

*The time is now; for the establishment of a National Development Bank,  
to engineer the financing of Ghana's development.  
Please join the Campaign...*

*Proposed*

# Ghana Development Bank (GhDB)

By Peter Kyei  
[Peterkyei@gmail.com](mailto:Peterkyei@gmail.com)

---

# Ghana Development Bank (GhDB) Campaign

*Financing the future together; strengthening the Cedi together.*

**Ghana Development Bank** (hereafter **GhDB**) is a proposed national development financing institution for Ghana. Its establishment will provide the country with a new and a sustainable source of medium to long-term financing to undertake smarter infrastructure and industrial development, sustainable economic growth and poverty reduction.

Ghana is a developing country and needs a huge financing to undertake key developments; however, the over-relied donor support has now gone down significantly and public coffers are strained at the finance ministry, but by neglecting to invest in our infrastructure and industrial needs and key sectors of the economy will undermine growth and stagnate national development.

Ghana must find more effective and efficient ways of using scarce public resources to catalyze private investment and the proposed **Ghana Development Bank (GhDB)** will do just that, by mobilizing billions of Ghana Cedis into project financing without putting undue pressure on already strained public purse and scarce private sector funds in the economy.

An adequate supply of infrastructure has long been viewed by both academia and policy makers as a key ingredient for economic development and access to easy flow of funding is vital; the **GhDB** will provide both financing and technical advice to help Ghana develop and implement long-term policies to tackle underlying economic problems while cutting down the nation's dependence on foreign loans and international aid with precarious terms.

Ghana needs to continually develop and upgrade existing infrastructures, grow the economy by investing in new and existing businesses to create new and improve existing jobs and to do these by financing small and medium-sized enterprises, support start-ups, the housing market, environmental protection, innovation, education, health, project-finance, export-finance and initiatives abroad.

The proposed Ghana Development Bank (**GhDB**) will be wholly owned by the public but its governing board and management will be completely independent of the government and there will be no Presidential or Ministerial appointee on the board. **GhDB** will not be allowed to take deposits or compete with commercial and retail banks, but it will facilitate these institutions in areas with its mandate by lending through reputable commercial banks and other financial institutions, and not directly to customers.

The **GhDB** when established as an independent body will provide it with a greater budgetary flexibility, which is not to say it will have a complete budgetary freedom. It will be required to submit its budget to the minister of finance, who in turn will include that in the national budget to be submitted to the parliament.

## Kick Starting the GhDB Operations.

### 1. Legal framework:

A team of expert with knowledge in development banking/financing will draft the legal framework of the GhDB on behalf of the Government of Ghana (GoG) to secure parliamentary approval.

### 2. Seed Capital:

GhDB will require a seed capital of about **three million Ghana Cedis** (Gh¢ 3 million) to cover for the initial set up, operations and administration cost (including salaries) for the first twelve months of its operation.

### 3. Issuing of Bond:

Upon its establishment, the GhDB will issue its first bond which will be christened the **“The Cedi Bond”**. This Cedi Bond will be sold to only the central bank which in our case is the Bank of Ghana (BoG).

### 4. Paying for “The Cedi Bond”:

The Bank of Ghana having purchased the **“The Cedi Bond”** will increase its balance sheet electronically using the policy of **Quantitative Easing** and using the electronic money, the BOG will credit the reserve accounts of GhDB at the central bank.

Like other bond, this is not free money, but a loan whose principal and interest has to be paid when it's matured.

*Example: The GhDB can issue let say a Gh¢15 billion thirty year **The Cedi Bond** at a special low interest rate of about 1.5 % per annum, the Bank of Ghana will purchase **The Cedi Bond** and will increase its balance sheet electronically by 15 billion Ghana Cedis and will credit **all** the Gh¢15 billion into the reserve accounts of the GhDB at the Central Bank.*

*Though the money at this stage is still in its electronic form, it has the same value as the printed notes in circulation because it was created by the central bank which is the only institution in the country with the authority to do so, it's like mobile money.*

### 5. Using “The Cedi Bond” proceeds:

The GhDB having for example this Gh¢15 billion credit in its account will go out and spend by investing in the real economy through the commercial banks and other qualified financial institutions and not directly to customers.

This will ease access to financing for companies with solid business models and good growth prospects to create jobs and apprenticeships for young people.

## ***Using The Cedi Bond Proceeds /Credits***

### ***Financing the SME's***

*To foster growth and create jobs, theGhDB will sign agreement with key Commercial Banks and financial institutions in the country to boost access to affordable credit for Small and Medium enterprises*

*This will ease financing for companies with solid business models and good growth prospects and help them to expand production, create jobs and apprenticeships for young people.*

*Under the agreement, these banks could access the financial facility at GhDB at an interest of about 2.5% and will be able to lend to the qualified SME's at a rate between 2.5 and 4% per annum.*

### ***Agriculture:***

*TheGhDB could partner with the nation's **Agric Development Bank (ADB)** to design a special **Agriculture Loan Facility** through which low interest loans could be made available to farmers. TheGhDB could assign let say Gh¢ 1 billion loan to the Agric Development Bank at an interest rate of about 2.5% with terms and condition that the ADB could loan this to various categories of farmers at an interest rate between 2.5-4%.*

*Farmers having access to loans under 4% together with technical support from well trained and well paid extension officers, could produce better products for both national and export market.*

