July 2019

Roland Berger Focus

Successful past – fit for the future?

Realigning the mission of development banks in a changing world

Roland Berger

Management summary

Most development banks were set up as financial institutions, but different from commercial banks, for specific purposes and in a given historical context: to combat the absence or failure of market mechanisms, advance specific public policy goals and priorities or support wider social and economic development, for example.

Though the world is changing, these banks still often reflect their original missions and legacy environments. Defined priorities have been met, or have changed as governments come and go. Megatrends such as digitalization, globalization and political as well as economic integration, climate change and migration are accelerating change and transformation, giving rise to new needs and new priorities. Financial markets within which development banks operate are fundamentally evolving, too.

This brief study provides strategic direction to help development banks find their place in financial, economic and social ecosystems today and identify their roles going forward. Examining where development banks around the globe stand today, it discusses characteristic issues challenging their position (Chapter 1).

Three analytical steps map out how the existing mission can be substantiated or, where necessary, realigned (Chapter 2). And once clarity about the future mission has been reached, practical takeaways – illustrated by case studies – show how to realize that mission and enhance banks' impact (Chapter 3).

Contents

1. Mission possible?

What development banks (claim to) do and the issues they face

Development banks today engage in a vast breadth of missions and activities. To illustrate, we have compiled a selection of such institutions of varying sizes, on different continents and with widely differing approaches and operating models. A brief glance at key elements in their mission statements illustrates just how vast and diverse the playing field is. → A

There is no end to variations in concepts and detail – and this reflects just a small sample of the hundreds of development banks in operation all over the world. That said, we have sought to group these establishments into roughly consistent main categories:

> **Market failure ("serving the underbanked"):** Funding for startups and SMEs that struggle to source funding at affordable rates from commercial financial institutions
> **Regional or local economic development:** Support for specific regions to reduce development gaps
> **Infrastructure:** Funding for a broad spectrum of infrastructure projects such as railways, ports or energy systems
> **Social development:** Support for education, healthcare or other projects with social objectives, e.g. catering to an aging society
> **Environmental protection:** Financial support and incentives to foster a broader shift of private and corporate investment to protect the environment and combat climate change
> **Housing:** Funding for private, commercial and social housing development to increase home ownership or capabilities of real estate sectors
> **Agriculture:** Funding for farmers to ensure competitiveness and conservation of agricultural structures
> **Innovation:** Funding for projects to develop or commercialize innovative technologies, products or processes across sectors
> **International development:** Financial or technical support for international development activity of the public or private sector to support emerging societies and economies
> **Export/import:** Support for domestic companies to internationalize their business and to facilitate cross-border trade

POTENTIAL ISSUES FACED BY DEVELOPMENT BANKS REGARDING THEIR MISSIONS AND ACTIVITIES

From our experience of working with development banks, we identified five key issues that challenge development banks regarding in their missions and activities and may therefore represent hurdles to them delivering their mandates efficiently:

Vagueness and diffusion: Even the basic understanding of what a development bank is varies from country to country or sometimes for different stakeholders and institutions within a country. This can then translate into vagueness of the mission and mandate for the development bank – which sectors, activities or target groups are supported and in which way? To what precise end?

Fragmentation within the institutional system: Development banks do not exist in a vacuum. Neither on a national nor on a supranational level. On the contrary, they typically neither have a monopoly on government funds for development, nor are they the only state-owned financial agent in operation. The very coexistence of different authorities, funds and government entities with development mandates can blur the question of "who provides what effectively?", driving complexity and, in some cases, forcing development banks to handle assignments that would be better left to other public authorities or the other way around.

A: Good resolutions

Sample of key elements of mission statements from development banks around the world[1]

Source: Roland Berger

1) Sample includes AfDB, AWS, Banobras, BBB, BDB, BDC, BNDES, BPI France, BPMP, CAF, CDG, DEG, EIB, IBB, KfW, L-Bank, MFB, OeKEB, Euler Hermes, AIIB

Five issues challenge development banks: Vagueness of the mission, institutional fragmentation, mismatch between private and public roles, mismatch between mission and reality, and lack of transparency.

Separation between public versus private roles: Over the years, a mix of commercial and non-commercial activities has given many development banks one foot in the public sector and one in private enterprise. This can create confusion or even resistance among market participants about their role: are they partners or competitors? It may also be unclear how they can adhere to the principles of non-discrimination and avoidance of market distortions which many development banks officially pursue. State aid rules and other regulatory issues may create additional problems in this context.

