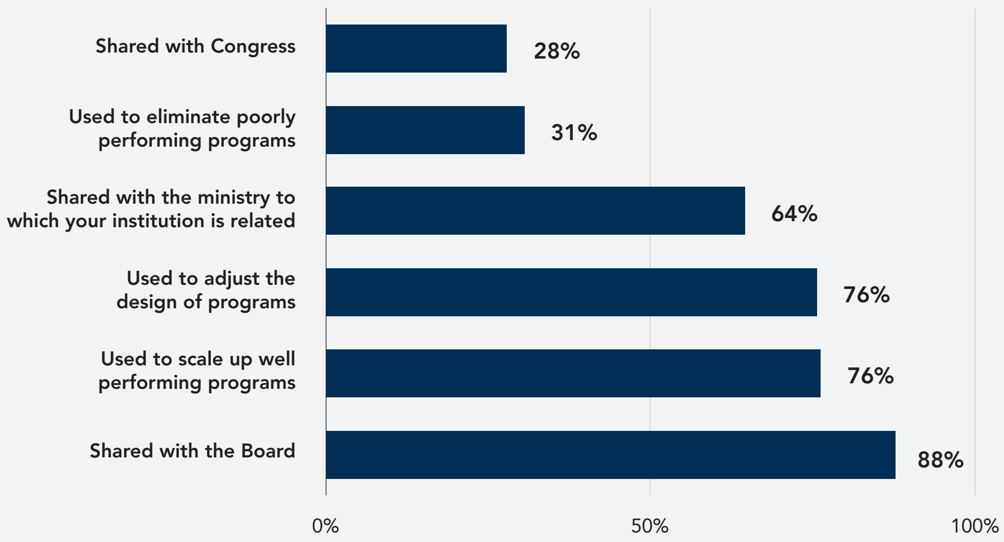
Figure 10. Nonfinancial Indicators That Development Banks Use to Monitor the Economic Effect of Their Activities



Similarly, the tools for evaluating the economic impact of DB business operations vary from institution to institution. A survey of customers is the most common tool that institutions that perform economic effect evaluations use (68 percent of institutions performing effect evaluations), followed by randomized control trials (21 percent of institutions performing effect evaluations), in which some projects receive funding and other similar projects are denied funding for the purpose of analyzing the economic effects in both cases.

Finally, institutions were asked how they use results of monitoring and evaluation frameworks. Eighty-eight percent indicated that they report information to their boards, 76 percent use the results to expand programs that achieve good results or adjust the design of programs, and 64 percent share it with the ministry to which the institution is related (Figure 11). Only 31 percent of institutions use the information and analysis they generate to eliminate poorly performing programs, and only 28 percent are required to share it with the legislature.

Figure 11. How Development Banks Use Results of Monitoring and Evaluation Frameworks



In sum, the use of robust and effective tools to monitor and evaluate activities is in the infancy stage, partially because, there are no international benchmarks that DBs can use. Practitioners at various policy fora recognize the importance of developing and adopting such frameworks, but little practical guidance is available to guide efforts at existing DBs. Moreover, to be effective, monitoring and evaluation frameworks need to be tailored to the specific features and business activities of each DB. By definition, the tools and methodology to be used to assess the effect of an infrastructure bank (large-scale projects, few borrowers) will be substantially different from those used to assess an SME bank (small-scale projects, many borrowers).

4 The Main Challenges That DBs Face

In the last section of the survey, DBs were asked about the challenges they face. (The survey included a set of predefined responses, and respondents were given the opportunity to identify other challenges.) The most important challenges identified, in descending order, were the need to "strengthen their risk management capacity," "become financially self-sustainable," "improve corporate governance and transparency," "acquire more flexibility to hire and retain highly qualified staff," and "reduce undue political interference."

Given the nature of their business activities, most DBs indicated that they needed to have a sound risk-management framework to help them identify, measure, monitor, and mitigate the wide range of credit and market risks they face. DBs serve a wide range of clients that the private sector does not usually serve because of the high risks or operating costs. Typically, DBs serve smallholder farmers, newly created MSMEs or firms operating in new sectors of the economy, low-income households in rural or remote locations, and the like. Given the inherent risks associated with these activities, DBs indicated that a robust risk management framework was essential.