### ***Housing***

*TheGhDBworking through qualified Commercial Banks and other key institutions could introduce a Special low interest**Housing Loan Facility (HLF)**which will be accessible to Ghana Real Estate Developers Association (GREDA) members and other players in the real estate industry.*

*First GhDB through this **Housing Loan Facility (HLF)** will make available a loan of about Gh¢5 billion to these banks at interest rate of 2.5%. The commercial bank will then loan this to the Real Estate players (from manufactures to builders and mortgage companies) at a rate between 2.5-4% per annum for the construction of tens of thousands of family homes across the country (benefiting every district).*

### ***Mortgage***

*The GhDBwill thenlend credit to mortgage institutions at a special low interest rate (say under 3% per annum) which in turn will allow those mortgage institutions to offer mortgage loans to working families at a reasonable interest rate under 5%.*

*This will make mortgage homes available in every district of the country at a reasonable price and a low interest rate to give every working family the fair chance to own their own home and help pay back the **"The Cedi Bond"** through their mortgage repayment.*



### ***Building Industrial Estates***

*The GhDB having access to this huge financing could commission the development of major industrial estate to serve key sectors of the economy:*

#### ***Example:***

*The Kumasi Suame Magazine Industrial Development Organisation (SMIDO) is searching for funds to purchase about 100 acre lands to develop a modern industrial site for spare parts dealers and artisans.*

*The GhDB could design a **special loan facility** to finance this project by purchasing and developing the said land into a modern industrial site with facilities such as:*

- *Road network, footpath with better address and direction systems.*
- *Store facilities for spare parts dealers.*
- *Workshop facilities for the artisans.*
- *Office spaces for banks, insurance companies, mortgage institutions, restaurants, etc.*
- *Health and fitness centres.*
- *Hospital, ambulance centre and fire station.*
- *Toilet facilities.*
- *Administrative office to manage the entire industrial estate.*

*This would cost a huge amount of Ghana Cedis but proceeds from mortgaging and renting these spaces will pay for both the loan together with the interest over the next ten to twenty years.*

## **Caution!!!**

*Proceeds or Credit from The Cedi Bond is not government money and neither the presidency nor the finance ministry will have direct access to it.*

*Proceeds will not be used to finance government deficits and will not be used to buy cars for government departments and officials or be used by government to pay workers' salaries or arrears or increases, but it will be used by the GhDB to provide medium to long term loans to finance productive fixed asset investment in all sectors of the Ghanaian economy and contributes to the development of the capital markets to aid the flow of local and international capital to businesses for the production of goods and services that can be sold to raise back the money used in producing the very goods and services.*

*Government ministries will be forbidding from accessing funds directly from the GhDB.*

**Question 1:** Has this been done successful before and did it not cause inflation?

**Answer:** Yes. In 1944, the Canadian government and their then newly-formed Central Bank faced an enormous reconstruction challenge following WWII. One of the solutions was to create a new public bank to support the SME sector desperate for funding and this gave birth to the **Canadian Industrial Development Bank (IDB)**. But where was the money going to come from given a sky-high post-war public deficit? The answer was simple: the Central Bank created money to capitalise the IDB which then lend to the SMEs as needed.

From 1944-1972, the IDB authorised 65,000 loans totalling \$3 billion for 48,000 businesses, employing almost a million people. Not a single penny of taxpayer money was needed.

Also in the period from 1936 to 1939, Reserve Bank of New Zealand (RBNZ) created NZ£30 million of credit to support the building of new homes, and a range of other infrastructure and also supported farmers by guaranteeing their export and enable New Zealand to grow more rapidly out of the 1930s depression faster than many other countries.

---

**Question 2:** Will this not cause inflation, like it did in Germany in 1920 and Zimbabwe in 2008?

**Answer:** No. This is different from 1920 Germany and 2008 Zimbabwe because we are not printing money to pay for government deficit as they did but we are creating credit to stimulate economic development and growth; moreover this is a temporary policy and the central bank is expected to sell the **Cedi Bond** back onto the market once there growth to raise back the money.

---

**Question 3:** But Ghana has the Agric Development Bank (ADB) and the National Investment Bank (NIB), what do we need another Development bank for?

**Answer:** In truth, Ghana's Agric Development Bank (ADB) and the National Investment Bank (NIB) though were established as Development Banks but they are operating as commercial bank that takes deposits.

Ghana now needs a **non-deposit collecting** development financing institutions the likes of:

Brazilian's **Banco Nacional de Desenvolvimento Econômico e Social (BNDES)**,  
Chinese's **CDB or China Development Bank** and  
Germany's **Kreditanstalt für Wiederaufbau (KfW)** or Credit Institution for Reconstruction.

**Ghana Development Bank (GhDB)** is the answer the country needs now.

## Benefits

The Ghana Development Bank (GhDB) when established will provide Ghana with a whole range of benefits to the economy:

1. GhDB will provide Ghana with a reliable, sustainable and self-generated source of funding to support long term economic policies; stockpiling billions of Ghana Cedis to fund infrastructure and industrial developments.
2. Ease pressure on the consolidated fund, making sure public workers get paid on time without arrears and to enable government to achieve maximum result in its policy implementation.
3. Help improved education, health care and life expectancy through innovative development programmes.
4. Finance and execute projects that can help create an innovative environment of the highest international standard to attract businesses that will modernise and grow the national economy.
5. Help boost the housing sector to provide protection from the elements, minimises the risk of disease and injury, and contributes to the physical, mental and social wellbeing of the public.
6. Project executed with funds from the initiative will provide a greater sense of ownership and national pride for every Ghanaian to encourage citizen's involvement in national development.
7. It will help cut down Ghana's dependency on foreign loans hence free Ghana from precarious conditions and save future generation from the burden of paying back decades old loans at the expense of their present day need, hence preventing chronic poverty.
8. It will help speed up Ghana's long term economic programme to attract more foreign direct investments (FDI)
9. It will open way for Ghanaian enterprises to expand quickly to other part of the country and abroad.
10. Increase investment input into the national economy.