Mismatch between mission and reality: Mission statements and strategies don't tend to get updated as often as focal policies and financial activities of development banks change. At times, political stakeholders tend to demand forms of immediate support or special initiatives that do not fit a development bank's mission. As a result, actual activities frequently end up diverging from what it says on the tin.

Lack of transparency: Most of the development banks we analyzed don't publish concrete business targets, and very few publish regular economic impact assessments of their activities – with notable exceptions (e.g. British Business Bank or Austria Wirtschaftsservice). Even when the stated missions are crystal clear, it therefore remains difficult for stakeholders to measure performance and target achievement.

All these factors have understandably challenged the mission of development banks over time. They know where they came from. But where are they heading? More importantly, where should they be heading? Internally, a lack of clarity and transparency makes it difficult to identify actions that will improve the banks' effectiveness in achieving missions. Externally, the same factors make it more difficult to communicate and justify what exactly development banks do and what specific value they add now that well-informed, active stakeholders insist on greater transparency.

These issues should therefore be addressed if a development bank is to find its place in national and international ecosystems and clearly stake out its mission in today's changing world.

2. Mission plausible?

Systematic steps to clarifying and realigning the mission in a changing world

Having identified the status quo of common missions and related obstacles that may keep development banks from realizing their full potential, it is helpful to map out a clear, carefully aligned mission for the future which reflects current megatrends and fundamental changes. A three-step framework that involves analyzing global factors, domestic market factors and domestic policy priorities provides a useful tool. → B

Step 1 is to identify global factors which are expected to have a significant economic, political or social impact on the development bank's home country or region. These may be: global megatrends (e.g. digitalization's impact on supply chains, changes in trade conditions, the shift toward renewable energy), changes in the political environment, international market developments, and other factors that can provide a starting point to help define a development bank's set of priorities and activities.

Step 2 analyzes the future development of domestic market factors – the risk of a recession, the competitive environment for different types of sectors, their ability to source finance, the presence of other national or supranational development agents, developments in the banking industry and how innovation will change the playing field going forward. All these factors can point development banks in the right direction for potential future activities and help reveal whether their current mission is still appropriate to support the ecosystems they operate in.

Step 3 involves aligning domestic policy priorities, splitting up topics among public stakeholders in the ecosystem according to market knowledge and competence, and translating them into a plan for operationalization – finding ways to support and finance government's public policy goals with own or government funds.