Such a risk management framework would include at a minimum access to relevant information about the market niches they serve (e.g., production costs, firms' breakeven points, number of market participants, size of market niche, level of competition among firms, historical rates of return achieved by firms, failure rates of firms serving those market niches); comprehensive understanding of the risks that their customers face (e.g., price volatility, natural catastrophes, insufficient infrastructure for storage of goods, cost and time to resolve commercial disputes between private parties); access of DBs to financial instruments to mitigate the credit or market risks they incur, such as credit guarantees, insurance products, and derivative instruments; ability of DBs to tailor their financial instruments to their customers' business requirements (e.g., maturity of loans, disbursement and repayment schedules); sound internal policies and tools to enable DBs to limit their credit and market exposures (according to, e.g., type of customer, region, activity); effective analytical tools to monitor the performance of their lending portfolio; and effective instruments to recover loans.

Striking the right balance in risk management can be challenging. Several DBs noted that risk reduction could come at the expense of providing less finance to the sectors they are expected to serve and, vice versa, that serving riskier customers automatically increases credit risk. This is a major tradeoff, and it is not clear what the implications of better risk management would be. Moreover, many DBs indicated that their ultimate ability to fulfill their goals requires governments to put in place structural policies and reforms in their sectors that improve the business environment, attract private sector investment, and provide certainty. DBs highlighted that their success is also linked to the ability of the government to develop an ecosystem of financial institutions, including domestic capital markets, that serves the needs of customers and enables DB customers to graduate and be served by other institutions.

DBs expressed the view that, although they can contribute to targeting underserved segments, their governments had to address the roots of many market failures (e.g., weaknesses in legal framework, insufficient competition) through structural reforms.

Several DBs expressed the need to have better tools that would enable them to target clients that other financial institutions are not serving and to quantify the "additionality" that they create through their lending and business operations (e.g., providing financial services to firms and individuals for the first time, enabling other financial intermediaries to serve clients, making new deals possible, and encouraging their governments to adopt new policy actions in their market niches).

The second most important challenge that DBs identified was the need to become financially self-sustainable. Several DBs highlighted that, to be able to reach financial sustainability, as their stakeholders expected, they need to be able to price their lending products according to the risks they face by adjusting their interest rates and fees at their own discretion. Moreover, they need to have the flexibility to retain some of their profits to build an adequate capital base and cover operating expenses of training their staff and upgrading their operating tools as required.

The third challenge identified was the need to improve their corporate governance and transparency. In particular, several DBs indicated that they need to enhance the role of the board and the autonomy of their management and be subject to high standards of transparency and disclosure.

DBs also highlighted the need to have flexibility in hiring and retaining highly qualified staff. Many expressed the need to be able to offer competitive remuneration packages to their staff. Rules applicable to civil servants govern many DBs, and they do not have flexibility to acquire and retain the talent they need. Some DBs highlighted problems of losing their best staff to the private sector.

The last challenge that DBs identified was the need to reduce undue political interference. In particular, some DBs felt they needed more autonomy to be able to withstand undue political pressure to lend to borrowers that they were not considering to serve or whose willingness to repay was questionable. They advocated for more autonomy for their senior management and the ability to say "no" when any of their stakeholders pressure them to take excessive risks.

CONCLUSIONS

Although most DBs are small in terms of assets, they are relevant, and governments around the world use them with the objective of providing financial services in regions and sectors and to customers that private financial intermediaries do not serve sufficiently.

DBs exist in practically all countries around the world, regardless of their stage of economic development. New DBs are being established in developed and developing countries alike; 25 percent of all institutions covered in the survey were established after 2000.

After many decades in which negative or skeptical views prevailed about the role and performance of DBs, their importance is being reassessed. During the global financial crisis of 2008-09, when lending by private financial institutions declined sharply, DBs played an important countercyclical role in various jurisdictions and helped to partially mitigate credit crunches in the market niches in which they operate. This has led policy-makers and academics to reassess the relevance of these institutions during economic downturns. Moreover, in the academic literature, new views are emerging that take into account that some DBs are able to design and successfully execute market-friendly interventions in collaboration with local private financial institutions.

