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"The world of business does not end on our eastern borders" - the First Deputy Chairperson of IIB Management Board Jozef Kollár reflects on the role of multilateral development banks in his interview to Trend.sk

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The arrival of the new Chairperson Mr Nikolay Kosov represented a fundamental restart for the bank. The shareholders approved the reform together with the first Strategy for 2013-2017. Until that time, the bank had operated in something akin to a dormant mode, because when the Council for Mutual Economic Assistance collapsed, it basically had no activity as there was nobody for it to finance. One of the priorities of the reform was to cleanse the bank of the 80% share of non-performing loans on its balance sheet. Today these account for only 1.6%. This is lower than the benchmark in our peer group of similar development banks.

So what became of those bad loans?

They were written off and the capital of the bank was increased. We set up a risk control department and changed the bank management structure along the lines of Western standards. A new corporate governance system was implemented with technical support from the World Bank in Washington DC. The measurable results of the first stage of the reform were also appreciated by the rating agencies, and we began new bond issues. In 2014 we also sold EUR 30 million of bonds in Slovakia.

Who purchases your bonds?

Most often institutional investors such as banks and pension funds, of which we have over 180. We do not sell to retail investors.

They are the main sources of financing for your bank?

Yes. We issue bonds primarily on EU capital markets, so investors clearly trust us. Over the long term, the number of investors has been growing, the average price of funding falling, and the number of states on whose capital markets we issue our bonds expanding.

What yields do you offer on your bonds?

Interest rates are generally around one percent, meaning they are interesting for investors in an era of zero or even negative interest rates on government bonds.

The media also accuse you of not having any banking supervision over you, for

example from the European Central Bank.

Exactly, just like any other international development bank, e.g. the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Asian Infrastructure Investment Bank (AIIB), the New Development Bank (NDB), and many others. These accusations from the media should therefore be seen more as their own knowledge deficit. And I do not wish to speculate as to whether they have bad intentions.

Supported projects

The investment projects you support in Slovakia are also linked to controversy. You for example allegedly financed the completion of the nuclear power plant at Mochovce. This project is considered to be of Russian interest because of the imports of fuel from Russia.

Your information is incorrect. We did not directly provide any loan for the completion of Mochovce. We only provided a loan of 90 million to Slovenské elektrárne, which is owned partly by Slovakia, the Czech EPH, and the Italian Enel. The purpose of this loan was not directly connected to the completion of Mochovce, but was for general corporate purposes. In addition, Slovenské elektrárne is also financed by other banks - we are merely one of them.

And what about the financing of SES Tlmače projects in Cuba?

There we only provided guarantees to the Slovak Eximbanka, which provided loans to this company. SES Tlmače has been doing business with boilers and turbines in Cuba for decades, and so supporting it made sense. The world of business does not actually end at our eastern borders. Our bank has the advantage of understanding the business environment to both the east and west of Slovakia. Moreover, today Europe's largest trading partner is Asia and not North America. Whether we like it or not, in the coming decades the centre of the global economy will shift to Asia. The winners in Central and Eastern Europe will be those states that stand on two legs, economically speaking.

In the past you also reportedly financed Tatravagónka, controlled by the Slovak businessman Alexej Beljajev, in its business with Russia. How did that work out?

We did not actually end up financing it as its contract fell through due to the devaluation of the rouble. They did not even draw the approved loan.

What volume of loans do you provide in Slovakia?

In terms of volume, around EUR 200 million. This is not only direct lending but also the financing of trade and investments in Slovak government bonds, respectively the financing of parties from third countries (Germany for example), the subsidiaries of which operate in Slovakia and employ thousands of people in our country.

Do you also support small and medium-sized enterprises?

Yes. We have lent, for example, EUR 31 million to Zvolenská teplárenská for new green

technology for the combustion of gas and wood pellets instead of coal. There is also a loan being prepared for approval for Západoslovenská vodárenská spoločnosť.

So you mainly focus on energy enterprises?

Not only on them - there are other infrastructure projects too. We would like to lend to more heating plants for example, but there we want to split the risk with the European Investment Bank through a syndicated loan.