# Lesson from Germany

## How Germany financed its post war reconstruction

The German economy was in catastrophic condition in the immediate post-war years. Industrial production had dropped to one-third of 1936 levels. Transport infrastructure had been decimated. More than one-fourth of existing housing had been made unliveable by the bombing attacks, which included about 50% of all homes in the urban centres. This is a rough description of conditions just at the time that 7.9 million refugees from the former German eastern provinces, and another 1.5 million refugees out of the Soviet-occupied eastern zones, flooded into the western part of Germany.

Supplies of electricity and heating for both industry and the population had largely collapsed. Food rations in the especially cold winter of 1946-47 dropped at times below 1,000 calories per capita per day. The undernourishment of miners contributed further to bottlenecks in coal supplies, from which Germany had to derive 80% of its export earnings.

But by the end of the 1950s, this picture changed completely. Germany had risen into the ranks of the leading industrial nations. The mass unemployment of the immediate post war years had disappeared. German businesses were active throughout the world's export markets. Foreign debts were being paid off, ahead of schedule.

The key to this success lay in the special method for financing the reconstruction.

### **The Marshall Plan**

After the war, there was an acute scarcity of dollars in all European countries, so that Europe's most important export market, the United States, was in danger of evaporating. In June 1947, the U.S. Secretary of State George C. Marshall announced that the United States was ready to establish a European Recovery Program, in order to re-establish "the confidence of Europeans in the economic future of their countries and all of Europe." In a time-span of four years, from 1948-52, infrastructure and productive capacities in western Europe were to be brought up to at least the levels which existed before the war.

To that end, the United States provided commodity credits of \$17 billion, with which European firms could buy urgently needed raw materials, fertilizers, vehicles, and machines from the United States. That meant that every dollar had at least a twofold effect: With the exception of Germany, the United States did not insist on the illusory repayment of the dollar credits; instead, the businesses involved in the program were to pay the value of the received supplies, in their own national currency, into an account of their own central bank. The respective governments could then dispose of this as they chose, in agreement with the United States. In some cases, as in England and Norway, these counter-value sums were used to reduce state debts. In Germany, they were employed completely for reconstruction, as if in a revolving door.

Immense investments were necessary if Germany was ever again to get back on its feet economically, and these investments would necessarily involve amounts of financing far beyond the aid received through the Marshall Plan. The first plans for the establishment of a Reconstruction Loan Corporation (RLC) were laid out in 1947. This was to function as the



central institution for provision of investment credits. There were two crucial factors to consider. First, there was the initiative of German banker Hermann J. Abs, who informed Truman's emissary, Richard Whitehead, in September 1947, of his own ideas for the envisioned credit agency. Then there was the positive U.S. experience with its Reconstruction Finance Corporation, a Hoover-era institution revamped in 1933 by Franklin D. Roosevelt, during the Great Depression.

In November 1948, the RLC became known as the Kreditanstalt für Wiederaufbau (KfW, Credit Institution for Reconstruction), in order to provide medium- to long-term loans "to enable the completion of reconstruction projects, insofar as other credit institutions are not able to provide the required financing." Hermann J. Abs and Otto Schniewind were entrusted with the leadership of the KfW. (Both had just previously refused to take over the leadership of the Bank deutscher Länder, the predecessor of the present German central bank, the Bundesbank.)

The loans issued by the KfW were to run primarily on a separate track from the normal banking system. If other banks shied away from the risks of a project, the KfW was empowered to provide direct credit to the businesses involved. This turned out to be the case for coal, gas, water, electricity, and transportation projects. The KfW was expressly excluded from other normal bank services, such as taking deposits, managing customers' bank accounts, or brokering stocks. The KfW was permitted to extend short-term credit in exceptional cases, but only following consultation with the central bank.

The big question initially was: Just where was the Kreditanstalt supposed to get the capital for the credits it would issue? The monetary reform of June 1948 had wiped out masses of capital. That meant that nothing could be taken, for the moment, from the domestic capital market. In the fall of 1948, the KfW tried to entice German savers with a bond, and promptly fell flat on its face. German debtors were forbidden from going to foreign capital markets, and there was nothing to be had from the public budgets.

Also, in contrast to its European neighbours, Germany never received a credit from the World Bank. There were, to be sure, negotiations between the German government and the World Bank over the course of 1953. But, because the World Bank would come up only with a paltry \$20 million, and linked this pittance to unacceptable conditions, no agreement could be reached.

Finally, after persistent pressure from Germany, the United States relented and allowed the accumulated German mark "Counter value Funds" of the Marshall Plan—collected in the so-called ERP Special Fund, to be used to refinance the KfW. Between 1949 and 1953, the KfW obtained a total of DM 3.7 billion from this source. Principal and interest payments on KfW credits were always paid back into the ERP Special Fund.

The London Debt Agreement of 1953 stipulated that the German government would pay back \$1 billion of the Marshall Plan aid it had received. But the German government paid this sum out of its tax income, so that the ERP Special Fund was left intact as the fund for the "revolving" issuance of investment credits.