Given the important role that DBs play in creating new markets, mobilizing private sector financing, formulating and structuring new investment projects, and building capacity in public and private sector institutions, it is critical that they fulfill their mandates sustainably. Although some do so and are able to address market gaps innovatively, others struggle to do so. There are still many opportunities to reform DBs. For example, approximately 5 percent of DBs generate a high amount of NPLs, which could place a fiscal burden on their governments and thus defeat the purpose for which they were created. Others operate under a weak governance framework that makes them vulnerable to political interference. In 51 percent of cases, boards of DBs consist largely, or entirely of government representatives, with minimum participation of "independent" board members. Others do not have well-defined development mandates and compete with private financial institutions, crowding them out of their market niches.

DBs face various challenges in the short term. The most pressing is how to develop a risk management framework that enables them to better identify, monitor, and mitigate credit and market risks. DBs serve customers that private financial institutions are unable or unwilling to serve, so a better understanding of the markets they serve and the wide range of risks they face, along with effective tools to mitigate those risks, is critical for their success.

Some DBs highlighted the need to have more managerial autonomy, including the ability to set and adjust the interest rates on their lending products to mitigate their risks. They indicated their desire to hire and retain high-performing staff through more flexible human resources policies. They also indicated the need to strengthen their corporate governance arrangements and adopt mechanisms to mitigate political interference

A key topic included in this survey that was not included in the 2012 survey is the capacity of DBs to monitor and evaluate the developmental impact of their business operations. The results revealed that most DBs do not have adequate tools to monitor the economic impact of their business activities. Most DBs produce information that measures their profitability, soundness, and efficiency using essentially the same financial indicators that private financial institutions use, but DBs do not have the framework and analytical tools to measure the "additionality" of their business activities or their overall contribution to development (in terms, e.g., of new jobs created, productivity of firms they finance, development of value chains). Without these analytical tools, it is difficult for DBs to assess how successful they are in fulfilling their mandates. DBs need these tools to be able to assess what does and does not work and take appropriate measures.

Finally, a challenge that became clear in the survey is that a few DBs are finding it difficult to justify their relevance because the environment in which they operate has substantially changed and their initial mandates have not been reviewed or adjusted in a long time, sometimes in decades. Therefore, it is desirable for DBs to have periodic reviews of mandates to ensure that they remain relevant. Changes in the economy need to be taken into account, and adjustments in DB roles should be considered regularly.

More research is needed to better understand the role of DBs and how to enhance their development impact while mitigating unintended negative consequences. More work is also needed to formulate better arrangements and tools that can make government interventions through DBs more effective and market friendly.

Various questions could be further explored. First, what is the life cycle of a DB, and to what extent do DBs need to exist in various types of countries, regardless of the stage of development of their financial sector. Likewise, which problems can be corrected through DB interventions and which cannot? When DB interventions are not effective, what types of government interventions are more effective? What specific role should they play in each market (e.g., catalytic, risk-taker, other)?

A second type of question that should be addressed is what institutional form DBs should adopt. Does private sector participation in the ownership structure of a DB change its effectiveness? What are the best governance arrangements to insulate DBs from undue political interference? What are the best examples of an infrastructure development bank, an agriculture development bank, an EXIM bank, a housing bank, an SME bank, for example? More work and case studies could be conducted to identify successful examples.

A third area in which more research would be useful is what the optimal exit strategy for DBs is. Should a DB that has fulfilled its original goals remain in business or be reinvented? If DBs respond to broader, noneconomic objectives, how can they be designed to minimize distortions in the markets in which they operate?

Finally, how should DBs and their interventions be evaluated over time? Who should evaluate them, and how frequently should they be evaluated? What are the best available monitoring and evaluation frameworks?

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ANNEX

Annex 1: Questionnaire

1. GENERAL INFORMATION	
1	Name of your institution
2	Address (Street, Number, City and Zip Code):
3	Country
4	Website
5	When was your institution established (year)?
6	Under which Act or Law is your institution incorporated?
7	What is your institution's current ownership structure? a. State/Government b. State-owned entities c. Foreign States/Governments d. Private sector e. General public/Individuals f. International Development Institutions
8	How would you best describe your institution? a. Development bank-Policy bank b. Development bank-Universal bank c. Development bank-Special purpose bank (eg: SME bank, Infrastructure bank) d. State-owned commercial bank e. Guarantee fund f. Development finance institution/fund g. Other (please specify)
9	How would you best describe the geographic scope of your institution? a. National institution b. State or provincial development institution c. Regional institution (multi-country)
2. MANDATE	
10	What is your institution's purpose or policy mandate, as defined in the Law or other regulations?
11	Is your institution, under its Law or other regulations, required to complement the activities of private financial institutions? (Yes/No)
12	Is your institution subject to a periodic review of its mandate? (Yes/No)
13	If so, how often is the mandate reviewed? (in years)? ("Not applicable" if your institution is not subject to a period review)