Do you support research and development in other enterprises?

We do. For example, we will now be participating in a 50-million bond issue for the German Schaeffler, which conducts research and development and supplies bearings to car manufacturers and has subsidiaries in Kysucké Nové Mesto and in Skalica.

You invested in the Central Europe Fund of Funds to support start-ups, something I would not expect from an investment bank. Why?

That fund was created by the EIB, and that invited us into this capital investment project. We have a 10% interest. The fund invests in start-ups, but through venture capital funds, not directly. They lend money for example to Slovak Investment Holding, which then lends directly to start-ups.

Do you also purchase Slovak bonds?

We do. Today we hold government bonds totalling around EUR 30 million. The total turnover since the reform of the bank has been around EUR 150 million.

You also finance various consultation development projects. You supported, for example, assistance for Mongolia in its revision and amendment of its anti-money laundering legislation. This sounds rather exotic...

This was basically technical assistance from a fund we established together with the Slovak Ministry of Finance. It is intended to provide technical assistance to our entrepreneurs who go to do business in Vietnam, Mongolia and so on. This fund hires local experts who teach it the ins and outs of local business and legislation. In this case, Mongolia approached us seeking assistance in building a system to combat money laundering. We used the fund to hire Ernst & Young to provide them with the technical assistance. The project has already ended and was also judged a success by the International Monetary Fund. The latter makes its assistance to developing states conditional on the adoption of standard anti-money laundering legislation (*inter alia*).

Which sectors and states do you want to lend in going forward?

Our role is to support sustainable economic growth in our member states and the interconnectedness of their economies. Let's not pretend that there is nobody beyond Čierna nad Tisou. And it is not only Russia - all of Asia is there. We finance, for example, a Hungarian food enterprise that exports ducks to France through to a hydro power plant in Karelia in Russia. This means we have a diversified portfolio of sectors we finance, from energy, agriculture, food production, to research and development.

How is your building of specific national strategies for individual member states going?

The need for and structure of financing differs from state to state and also depends on the structure of their economies. For loans in EU member states we have, for example, lower interest margins than elsewhere in the world. We are also more involved in direct project financing in Europe. In Vietnam, for example, as a rule we provide loans to enterprises through local banks - this is so-called "on-lending".

Why?

This is because unlike commercial banks, we do not have the distribution channels through which money can flow directly to enterprises. We also do not have the capacity to evaluate the credit risk of every small enterprise. Local banks do, and they are happy to work with us on joint projects

Economics during the coronavirus

How has the coronavirus crisis impacted development banking?

The coronavirus arrived out of the blue like a black swan. It has actually helped us in the sense that states have rediscovered the role of development banks. Although there will be enough public money in the EU from the new recovery fund, there will still be limits. Many financed projects will be needing co-financing. In addition, commercial banks currently do not have sufficient risk appetite. So I see a gap on the lending market, and space for development banks.

What advantages do development banks have over commercial banks?

Some advantages we have are that we provide loans over several decades, and have cheaper loans than regular commercial banks because we are not a bank primarily focusing on profit or dividends for shareholders. The average amount per loan is between EUR 20 and 25 million, which is lower than other large development banks. This means we can also finance small and medium-sized enterprises, which is without doubt another of our comparative advantages. Finally, development banks focus on the so-called development impact, meaning projects with a longer payback period, green projects, projects with significant social impacts, support for employment in regions and so on.

Frame

Jozef Kollár (59)

He studied at the University of Economics in Bratislava. After graduating, he worked and obtained a doctorate in economics at the Slovak Academy of Sciences. After 1990 he expanded his banking education at the University of Wisconsin (Madison) and Oklahoma City University in the USA. He began his banking career at the State Bank of Czechoslovakia. He held various positions at the Austrian Volksbank from 1991, being appointed chairman of the board in 2000. He was a member of parliament for the SaS party six years from 2010. Budget debt brake

legislation was adopted during his tenure as head of the Finance Committee. Since 2016 he has been the first vice-president of the International Investment Bank in Budapest.