CASE STUDY 1

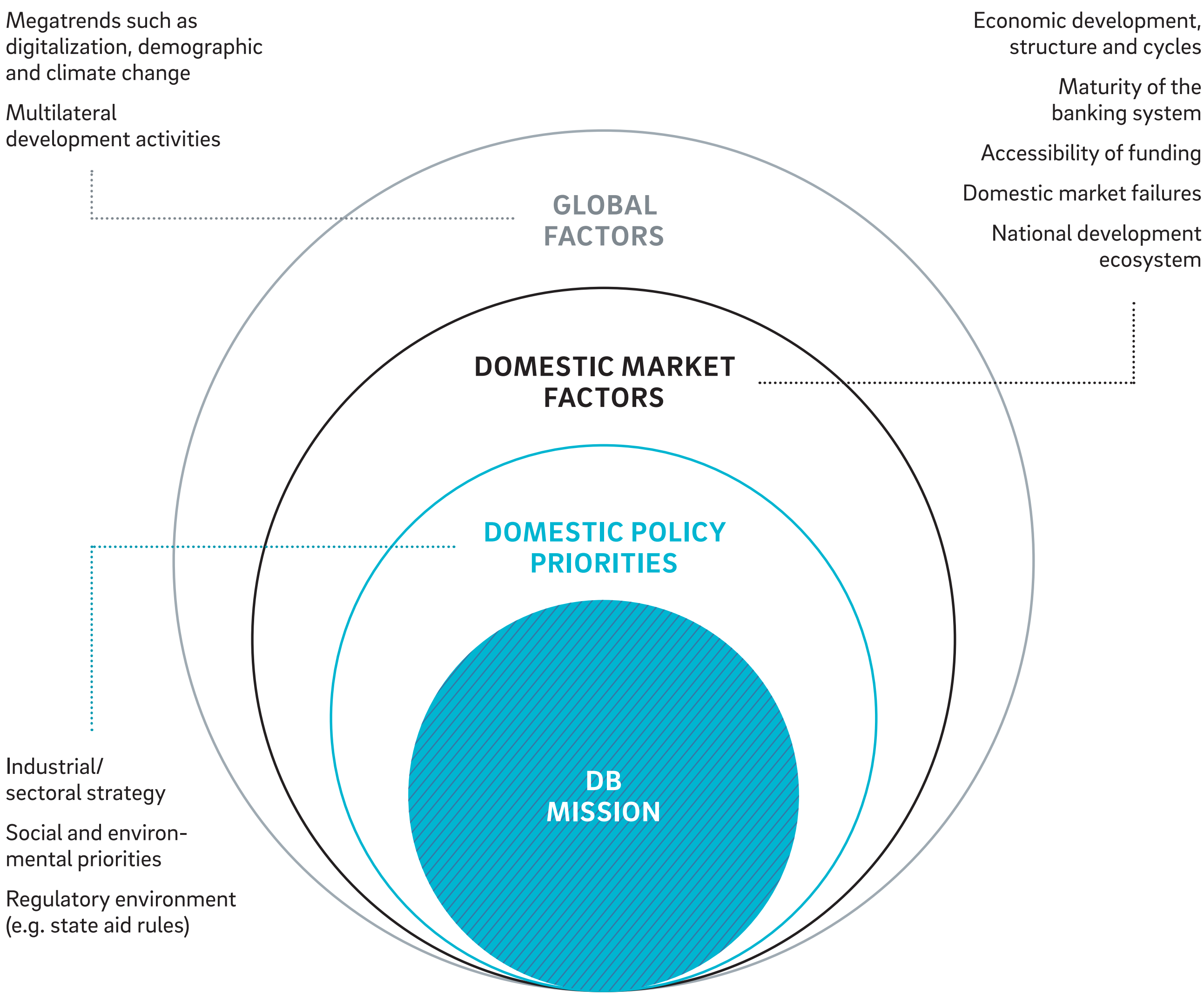
Redefining a development bank's positioning in a new political and economic context

Historically, the bank has contributed to the development of the country with infrastructure and industrialization financing. However, in recent years, questions about the cost of the subsidies – inherent in the bank's funding model – and the effectiveness of the bank arose, especially in the context of the country's low productivity and fiscal challenges. After a new law was introduced which prohibited the subsidized funding model, the bank realized the need for change.

The bank first updated its mission, where the primary focus was shifted from deploying public funding to using public funds to stimulate private sector funding. The strategic focus has moved from supporting large corporates to supporting SMEs, providing credit for innovation as well as seed and venture capital funds. To deliver this new mission, new products have been introduced and processes were digitalized to enable faster response times and interactions with funding applicants.

As a result, the bank now has a modernized strategy, products and processes which are aligned with the political and economic needs of the country, but also with the broader digital transformation in the finance sector. The bank is preparing a new and completely digital and direct channel and has reviewed its credit policies to adapt internal rules to enable it to support tech, digital and services companies.

B: Not in a vacuum
Factors shaping the mission of a development bank



Source: Roland Berger

CASE STUDY 2

Repositioning as a country's national development bank

A development bank in the EU was closely integrated and classified as part of the public sector. This added the bank's funding to the government's measure of debt, which restricted its ability to obtain funding for its operations and limited its operational leeway.

The bank therefore launched a transformation project to meet the criteria for a national development bank and to gain partial financial sector classification. Core elements of the strategic transformation included reviewing the necessary regulatory conditions, preparing a convincing story for key shareholders, the national statistical office and Eurostat, outlining potential scenarios for the bank's target operating model and defining key measures to ensure its exclusion from the national debt measure.

To achieve the intended result, the bank adopted a number of strategic measures: substantially changing the structure of its balance sheet, making its operations more independent, jointly defining the bank's strategy with government officials and proactively communicating its plans. These measures allowed the bank to remove obstacles to growth, but also put it more at arm's length from the government, enabling it to operate more flexibly and achieve a greater impact.

Armed with a clear picture of influential global factors, trends in the domestic market and the government's domestic policy priorities, a development bank can determine whether its existing mission still makes sense, or whether it needs to be updated. Either way, it can move forward with greater certainty and a sharper focus.

The above review is not a one-off exercise. Development banks should shake off the passive attitude which could at times be witnessed in the past. Instead, they should make a habit of regularly collaborating proactively with stakeholders to anticipate change, provide suggestions and review and realign their mission accordingly.