14	What is the share of the following types of borrowers in your institution's outstanding lending/ guarantees portfolio? a. Individuals b. Enterprises/corporates c. Local governments d. Others
15	For the lending or guarantees provided to private sector, please indicate what is the share of the following types of clients in your outstanding lending/guarantees portfolio? a. Microenterprises (less than 5 workers) b. Small and Medium Enterprises (less than 100 workers) c. Large enterprises
3. SIZE	
16	What were the total assets of your institution at the end of: a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015
17	What was the market share of your institution in terms of the total assets of your country's banking system in 2015 (in %)?
18	What was your institution's total equity at the end of: a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015
19	What was the total gross loan portfolio of your institution at the end of: a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015
20	Does your institution offer credit guarantees? (Please answer "Yes" or "No")
21	If your institution offers credit guarantees, what was the outstanding amount of guarantees issued by your institution at the end of: a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015
22	How many branches did your institution have at the end of 2015?
23	How many subsidiaries did your institution have at the end of 2015?
24	How many employees did your institution have at the end of 2015?

4. STRUCTURE OF LOAN PORTFOLIO AND GUARANTEES	
25	Please identify (write the names below) the top five recipient sectors of your institution's loans and their respective share in total lending in 2015: 1. 2. 3. 4. 5.
26	From those top recipients you've identified what is their respective share in total lending? 1. 2. 3. 4. 5.
27	What is the share of the following types of borrowers in your institution's lending/guarantees portfolio? a. Individuals b. Private Enterprises c. Local governments d. Others
28	For loans or guarantees granted to private sector firms in 2015, what is the share of the following types of borrowers in your lending / guarantees portfolio? a. Micro, Small and Medium Enterprises (MSMEs) b. Large Enterprises
29	What is the maturity structure of your institution's loan/guarantee portfolio? a. Up to one year b. More than one year but less than 5 years c. 5 and more years
30	What is the maximum loan term (maturity) that your institution can offer? (in years)
31	What was the average loan amount granted by your institution in 2015? (in $US) (loans approved)
5. COUNTERCYCLICAL ROLE	
32	Did your institution increase its lending/guarantees during the last global financial crisis in order to compensate for the reduction in lending by private sector banks/financial institutions? (Yes/No)
33	What other measures did your institution implement in order to ease the lack of financing during the global financial crisis?
34	Have such measures been reversed as private sector lending improved? (Yes/No)
6. FUNDING	
35	Does your institution take deposits from the general public? (Yes/No)
36	Does your institution take deposits from government agencies? (Yes/No)
37	What was the number of deposits accounts at your institution at the end of: ("Not applicable" if your institution does not take deposits) a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015

38	What was the outstanding amount of deposits at the end of: ("Not applicable" if your institution does not take deposits) a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015
39	Can your institution borrow from other financial institutions? (Yes/No)
40	Is your institution a participant in the local interbank market? (Yes/No)
41	Can your institution issue debt in local debt markets? (Yes/No)
42	Can your institution borrow from international capital markets or institutional investors?
43	Is your institution allowed to obtain official development assistance (ODA) funds provided by official agencies or multilateral institutions?
44	Does your institution receive regular direct budget transfers from the Government? (Yes/No)
45	If Government transfers were canceled, would your institution be able operate on a sustainable basis with its own generated income and profits? (Yes/No or "Not applicable" if your institution does not receive budget transfers)
46	Has your institution been recapitalized, that is, received government funds, subsidies, or transfers to cover losses or strengthen its financial situation in the past four years? (Yes/No)
47	If your institution has been recapitalized, what were the amounts of recapitalization in: a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015
48	Does the Government guarantee your institution's debt? (Yes/No)