### **Dirigistic credit policy**

The mere existence of this fund by no means guaranteed success. As West German Chancellor Ludwig Erhard later remarked, everything depended on the “economically right use” of the fund. Because of the huge demand for investments in infrastructure, housing, and industry, there was an understanding between the German and American authorities, that the limited resources of the Marshall Plan, and later of the KfW, could not be surrendered to the free play of market forces. Hermann Abs always underscored the “targeted planning” in the KfW’s credit issuance. Abs observed: “The activity of the KfW was not exactly oriented to the ideal model of a free market economy. Taken in the precise sense, what it did was to steer investment.”

Immediately after its establishment, the KfW, in collaboration with the Economics Administration, the predecessor of the Economics Ministry, proposed a “list of priorities” for the German economy’s reconstruction. These included the basic materials industries (especially coal and steel), housing, agriculture (machines, fertilizers, reconstruction of farms), local infrastructure (roads, water supplies, and so on), an autarkic energy supply for encircled West Berlin, promotion of export business, and, finally, job creation and integration of many millions of refugees. From the outset, the aim was not merely to re-establish conditions as they had been before the war, but, rather, to promote all of those investments necessary for a productive economy that would be capable of sustaining itself in the worldwide arena.

In 1949, the KfW set the highest priority on gearing up production of coal, iron, steel, gas, water, and electricity. Because these were all areas of urgently needed and scarce products, they were subjected to strict price controls. For example, the price stipulated by the German government for coal, covered only one-sixth of the costs of production. The costs of production were, however, covered by subsidies, but not above the sales price. In the case of exported coal, Germany was forced to sell far below the cost of production. Many firms in the raw materials sector would have been unable to present any balance sheet at all, in order to obtain credits at banks. The mining firms, for example, did not even know whether the mines, which had been confiscated by the Allies, would belong to them again someday.

In similar situations today, it is the practice of the World Bank and the International Monetary Fund to advise for example, in the case of eastern European countries either that such firms be closed, or that they be broken up and the “competitive components” sold off to foreign investors. To be sure, there were people in the German administrative apparatus in the post-war period, who, under the circumstances, where issues of ownership had not been previously resolved, advised *against* giving credit to mining firms. But it was typical for the political and economic elite of that time, that such advice was not heeded.

Hermann Abs, at the KfW, pronounced boldly that it was irrelevant to whom the mines belonged, and that it was also irrelevant whether their production yielded a profit or a loss under those conditions. The only thing of any importance, he insisted, was that production of coal be cranked up as quickly as possible. In the years 1949 and 1950, forty percent of all West German plant investment in the areas of energy, coal, and steel, was financed by direct credits from the KfW.

### **The crash program of 1949**

Events in early 1949 illustrate the KfW’s working methods in the decisive years at the beginning of reconstruction. The KfW opened in Frankfurt on Jan. 2, and the U.S. authorities promised to put DM 265 million of “counter-value funds” at its disposal as a first tranche. Ten

energy firms received credits under Energy Program I for 20 projects, running for 10 years. As a consequence of the Soviet blockade of West Berlin, a considerable portion of this went into the construction of a new power plant there. A total of 55 mining firms obtained long-term credits for capital investments in their mines, for the payment of urgently needed imports, and for paying off bills that were due. The KfW was the direct investor in the energy and coal sectors, because the risk was too great for the private banks. In other cases, part of the financing came from private banks.

These other cases included the KfW's tractor program, under which 40,000 tractors were produced—25,000 for German farms and 15,000 for export. The producing firms, MAN, Hormag, Hanomag, and Lanz, received long-term credits for this purpose. The production of phosphates, which had been shut down throughout Europe, was also geared up under this crash program. The KfW started a program to build fishing boats, in order to secure a high-protein diet for the German population. The KfW also hand-picked some 70 firms in industrial sectors, especially in machinery and electro-technology, which had special know-how and capacities relevant to projects the KfW wanted to accomplish. These firms were then told to apply for credits for investments to get the job done.

Step by step, the KfW was allocated additional sums from the “counter-value fund,” until 1953, and these funds were immediately used as the base upon which to issue new credits, and initiate new credit programs. Beginning in 1950, housing construction was one of the KfW's areas of special focus. Initial demand was estimated at some 5 million housing units. Because there was no free market for housing, refugees were assigned to the homes of other families, and the rents were fixed by the authorities.

Housing construction would not have moved ahead without state intervention. In 1950 alone, 350,000 homes were completed, every eighth one financed by the KfW. By 1956, some 3 million housing units had been completed, and government- subsidized public housing projects became an important pillar of the construction sector. In the 1960s, when more than 6 million new housing units had been completed, market conditions began to settle into the construction sector.

### **A ‘financial multi-purpose weapon’**

The West German government and the KfW were compelled, time and again during the reconstruction phase, to react to disruptions in economic development, and, thus also to improvise financing when necessary. For example, at Hermann Abs's initiative, the lower house of Germany's parliament, the Bundestag, decided in December 1951 to initiate a new special investment aid program for the basic-materials sector. Developments in this sector still lagged behind the rest of the economy, because profits were insufficient to cover the necessary investments. And if the production of coal and steel did not keep in step, this threatened to bring to a standstill production in the other industrial sectors.