3. Mission practical?

Becoming effective and getting the job done

Having taken stock, evaluated all relevant factors and validated or updated the mission, a development bank can shift its focus to fulfilling that mission effectively and efficiently. The five key actions listed below can help development banks boost their impact across their chosen areas of activity. Again, they should become a regular, iterative cycle to ensure that the bank's strategic positioning remains optimally attuned to an ever-changing environment.

BOOSTING EFFECTIVENESS: ACTION LIST FOR ALL DEVELOPMENT BANKS

ACTION 1: Review the development bank's governance arrangements including stakeholder relations. Is the current ownership structure the most efficient and effective one? Does the bank have sufficient freedom to act, or is it too heavily dependent on government stakeholders and processes within ministries and other public bodies? Are the governance arrangements clearly defined and transparent to the stakeholders? Are governance processes for making decisions efficient and effective?

ACTION 2: Digitalize the business model to better reach clients, to make the offering easily accessible and to optimize internal and cross-company processes. As the broader market and client expectations become more and more digital, development banks must master digital end-to-end processes, big data and open platforms, starting from a customer-centric view to ascertain: which elements of the interaction are most important to the customer and how can they be redesigned to best meet customer needs? Is there value in integrating platforms, processes and services with new digital market participants and other financial or government agents? How can the bank improve its internal processes and processes with others to reduce costs and speed up delivery? Especially in cases where development banks were primarily relying on indirect business models in the past (distribution via partner banks) this change might be quite fundamental for them – in technological and also cultural terms.

ACTION 3: Produce and publish an annual business plan, including financial and economic, social or other targets for the stated mission. This sounds simple, but it helps focus management's attention on developing and agreeing goals that are clear and robust enough for publication and that align with the defined mission. That in turn improves external perceptions of the bank's transparency and accountability and justifies public support and funding for the bank.

ACTION 4: Produce and publish impact assessments based on the stated mission and targets. Internally, that will let the bank see where it is already achieving its mission and where improvements (or adjustments) may be necessary. It also allows it to highlight its achievements to external stakeholders and adjust its strategy to support targets where its impact has been weaker too.

ACTION 5: Liaise with other relevant players in the development context to ensure alignment within the ecosystem. In countries with networks of differentiated development banks and other public agents with similar targets, clients and distribution partners may not know which one to approach ("development support jungle"). Alignment, cooperation and the use of integrated digital solutions that helps institutions join forces rather than compete can help maximize the overall impact of public policy. A good case for this is the European Union with a very broad and differentiated scene of supranational, national and regional development entities which could play a stronger role in further integrating the union.

Depending on a development bank's focal activities, the table below suggests more specific actions for each category of activity. → C.1/C.2

C.1: Specific, focus-dependent actions

MARKET FAILURE ("serving the underbanked")

- Digitalize and simplify product finders, tools and application processes to enable startups, SMEs and other customer groups to identify the right program and apply quickly and with little effort (making small ticket business possible as well)
- Regularly assess the reasons and extent of market failures and develop targeted financial and non-financial support schemes
- Offer broader business support programs in addition to funding products, e.g. incubators, accelerators, mentors, networking etc.

REGIONAL OR LOCAL ECONOMIC DEVELOPMENT

- Support the development of regional clusters and networks
- Simplify the access to national or supranational development support

INFRASTRUCTURE

- Address problems across the infrastructure project development chain and expand the product spectrum to cover the whole chain
- Focus on changing areas of infrastructure facing specific market needs, such as digital infrastructure, renewable energy sources, electricity transmission networks

SOCIAL DEVELOPMENT

- Collaborate with educational institutions or government agencies on programs, projects and analysis to boost reach
- Develop products and programs for "digital natives" with easy online access and application processes

ENVIRONMENTAL PROTECTION

- Create transparency at point of sale about benefits of climate-friendly investments, e.g. via online platforms and tools to calculate savings for low-energy products which are supported by a development bank to incentivize consumer decisions
- Ensure that the extent of financial support correlates with the expected positive environmental impact by varying support intensities

Source: Roland Berger

C.2: Specific, focus-dependent actions

HOUSING

- Apply a differentiated mix of products and distribution channels (direct/indirect retail loans, developer support, grants to incentivize quality or environmentally friendly investments etc.)
- Cooperate with private sector developers to maximize impact, e.g. for property developments in general, social or environmentally friendly developments)
- Integrate with relevant (new) digital market participants (e.g. real estate websites, mortgage brokerage platforms)