7. BUSINESS MODEL

49	Does your institution lend? a. Wholesale (through other financial institutions) b. Retail (directly to final customers) c. Both wholesale and retail
50	What was the outstanding amount of loans in 2015 extended through wholesale and retail operations? a. Wholesale b. Retail
51	How is the credit/default risk allocated between your institution and financial intermediaries participating in your wholesale operations? a. Financial intermediaries take all the risk b. Your institution takes all the risk c. The risk is shared between your institution and financial intermediaries d. Other (please explain)
52	If the risk is shared, what is the percentage retained by your institution?
53	Does your institution use third-party credit guarantee schemes to mitigate its exposure to credit/default risk? (Yes/No)

54 To which sectors does your institution lend?

a. Agribusiness
b. Construction
c. Industry/Manufacturing
d. Services
e. Mining
f. Infrastructure
g. Energy
h. Education
i. Health
j. Other

55 What is your institution's target market segment?

a. Individuals and households
b. Start-ups
c. Micro, small and medium enterprises
d. Large private corporations
e. Other financial institutions
f. State-owned enterprises
g. Local governments
h. Other (Please specify)

8. PRODUCTS AND SERVICES

56 What lending products does your institution offer?

a. Loans for start-up activities
b. Loans for working capital
c. Bridge or short-term loans
d. Loans for new product launch activities
e. Unsecured loans (for intangible assets)
f. Long-term loans
g. Syndicated loans
h. Other (please specify)

57 What other financial products/services does your institution offer?

a. Loan Guarantees
b. Trust Services
c. Money Transfers
d. Microinsurance
e. Savings Accounts
f. Deposit accounts
g. Securitization
h. Debt Collection
i. Initial Public Offerings and Mergers and Acquisitions Services
j. Corporate Bond Issuance
k. Derivatives Trading
l. Foreign Exchange Trading
m. Environment initiatives (e.g. carbon credits)
n. Property/ Assets Selling or Brokering
o. Leasing
p. Factoring
q. Private Equity or Venture Capital
r. E-Banking
s. Mobile banking
t. Agent banking
u. Official Development Assistance (ODA) loans
v. Other (Please specify)

58	If your institution offers private equity and/or venture capital, please specify the stages your institution is involved in.equity/venture capital) a. Pre-seed stage b. Seed stage c. Start-up stage d. Expansion and later stages e. Quasi-equity (subordinate or mezzanine) f. Venture capital funds or funds of funds g. Other private equity stages (specify)
59	If your institution is involved in trade finance, what instruments does it offer. a. Export credits b. Import credits c. Factoring d. Forfaiting e. Interbank buyer's credit f. Guarantees (specify what kind) g. Insurance (specify what kind) h. Other (please specify)
60	If your institution is involved in infrastructure financing, please specify the instruments you offer. a. Loans (specify type) b. Guarantees (specify type) c. Equity (specify stages) d. Quasi equity (subordinate or mezzanine) e. Venture capital and private equity funds f. Insurance (specify type) g. Private Public Partnerships h. Other (please specify)
61	What non-financial services does your institution offer? a. Consulting b. Networking / business matching c. Training d. Other (please specify)

9. PRICING, AND SUBSIDIES

62	What is your average annual interest rate on loans? (in %)
63	Does your institution provide loans at subsidized interest rates (that is, below market interest rates)? (Yes/No)
64	If subsidized interest rates are offered, how are they funded? a. Cross-subsidization (using profits from profitable business lines) b. Budget transfers from the Government c. Cheaper lines of credit from donors d. Other (please explain)

10. PROFITABILITY, ASSET QUALITY, AND EFFICIENCY

65	What was your institution's Return on Assets (ROA) at the end of: a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015

66	What was your institution's Return on Equity (ROE) at the end of: a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015
67	What was your institution's gross non-performing loan ratio at the end of: a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015
68	What was your institution's total interest income at the end of: a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015
69	What were your institution's total interest expenses at the end of: a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015
70	What was your institution's net income at the end of: a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015
71	What were your institution's staff expenses at the end of: a. 2010 b. 2011 c. 2012 d. 2013 e. 2014 f. 2015
72	Is your institution mandated to remit dividends to government? (Yes/No)
73	If so, how much (percentage of net income)?
74	When is the dividend to government payable (please specify if annually or staggered)?