According to the “Abs Plan,” the booming consumer goods industry was put under gentle pressure, to “persuade” it to invest a portion of its write-offs into bonds of a fund, administered by the KfW, from which the KfW then generated the credits for the raw materials industry. In addition, the Bank deutscher Länder agreed to issue short-term central bank credit as pre-financing for the program, so that the KfW was in position to issue the first investment credits, even before the Bundestag had formally passed the “Abs Plan” as law.

The KfW also played a crucial role in developing export markets for German industrial goods. It was not sufficient to raise the German level of production in order to re-establish a strong German position in foreign trade. Export business for German producers of investment goods became a calculable risk, only when accompanied by export credits and state credit guarantees. In March 1950, the KfW announced that the “opening of financing opportunities for medium- and long-term export business is extremely urgent and of special importance for the economic reconstruction.” Therefore, new investment techniques for foreign trade had to be created, in addition to investment credits. The KfW granted exporters bills of exchange, so-called “Sola bills,” for financing deliveries abroad, when the firm’s own private bank liaisons were not able to do so. The Sola bill was, however, redeemable at the respective firm’s house-bank (i.e., its private commercial or savings bank). In addition, the government guaranteed payment of the contract in the framework of the Hermes export credit insurance, in cases where the foreign customer did not pay.

Here again, the central bank played a crucial role. The Sola bill was provided with a rediscount promise from the Bank deutscher L nder, which expanded its rediscount volume for export bills, step by step, until it reached DM 1 billion in 1952. After that, the Ausfuhrkredit-AG (Export Credit Stock Company, AKA) was created to take this business off the hands of the KfW and the Bank deutscher L nder.

The German government sought to secure additional foreign contracts for German firms with bilateral trade agreements and the financing of large foreign industrial and infrastructure projects. An agreement with Yugoslavia, concluded in October 1950, was the beginning of this process. Germany agreed to deliver plant, equipment, machines, and apparatus for the mining, chemicals, electrical, petroleum, and wood industry to Yugoslavia, by the end of 1952. In return, during 1954-55, Yugoslavia delivered grain, ores, wood, and petroleum. The participating German firms received export credits from the KfW running for five years, with an additional federal government guarantee.

In 1958, for the first time, the KfW provided credits to foreign nations, with India among its first partners. Because the Indian government was unable to keep to the timing of the agreed-upon payments, which were for building the Rourkela steelworks, the KfW bought Indian Sola notes and pre-financed the Indian payments. In the 1960s, the KfW then emerged as a major credit-issuing partner for numerous large construction projects around the world, which naturally produced several thousands of high-skilled jobs in German firms in Germany itself. These included dam projects in Africa and the Mideast, railway construction in Indonesia, construction of nuclear power plants in Argentina and Brazil. Word had already spread far and wide that development aid projects in which the KfW participated, had a surprisingly high success rate—more than 75%.

### **Promotion of medium-sized industry**

Once Germany’s reconstruction was successfully completed, international capital markets opened once again for German firms and banks. The KfW has used this source of funds, from the beginning of the 1970s, in order to provide small and medium-sized businesses in Germany with long-term credit, under conditions that were otherwise the privileged preserve of large firms. The declared aim of the “KfW Medium-Sized Industry Program” was to secure the medium-sized businesses’ long-term investment capacity. Such firms would apply to their house-bank for long-term credit, and this bank would pass the application on to the KfW, unless the house-bank wanted to take full responsibility itself for issuing the credit. With

this system, the KfW would be called upon only for financing those projects that the house-banks did not want to finance.

At the same time, this mechanism encouraged the private banks to provide most attractive conditions for their credits, in order to be able to keep the contracts they wanted. The interest rates stipulated by the KfW remained constant for the entire term of the credit, even if market interest rates rose drastically. And if interest rates dropped, the firm had the option of paying off the principle ahead of time. KfW credits usually ran for 10 to 30 years, with principal-free grace period of one to three years. To date, a quarter-million individual credits have been issued in the framework of the “KfW Medium- Sized Industry Program.”

### **Post-unification reconstruction**

In 1989, Germany was finally reunified with the collapse of the communist East German regime and the incorporation of its territory into the Federal Republic of Germany. Between 1990 and 1997, the KfW issued 722,000 private investment credits (chiefly to private households) in the new eastern states, with a total volume of DM 121 billion. This credit volume was seed-financing for DM 210 billions of investments, securing or creating 2.5 million jobs. In the framework of the KfW housing modernization program, 3.3 million housing units were modernized, which accounts for 40% of the total housing in the new states, of these 832,000 pre-fab units. The KfW participated in financing 4,200 infrastructure projects in the east of Germany.

Today, 50 years after its founding, the KfW is one of the largest banks in Germany, with a balance of DM 315 billion. In 1998, the KfW promoted the German economy with credits amounting to DM 65 billion. Of this sum, DM 48.4 billion went toward financing investments directly in the German economy, including DM 20.4 billion of small- and medium sized firms; DM 15.2 billion was for housing construction; and DM 6.5 billion was for communal infrastructure. An additional DM 13.1 billion was allocated for export and project financing in other countries, and DM 2.7 billion for support of developing countries.

The investment credits for firms generated some 1 million jobs and created 60,000 new jobs. In addition, 240,000 jobs in the construction sector and related firms were secured by KfW activities in infrastructure projects and housing construction.

