**4th CAF-LSE Conference – Globalisation in Crisis: Implications for the Global South**

**January 13, 2017, Shaw Library, Old Building, LSE**

***Panel: The Role of Development Banks in a Globalised World***

*Intervention by* ***Nikolay Kosov****, Chairman of International Investment Bank (IIB)*

*Renaissance of MDBs*

* The financial crisis of 2008-9 and the post-crisis period have brought a sort of **renaissance for multilateral development banks**, particularly among developing and emerging market countries. While **the World Bank continues the search of its new identity**, this trend brought to life **the AIIB and the BRICS’ NDB**. The **decision of our own member countries to relaunch the International Investment Bank** fits this trend as well. The renewed IIB is a development bank of emerging market countries and thus **part of the Global South, or a bridge between the South and more developed countries**.
* This increased demand for development capital and the **readiness of such countries to take leading roles in multilateral institutions** is one of the **outcomes of a globalised world and the quest for possible alternatives or supplements to the traditional Bretton Woods system**.

*General role of MDBs*

* The **fragile growth**, combined with **deleveraging by commercial banks** and **limited fiscal space for public investments**, has underlined the **importance of MDBs not just simply as an additional source of funding, but as catalysers, advisers and, in a way, market makers**. The unique character of MDBs predetermines their operations – they are here **to fill the investment gap** and **address underserved sectors economy**, including **SMEs and their internationalisation**, as these companies have not enjoyed the fruits of globalisation as much as large corporates.
* Furthermore, the world is facing **significant social and environmental challenges**, and MDBs as quasi-public entities with cross-border reach and a developmental mission, under which profit is not the main target, are **especially well positioned to address modern problems such as protection of water resources, which often span across several countries or regions**.

*Role of MDBs in the international trade*

* Furthermore, particularly in a situation of **spreading anti-globalisation sentiment** and **risks for international trade**, development banks play a **critical role in the support for exports and imports** owing to their **ability to easily open financial limits with counterparties across the globe** and a **more flexible approach to geographic asset allocation**. This is **particularly true in a world of growing banking regulation**, which too often has the **unintended consequence of causing commercial banks to reduce non-core geographies and thus limits or removes their ability to offer such services**.
* Talking about trade and international business, **companies from developing and emerging market countries can often have it more difficult to expand internationally**, and the **MDBs can be helpful** in this regard. Their international character and widespread use of technical assistance also **greatly contribute to the sharing of know-how and technologies across borders**.

*Problems of financial regulation*

* Having mentioned **SMEs, these are often a core driver of economic development** – however, in the current circumstance we are witnessing how **the sector is being pushed out to the “lending periphery” of commercial banking due to stricter Basel III requirements** and the overall deleveraging by commercial banks. **Financial regulation may have gone too far**, bringing us **unintended consequences for the whole economy**. While **MDBs, including the IIB, are partially mitigating this situation through risk-sharing and other measures that encourage the private sector to invest**, overall the situation is difficult.
* Modern financial regulation has led to **an approach to risks, which is detrimental to the support for developmental projects** whose social or environmental impact goes far beyond any financial returns and which **make the standard risk/return approach irrelevant**. However, **not to follow this approach usually means worse assessments by rating agencies, lower credit ratings and decreased ability** to do what MDBs are supposed to do. **Paradoxically, the environmentally or socially most important projects may end up not being financed at all**, as either the risk is too high for the lender or the cost for the borrower.

*Need for a change in rating methodologies for MDBs*

* There **needs to be a fundamental change in such approach** and I am convinced such change **should be brought about by MDBs, particularly those of the Global South**, which more often do not enjoy AAA ratings given to others by the sheer force of their strong sponsors. There **need to be changes in credit agencies’ methodologies** – while **all MDBs should have higher ratings by default**, given the character of their shareholders, **they face even with stricter criteria by the agencies**.
* These **methodologies often put significant weight on assessments, which are little related to the actual ability to settle the institution’s obligations**. In its analysis, Moody’s underlines “strengthening of organisational structures” and S&P emphasizes “institutional assessment”. Furthermore, while a **key factor should be the level of risk-adjusted capital adequacy**, a simple comparison reveals that **AAA-rated banks have much lower capital adequacy than MDBs with a BBB rating**.
* I have been promoting the **idea of a concerted effort by MDBs towards rating agencies** among some of our partners, even in the form of **a joint working group**, and the **IIB is also very supportive in relation to the possible creation of a BRICS’ rating agency**.

*Call for increased cooperation between MDBs*

* **IFIs should cooperate more often**. Development of a partnership network with other MDBs has been one of the pillars of the renewed IIB’s activities, and, in four years, **we have already approved joint projects with BSTDB, EBRD, EDB, EIF, IFC, NDB and others in more than half of our member countries**. I am **more than happy to be in the same panel with President Garcia**, as this year **CAF has joined the number of our partners and we intend to work together very closely in the unique country of Cuba**.
* Still, there is **potential for much more**. **Collaboration on capital markets and mutual participation in bond placements could have a multiplying effect on IFIs’ capacity**. Such **cross-funding** could lead to a **more effective use of their resources** and would represents an **additional boost to the support for local capital markets in less developed countries**.
* IFIs have an **important role to play in developing the local financial infrastructure, even more so in a globalised, decentralised world**. The IIB is following a **strategy of local bond placements**, under which our **successful bond issues in Romania, Slovakia and Russia have brought positive developments to these markets**, particularly in Romania, where our two placements received awards by the Romanian Stockbrokers’ Association. I **call on other IFIs to support these activities and we are ready to support theirs.**