11. CORPORATE GOVERNANCE	
75	How many members compose your institution's board of directors?
76	How many board members are independent (not affiliated with the Government or Government agencies)?
77	How many board members are non-executive, i.e. not involved in the daily management of your institution?
78	Who appoints the members of the board of directors?
79	Are the board members appointed for fixed terms (i.e. certain number of years)? (Yes/No)
80	If so, for how many years are board members appointed?
81	Is the Chairman of the board of directors at same time the CEO or General Manager of your institution? (Yes/No)
82	Is the board of directors' performance evaluated? (Yes/No)
83	If so, who evaluates the performance of board members (select those that apply)? a. Peers b. Appointing authority c. Other (please specify)
84	Which specialized committees has your institution's board of directors formed? a. Audit committee b. Risk management committee c. Remuneration/Human resources committee d. Asset and liability management committee
85	How many members compose your audit committee?
86	How many members of the audit committee are non-executive?
87	Who appoints the Chairman of your institution's board of directors?
88	Who has the power to remove the Chairman of your institution's board of directors?
89	Are the terms of the Board Members staggered, that is, they do not expire at same time? (Yes/No)
90	Who appoints the Director General or Chief Executive Officer of your institution? a. The President of your country b. The relevant Minister c. The relevant Minister d. The board of directors e. Other, please explain
91	Does the legal framework governing your institution establish the following qualifications for the Director General or CEO of your institution? a. Minimum level of education or technical qualifications b. Minimum level of financial or banking experience c. No bankruptcy record d. Lack of conflict of interests
92	Is the CEO or Director General appointed for a fixed term? (Yes/No)
93	If so, what is the length (in years) of the appointment? ("Not applicable" if the appointment is not for a fixed period)
94	Is your institution subject to specific state-owned enterprises/financial institutions corporate governance guidelines or requirements? (Yes/No)

95	Which Ministry/Government Entity represents the State/Government as a shareholder in your institution?
96	If the State/Government is represented by more than one Entity, is there one Entity that plays a coordinating role? (Yes/No)
97	Do you need approval from the government in order to: a. Fix your annual budget and operating expenses b. Modify the interest rates or prices of the financial products c. Hire and fire senior staff d. Define and modify salaries and benefits structure of staff e. Define your organizational structure f. Modify your business plan g. Obtain funding from non-deposit sources
98	Does your institution have a risk management unit, or equivalent unit, responsible for identifying, monitoring, managing, and mitigating risks faced by your institution? (Yes/No)
99	If yes, to whom does the chief risk officer report to? a. Board or Board Committee b. CEO or Director General c. Other senior official in your institution

12. TRANSPARENCY AND DISCLOSURE

100	Does your institution publish its annual report?
101	Does your institution disclose to the public the following information? a. Audited financial statements b. Off-balance sheet items c. Governance and risk management framework d. Regulatory capital and capital adequacy ratio
102	Is your institution legally required to be audited by a professional external auditor?
103	When (year) did your institution publish its last audited financial statements?
104	When (year) did your institution publish its last annual report?

13. PRUDENTIAL REGULATION AND SUPERVISION

105	Who supervises your institution? a. The same institution/entity that supervises private commercial banks/financial institutions b. Other
106	If you institution is not supervised by the same entity that supervises private commercial banks/ financial institutions, then your institution's supervisor is: a. The Ministry of Finance b. Other Government Ministry c. The Board of directors d. Other (explain)
107	Which of the following prudential standards are the same for your institution and private commercial banks/financial institutions? a. Minimum capital adequacy ratios b. Minimum liquidity ratios c. Loan classification and provisioning rules
108	If the prudential standards are different, what are the main differences?