# Lesson from Brazil

## Banco Nacional de Desenvolvimento Econômico e Social (BNDES)

### **The BNDES**

The Brazilian Development Bank (BNDES) is the main financing agent for development in Brazil. Since its foundation, in 1952, the BNDES has played a fundamental role in stimulating the expansion of industry and infrastructure in the country. Over the course of the Bank's history, its operations have evolved in accordance with the Brazilian socio-economic challenges, and now they include support for exports, technological innovation, sustainable socio-environmental development and the modernization of public administration.

The Bank offers several financial support mechanisms to Brazilian companies of all sizes as well as public administration entities, enabling investments in all economic sectors. In any supported undertaking, from the analysis phase up to the monitoring, the BNDES emphasizes three factors it considers strategic: innovation, local development and socio-environmental development.

In the 21st century, the BNDES aligns its operations with the reality of a globalised world, with economies deeply connected, and intensifies its efforts to take on roles and duties that surpass the borders of Brazil, in compliance with the increase of the international insertion of the country. Today, the Bank has offices in London, one of the most important financial centres on the planet, and in Montevideo, considered the "capital" of the Mercosur trade bloc and head office for several regional organizations. The BNDES also finances the expansion of national companies far beyond the borders of the country and seeks to diversify the sources of its resources on the international market. In addition, the BNDES has strengthened its efforts that are already traditionally conducted, such as financing exports of Brazilian goods and services in projects carried out overseas and institutional fundraising through multilateral organizations, sharing experiences and promotion opportunities.

Therefore, with its extensive knowledge, stemming from its vast experience allied with the technical capacity of its workforce, the BNDES is an important partner for investors to be able to understand and access opportunities offered by the Brazilian economy. And, after intensively supporting Brazilian growth since it was created, financing important investments for the country, the BNDES reaches a new operational level, also on a world scale, where it consolidates its role as financing agent to the economic and social development of our country.

### **The BNDES Abroad**

For more than 50 years, the BNDES has been one of the driving forces behind Brazilian development, offering several financial support mechanisms to companies, individuals and public administration entities. The growing importance of Brazil in the world scenario, coupled with the interdependence of the globalised world economies, has compelled the BNDES to broaden its horizons and intensify its participation outside Brazil, as well.



In fact, the BNDES' connection with the globalised market has existed for a very long time. The Bank pays full attention to exports in Brazil by fostering the production and the sales of locally-produced goods earmarked for foreign trade. In addition, the BNDES supports the internationalization of Brazilian companies, aiming at increasing their competitiveness which, in turn, propels the global economy.

The BNDES has other relations with the global market; for example, with multilateral organizations and fomentation agents, through which the Bank raises funds and finances projects of common interest. The BNDES has also consolidated its funding with the international market by issuing bonds.

Reinforcing the BNDES' international operations requires the development of new organizational structures, including the constitution of branches of the Bank outside Brazil. The following measures reflect the strategic nature of the BNDES' international presence:

- In December 2013, BNDES opened its Johannesburg office to drum up business for Brazilian companies in Africa beyond the Portuguese speaking countries.
- In May 2010, the BNDES created EXIM Brazil, its new subsidiary with exclusive dedication to the foreign trade sector;
- In November 2009, the Bank opened BNDES Limited, its subsidiary in London, United Kingdom, as an investment holding company;
- In August 2009, an office in Montevideo, Uruguay, was opened;
- In 2008, the BNDES' organizational structure underwent a change with the creation of the International Division, responsible for coordinating the implementation of activities connected to the Bank's international operation, yet linked to other internal sectors.

With all these efforts, the BNDES aims to consolidate the strength and competitiveness of the Brazilian economy within a fully interconnected world. With this, the Bank launches its operations on a new level, where elaborating Brazilian development involves an integrated view in a global context.

# Lesson from China

## How China Development Bank is financing China into a brighter future

China Development Bank (CDB as popularly known) was founded in 1994 and though the policy bank is less than 40 years old, but it has played a pivotal role and left its indelible mark in China's economic and social development. In vigorously supporting the state's key construction projects, creating a new financing model for banks to support urban construction, taking the initiative in paying attention to financing projects related to the people's livelihood, solving the financing problems of numerous families with wholesale means, standardizing the platform for development financing, helping to support the market in times of financial crisis, or taking the lead in building up a global presence to achieve mutual benefit and a win-win outcome in international cooperation, CDB has all demonstrated its national responsibility and accountability in serving the national strategy.

The reason for the flourishing of development financing in China is that CDB has made diligent efforts to find a road for development financing with Chinese characteristics that integrates advanced international financial theory with China's national conditions, integrates the government's organization and coordination advantages with CDB's longer-term financing advantages, and explores serving the national strategy with market means.

CDB today is not only a major bank for longer-term investment and financing in China but also China's largest bond bank, largest foreign exchange lending bank, and largest bank in external investment and financing cooperation, as well as the world's largest financial institution in development financing. It has become an indispensable link in the financial field in China and even in the world.

CDB, the oldest and largest policy bank in China, was founded on 17 March 1994, indicating that China had taken an important step in financial structural reform. Since its founding and under the correct leadership of the CPC Central Committee and the State Council, CDB has faithfully performed its lofty mission of "strengthening national power and improving the people's livelihood". Based on the requirements of the times for reform and opening up and economic and social development, CDB has closely followed the nation's progress in industrialization, urbanization, and internationalization and taken the initiative to give play to its advantages role in longer-term investment and financing. By exploring a road for development financing with Chinese characteristics, CDB has made irreplaceable important contributions to China's economic and social development and enhancing the country's comprehensive national strength and international competitiveness.