AGRICULTURE

- Develop products which reward specific agricultural policy goals such as organic farming or enhanced digital farming methods instead of basing support on generic measures such as size of area farmed
- Launch marketing activities via farmers' associations, seed sellers, online marketplaces etc. to increase information and incentivize sustainable market development

INNOVATION

- Run innovation competitions and startup initiatives
- Align product mix to support early stage innovations and companies (e.g. equity participation) as well as scaling up of successful ideas
- Create digital marketplaces or innovation communities where innovators can exchange ideas, develop business plans and find investors

INTERNATIONAL DEVELOPMENT

- Develop digital solutions to enable better collaboration across borders and with many parties involved
- Cooperate with other government and non-government agencies and international organizations to promote awareness and education on funding offers, e.g. via platforms and websites
- Link product offering to prominent development goals and offer funding based on expected positive impact (such as the UN Millennium Goals)

EXPORT/ IMPORT

- Develop digital product solutions to cater to the needs of small businesses, enabling low costs for smaller transactions and quick approval processes
- Develop joint marketing and support activities with export support agencies, trade missions, business associations

Source: Roland Berger

CASE STUDY 3

Going digital to improve effectiveness
Facing potential disruption to its established business model from digitalization trends, the development bank decided to commit to a full-fledged, end-to-end digitalization program for its domestic core business.

The bank took a greenfield approach and established an open platform for its products, setting a new digital market standard by reflecting key success factors such as customer centricity, product simplification, efficient digital processes and the early inclusion of relevant ecosystem partners in the platform development. It also leveraged digital expertise to design and implement a new innovative business model: a one-stop-shop digital marketplace for entrepreneurs and startups which covers the entire value chain from ideation and business planning to financing.

The development bank successfully positioned itself as an innovative platform provider for the national and regional development finance market, improving its own efficiency and competitiveness as well as providing joint solutions for the sector as a whole.

Mission accomplished?

Where do development banks go from here?

The sheer diversity of development banks that we saw at the outset makes one thing clear: There can never be a "one size fits all" approach. Nor can someone present a complete standard set of guidelines and proposals for action. Each development bank must always be assessed on its own merits and in its own unique context.

That said, many development banks face similar fundamental challenges – challenges that can be turned into opportunities on the basis of clear and up-to-date missions and respective action plans. And then? The world never stands still. Accordingly, constant change must become a string in the bow of development banks too. Banks must become more agile and adopt a more proactive approach than in the past, seizing digital opportunities to become faster and more effective.

Credits and copyright

WE WELCOME YOUR QUESTIONS, COMMENTS AND SUGGESTIONS

AUTHORS

Dominik Löber
Senior Partner, Frankfurt
Financial Services Competence Center
+49 69 29924-6105
dominik.loeber@rolandberger.com

Sebastian Steger
Partner, Berlin
Financial Services Competence Center
+49 30 39927-3488
sebastian.steger@rolandberger.com

Stefanie Rupp
Senior Project Manager, Munich
Civil Economics Competence Center
+49 89 9230-8248
stefanie.rupp@rolandberger.com

Roland Berger, founded in 1967, has been advising development banks in developed as well as emerging markets for many years with a dedicated global practice group. We focus particularly on supporting development banks regarding strategy definition, the modernization and digital transformation of their operating models, organizational design as well as product and process optimization.

ADDITIONAL DEVELOPMENT BANKING EXPERTS

Andreas Bülow
andreas.buelow@rolandberger.com

Alain Chagnaud
alain.chagnaud@rolandberger.com

Stefan Haid
stefan.haid@rolandberger.com

Andrew Hanff
andrew.hanff@rolandberger.com

Daniel Martins
daniel.martins@rolandberger.com

Dirk Möbus
dirk.moebus@rolandberger.com

Yvonne Ruf
yvonne.ruf@rolandberger.com

Bhavin Shah
bhavin.shah@rolandberger.com

About us

Roland Berger, founded in 1967, is the only leading global consultancy of German heritage and European origin. With 2,400 employees working from 35 countries, we have successful operations in all major international markets. Our 52 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 230 Partners.

Publisher

ROLAND BERGER GMBH
Sederanger 1
80538 Munich
Germany
+49 89 9230-0

RB_PUB_19_010