109	Which regulatory capital adequacy regime did your institution use as of end 2015? a. Basel I b. Basel II c. Basel III d. Leverage Ratio e. Other (explain)
110	Is your institution required to comply with a minimum Capital Adequacy Ratio (CAR)? (Yes/No)
111	If so, what was your CAR at the end of 2015?
112	Was your institution's CAR at the end of 2015 below the minimum required by the supervisory authority? (Yes/No)
113	If so, for how long (number of months) your institution's CAR has been below the regulatory minimum?
114	Is your institution limited in its lending to a single borrower or a group of inter-related borrowers? (Yes/No)
115	If yes, what is the limit as a percentage of your institution's capital?
116	Does the bank supervisor exercise approval authority with respect to the appointment of: a. Board of directors b. Senior management (including the CEO)
117	Is your institution rated by an international rating agency? (Yes/No)
14. RESTRUCTURING	
118	Did your institution undergo a restructuring between 2010 and 2015?
119	If your institution underwent a restructuring, what were the main objectives of the restructuring? a. To restore financial soundness (e.g., achieve minimum CAR) b. To increase efficiency c. To enhance the development impact and relevance
120	What financial measures did the restructuring process entail? a. Injection of additional capital by existing shareholders b. Issuance of shares to new shareholders c. Sale of non-bank assets d. Sale of shareholding positions/subsidiaries e. Divestment of State/Government shares f. Retention of earnings/profits g. Other (please explain)
121	What is the total amount of capital injected by the Government /State as part of the restructuring process during the 2010-2015 period? (in $US million)
122	What non-financial measures did the restructuring process entail? a. Staff rightsizing (e.g., staff reduction) b. Branch rationalization (e.g., through closures) c. IT upgrading (e.g., new software, branch connection) d. Overhaul of credit procedures and internal processes e. Strengthening of corporate governance (board and management)

15. MONITORING AND EVALUATION PRACTICES

123	What is the main objective of you financial institution's programs? a. Help financially-excluded firms and/households access formal financial services for the first time b. Improve the credit conditions of firms/households by providing cheaper loans, longer maturities or larger credit amounts that the private financial sector would not provide c. Finance risky projects (that the private sector is unwilling to finance (eg. large infrastructure projects, residential mortgages for low-income households, agricultural projects, etc) d. Other (please specify)
124	What indicators does your institution use to monitor outreach of its lending/guarantee activities? a. Outstanding loan volumes or guarantees b. Number of clients/ projects served c. Amount of private sector resources mobilized through private sector co-financing, refinancing, and risk guarantee arrangements d. Number of borrowers or clients accessing formal credit or opening account for the first time e. Borrowers or clients of your bank that subsequently access services from other financial sector providers for the first time f. Other (please specify)
125	What indicators does your institution use to monitor economic impact of its activities? a. New employment generated through projects financed b. Increase in borrowers' sales c. Increase in borrowers' profits d. Increase in borrower's productivity e. Survival rate of client SMEs and borrowers f. Other (please specify)
126	If your institution uses indicators to monitor economic activities, what are the sources of data used? a. Self-reported data by the end-borrower throughout the loan origination and monitoring process b. Data from official surveys c. Administrative data (eg. social security, tax revenue office etc) d. Other (please specify)
127	On which outreach and economic impact indicators does your institution set targets to assess performance? a. Outstanding loan volumes or guarantees b. Number of clients/ projects served c. Private sector resources mobilized through private sector co-financing, refinancing, and risk guarantee arrangements d. Number of borrowers or clients accessing formal credit or opening account for the first time e. Borrowers or clients of your bank that subsequently access services from other financial sector providers for the first time f. Employment generated through projects financed g. Increase in borrowers' sales h. Increase in borrowers' profits i. Increase in borrower's productivity j. Survival rate of client SMEs and borrowers k. Other (please specify)
128	How frequently are outreach indicators monitored? a. Monthly or weekly b. Quarterly c. Annually d. Other (please specify)

129	How frequently are economic performance indicators monitored? a. Monthly or weekly b. Quarterly c. Annually d. Other (please specify)
130	In addition to monitoring indicators, does you institution conduct economic impact evaluations of its products and interventions? (Yes/No)
131	If your institution conducts economic impact evaluations, which methods are used? a. Randomized control trials in which some projects receive funding and some other similar projects are denied funding for the purpose of analyzing the economic impacts in both cases b. Quasi-randomized experiments (e.g.,. propensity score matching or other econometric techniques) in which data from projects of firm's funded is compared to economic performance data of firms who did not receive finance c. Surveys of beneficiaries d. Other (please specify)
132	Does your institution have a dedicated monitoring and evaluation unit? (Yes/No)
133	Are impact evaluations of your institutions' lending activities conducted by third parties? (Yes/No)
134	If yes, which institution(s) conduct them?
135	In order to ensure efficient use of resources, does your institution conduct economic impact evaluations of pilot new products before scaling them up? (Yes/No)
136	If economic impact evaluations of pilot new products are conducted, how often are they conducted? a. Always b. Sometimes
137	Please indicate how results of monitoring and evaluation frameworks are used in the institution a. Shared with the Board b. Shared with the ministry to which your institution is related c. Shared with Congress d. Used to adjust the design of programs e. Used to scale up well performing programs f. Used to eliminate poorly performing programs (if answered yes please provide an example)
16. CHALLENGES	
138	In your view, what are the most important challenges for your institution going forward? a. Become financially self-sustainable b. Improve corporate governance and transparency c. Reduce undue political interference d. Improve risk-management capacity e. Improve loan recovery ratio f. Acquire more flexibility to hire and retain highly qualified staff g. Other (please explain)