On 17 March 1994, the State Council issued a Circular on Establishing China Development Bank, stating that, in order to more efficiently concentrate funds in supporting key national construction projects, ease the "bottleneck" constraints in economic development, strengthen macro control over fixed asset investments (FAI), and further deepen investment and financing structural reform, the State Council decided to establish CDB, a ministry-level policy financial institution directly under the State Council that would be charged with macro control responsibilities for key national construction projects determined by the State Council in terms of aggregate investment amounts and funding structures. On 14 April, CDB opened for business. On the same day, the People's Daily newspaper carried as its front-page news

story "State Council Decides to Establish China Development Bank". Among Chinese financial institutions, CDB is the only bank bearing the word "National" [CDB's Chinese name reads "National Development Bank"]. "National" refers to CDB's government background and policy nature and indicates CDB's goal and purpose of serving the national development strategy; "Development" incorporates China's national conditions as a developing country and shows CDB's unique positioning in the longer-term investment and financing field; and "Bank" means CDB needs to be run as a regular bank is.

During 1994-1997, the first four years after CDB's founding, CDB took up the heavy responsibility of exploring the development road for policy banks in China. At that time, the macroeconomic situation in China was complex and grave, and the national economy, while maintaining its development momentum, had a few problems: excessive FAI, unreasonable economic structure, operating difficulties at many large and medium state-owned enterprises, and a lack of funding for construction in infrastructure, basic industries, and pillar industries. Against this background, the central economic work meeting held at the end of 1994 regarded controlling FAI as an important macro control task.

The newly formed CDB was giving priority to perform the duties and tasks assigned by the state, earnestly implemented the macroeconomic, industrial, and regional development policies, and used credit means to make adjustments to the lending projects in terms of total funding amounts and structures in strong support for the state's control of the economy, thereby making important contributions to supporting the state's infrastructure, basic industries, and pillar industries building and promoting national economic development.

During that period, 90% of CDB's lending went to electricity, energy, transportation, raw materials, electromechanical and textile, agriculture, forestry, and other key state areas. With support from CDB, the Three Gorges Project, Beijing-Kowloon Railway, and Ling'ao nuclear power plant successively started construction. At the same time, CDB boldly learned from foreign experience to explore setting up policy bank management system and operational mechanism. It engaged in fundraising through issuing financial bonds, established and enhanced the entrustment and agency relations with commercial banks, initially set up a mechanism of separating loan approval from lending, and strengthened risk management of policy projects. The bank's operations went on the right track. However, due to the constraints from the economic system, social environment, policy financing concept, and bank operating model at the time, CDB's operations carried clear marks of traditional policy investment and financing, and the accumulation of risks led to an NPL ratio of 32.63% at end-1997. How to achieve its own healthy development while supporting key state projects became the most urgent issue for all CDB staff members.

The year 1998 is a year of turning point in CDB's history. With the caution of the Asian financial crisis, financial risk prevention was unprecedentedly put on the national agenda. The central leadership decided on the goal of an 8% economic growth rate, began to implement a proactive fiscal policy and a prudent monetary policy, and continually expanded domestic demand and FAI scale. With the emancipation of the mind and thorough research, the new CDB management team put forward the new thinking of working "under the market environment and within the bank framework" and pushed forward credit structural reform, thus beginning a new chapter in CDB's development history.

CDB's first credit structural reform began with controlling the incremental risk. In April 1998, in view of its previous business model of only doing the bidding of the State Planning

Commission, CDB began to make project selections in the market, established a risk road show examination mechanism for all new lending projects, set up a "firewall" in project appraisal, adopted a series of measures including linking principal and interest recovery to project handling, examination, and lending in order to control the incremental risk. In January 1999, CDB launched a second round of credit reform centred on managing the exiting risk. In November 2000, with China's impending accession to the WTO, CDB started a third round of credit reform by putting forward the goals of the "eight standards" and the "five first-rate" aimed at conforming to international standards in order to turn CDB into a world-class bank.

Through hard work, CDB's NPL ratio decreased by the year, from 32.63% at end-1977 to 8.78% at end-2000, while the NPL ratios at domestic commercial banks hovered around two digits during the same period. CDB's NPL ratio has been kept below 1% since 2Q-2005, reaching and maintaining an international advanced level. Among China's state-owned banks, CDB was the first to get out of the NPL "quagmire", winning admiration from its peers at home and abroad.

The improved performance has boosted CDB's confidence in supporting economic and social development and enhanced CDB's ability to serve the national strategy. Since 1998 and especially since 2004, CDB has actively taken the initiative to work on a new historical mission while developing its business in supporting infrastructure, basic industries, and pillar industries.

In urban areas, CDB has firmly grasped the accelerated phase of China's urbanization process by starting with Wuhu, Anhui, in establishing a new type of bank-government cooperation with local governments to explore a model of market financing to support urban construction. By market building, CDB has cultivated a financing platform, successfully solved the problem of China's urbanization financing, vigorously supported urban infrastructure building, and given a new look to many cities across the country.

In rural and grassroots areas, CDB has followed the requirements building a well-off society in an all-round way, adhered to the philosophy of "equal financing rights for everyone", and "gone down" to break through the financing bottleneck in people's livelihood related finance. CDB has taken the initiative to assume social responsibility, and carried out innovation in launching people's livelihood related business such as emergency loans, SME loans, student loans, and welfare housing construction loans, thus creating a demonstration effect among financial institutions for supporting the building of a "harmonious society" and allowing the vast numbers of ordinary people to gain actual benefits.

