
The future of Development Banks

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Abstract

The importance of creating public banks in order to provide credit for the industrialization process emerged during the eighteenth century in many countries across the world. However, it was not until after the Second World War ended, that the necessity to form financial development institutions, especially Development Banks (DBs), truly materialized. These institutions were specialized in long-term credit that had as primary goal to finance the development process. It was during this period that occurred the reconstruction of the economies destroyed by the war – hence the need for abundant funding sources. By the end of the 1970s, the world faced a global turmoil that changed the theoretic view of economics and the way of implementing public policies. Consequently, the relation between the State and the market adjusted. Besides it, the industrialization, as well as the reconstruction process in developed countries, entered into a new phase. Therefore, DBs assumed a contemporary configuration and its operations' scope increased. In general, DBs offered a wider range of financial services in order to properly finance the new stages of development. Although offering more products, due to the neoliberal agenda implemented in the period, DBs' importance in the economy decreased considerable.

Starting in the biennium of 2007/2008, another global financial crisis changed, once again, the way DBs worked. The countercyclical actions became their priority. From this moment on, DBs' main goal was to reduce the effects of the crisis by guaranteeing the supply of long-term credit despite the slowdown in economic growth. It was unanimous that those financial institutions are essential for the economic growth. In this sense, many countries created new DBs, reinforced the existing ones or reverted its privatization process in course.

Currently, a decade later, DBs are yet again being reformulated towards more market-oriented path. They are working in a new environment and need to adapt to it. In addition to acting towards minimize the procyclical tendency of the credit market, their essential role should be to promote innovation and structural changes in the economy, guarantee the financial inclusion, support infrastructure projects and act on sustainable projects.

Even though the importance of the DBs was not contest, their objectives and sustainability were. New questions emerged, such as: i. should they be orientated by fiscal constraints or should they be an arm for the State to finance economic policy?; ii. its role should be similar worldwide or should be defined considering the development stage of the country and its specificities – that is, does one model fits it all?; iii. what is its part in the catching up process?; iv. which, if any, are the productive sectors it should benefit?; v. how it should act in face of the automatization in process that decreases the employment level?; and vi. how it should relate with the financial market and financialization?

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The challenges and difficulties to answer those questions – and therefore have a glance at the future of DBs – are many. It should be taken into consideration at least if the worry with social and economic inequalities are important to the DBs' actions and if the supply of long-term credit can be successfully fulfilled by financial market and private financial institutions. However, despite the many considerations, it is clear that DBs are essential agents to potentialize the State's ability to boost economic growth.

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