Annex 2: List of Development Banks that Participated in the Survey

Institution	Country
Banco de Inversión y Comercio Exterior	Argentina
Development Bank of Austria	Austria
Bhutan Development Bank	Bhutan
Brazilian Development Bank	Brazil
Banco do Nordeste do Brasil	Brazil
Bulgarian Development Bank	Bulgaria
Banco Estado	Chile
Bancoldex	Colombia
Financiera de Desarrollo Nacional	Colombia
TRNC Development Bank	Turkish Republic of Northern Cyprus
Investment Fund for Developing Countries	Denmark
Banco de Desarrollo de El Salvador	El Salvador
Finnish Fund for Industrial Cooperation	Finland
Municipality Finance Plc (Kuntarahoitus Oyj)	Finland
Société de Financement Local	France
Caisse des Dépôts et Consignations	Gabon
DEG Invest	Germany
Landeskreditbank Baden-Württemberg - Förderbank	Germany
EXIM Bank Ghana	Ghana
Hungarian Export-Import Bank Plc., Hungarian Export Credit Insurance Plc.	Hungary
Small Industries Development Bank of India	India
PT Sarana Multi Infrastruktur	Indonesia
The Industrial Bank of Kuwait	Kuwait
Bank Pertanian Malaysia Berhad	Malaysia
Bank Pembangunan Malaysia Berhad (Malaysia Development Bank)	Malaysia
Bank Simpanan Nasional (National Savings Bank)	Malaysia
Export Import Bank of Malaysia Berhad	Malaysia

Small Medium Enterprise Development Bank Malaysia Berhad	Malaysia
Credit Guarantee Corporation	Malaysia
Caisse des Dépôts et de Développement	Mauritania
Banco Nacional de Comercio Exterior, Sociedad Nacional de Crédito	Mexico
Fideicomisos Instituidos en Relación con la Agricultura	Mexico
Banco Nacional de Obras y Servicios Públicos S.N.C	Mexico
Nacional Financiera	México
Caisse de Depot et de Gestion	Morocco
Employees Provident Fund	Nepal
Development Bank of Nigeria Plc.	Nigeria
Norfund	Norway
Agencia Financiera de Desarrollo	Paraguay
Land Bank of Philippines	Philippines
Bank Gospodarstwa Krajowego	Poland
Export-Import Bank of Korea	Republic of Korea
Vnesheconombank of Moscow	Russia
Samoa Development Bank	Samoa
Samoa Housing Corporation	Samoa
Caisse des Depots et Consignations	Senegal
SID Banka, d.d., Ljubljana	Slovenia
Industrial Development Corporation	South Africa
DFCC Bank PLC	Sri Lanka
Saving & Social Development Bank	Sudan
Agricultural Bank of Sudan	Sudan
Swaziland Development and Savings Bank	Swaziland
Swiss Investment Fund for Emerging Markets	Switzerland
TIB Development Bank	Tanzania
Export Import Bank of Thailand	Thailand
Tonga Development Bank	Tonga
Caisse des Dépôts et Consignations	Tunisia
Development Bank of Turkey	Turkey
Uganda Development Bank	Uganda
East African Development Bank	Uganda
Banco de La Republica Oriental Del Uruguay	Uruguay
Ba Ria-Vung Tau Development Investment Fund	Vietnam
Vietnam Bank for Social Policies	Vietnam
Infrastructure Development Bank of Zimbabwe	Zimbabwe

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