Outside China, CDB has built up global presence, with its various offices and work teams gradually covering 195 countries and regions worldwide. Starting with the SCO Interbank Association to promote multilateral global financial cooperation, CDB has not only taken the initiative to serve China's economic diplomacy and its energy resource strategy, but has also achieved development of its own international cooperation business by leaps and bounds. During this period, CDB formed its business development pattern of "one body and two wings": the "one body" refers to its traditional business in infrastructure, basic industries, and pillar industries, while the "two wings" refer to its people's livelihood related finance and international cooperation business.

In 2008, against the background of the intensifying international financial crisis, on one hand CDB advanced reform and transformation by following the reform plan issued by the State

Council, and on the other hand CDB actively implemented a series of central policies -- "ensuring growth, expanding domestic demand, and adjusting structures" -- in response to the international financial crisis. On 16 December, China Development Bank Company Ltd was launched. The post-transformation CDB experienced multiple changes such as diversified shareholding structure, corporatized governance, integrated banking functions, and market-oriented operations, but CDB's state-owned nature, basic functions, market positioning, and its goal of serving the national strategy never changed. CDB demonstrated its image in the international financial crisis and has let the world feel the Chinese strength in development financing.

Innovation in practice has brought theoretical breakthroughs. In the many years of CDB practice, CDB staff members have engaged in effective exploration in how to deal with the relations between government and market, a core issue in China's economic structural reform. CDB's leadership collective learned from international advanced financial theories in conjunction with China's national conditions, gradually clarified CDB's positioning and development direction as a government development financial institution, embarked on a road of development financing with Chinese characteristics that integrates the government's organizational strength with CDB's financing advantages, fills market gaps and fixes market deficiencies, and supports economic and social development, and formed the development financing theory with Chinese characteristics.

Development financing theory is a scientific financial theory that takes serving the national development strategy as its goal and mission, sovereign credit integrated with market operations as its basic principle, market building as its core, bank-government cooperation along with social participation as its foothold, planning ahead as its method and prerequisite, and longer-term financing promotion as its carrier. Development financing theory has not only enriched the development financing theory with Chinese characteristics but has also become an important guiding principle for CD's business development as well as a powerful ideological weapon for CDB to tackle and overcome difficulties it encounters in development. Development financing has made numerous achievements in China, and its theory and cases have entered the classrooms of Harvard University and other world-class institutions of higher learning as many people hope to use CDB's experience to interpret this economic and financial development road with Chinese characteristics starkly different from the West.

China Development Bank (CDB) now has a staff member of over eight thousand and manages assets totalling over 7 trillion Yuan. It ranks No.1 domestically in terms of NPL ratio, per capita assets, and per capita income tax, and is among the top globally as well.

# Lesson from Quantitative Easing

## The Impact of Quantitative Easing in the US, Japan, the UK and Europe

By: Prof MthuliNcube of the African Development Bank

*In a recent Book I co-authored with Prof. KjellHausken on “Quantitative Easing and Its Impact in the US, Japan, the UK and Europe”, we analyze, empirically, the effects of quantitative easing (QE) on interest rates and the economies of the USA, Japan, the UK, and Europe.*

Since the advent of the financial crisis in 2008, some of the world’s largest Central Banks, namely the US Federal Reserve (Fed), the Bank of England (BOE), the Bank of Japan (BOJ), and the European Central Bank (ECB), among others, have embarked on monetary easing or quantitative easing. This is an unorthodox way of pumping money into the economy and aiming to lower the long-term interest rates in order to combat a recession. Since interest rates in industrial countries had declined to near zero in the aftermath of the global crisis, the scope for further monetary easing through lower policy rates became very limited.

Quantitative easing (QE) and other asset purchase programs have therefore been adopted under exceptional circumstances. Japan is credited as the first country that started implementing QE in 2001. But it was not until the 2008 financial crisis that Central Banks of developed countries started using QE regularly to stimulate their economies, increase bank lending, and encourage spending.

The real estate bubble which burst in 2007 in the USA caused the 2008 financial crisis, and the more recent Eurozone sovereign debt crisis have obliged leading Central Banks to opt for aggressive monetary actions such as QE in order to prevent financial instability. The USA introduced QE1 in 2008, QE2 in 2010, and “Operation Twist” (OT) in 2011, and more recently the third round of QE (QE3) in 2012, which consisted of a monthly \$85-billion injection through the purchase of mortgage-backed securities and longer-term Treasury securities. The Fed buys government or other bonds and then makes this money available for banks to borrow, thereby expanding the amount of money circulating in the economy, which in turn reduces long-term interest rates. Of late, it has begun to unwind the program as the “tapering” takes root at the beginning of 2014.

In the UK, the BOE incrementally raises the ceiling of its QE asset purchase program to £375 billion, most of which is used to purchase UK Government securities. In the Euro area, the ECB has undertaken a series of longer-term refinancing operations (LTRO) since 2008: two rounds of covered bond purchase programs in 2009 and 2011; an unlimited securities market program in 2010; and open-ended outright monetary transactions in 2012. In Japan, the Central Bank cumulatively increases the size of its comprehensive monetary easing to as much as ¥101 trillion by the end of 2012. More recently, the BOJ launched perhaps the boldest monetary easing in modern history with the intention to double the monetary base in



two years through aggressively purchasing government bonds, exchange-traded funds, as well as real estate investment trusts. Thus, increasing the size of their balance sheets has become the primary means by which Central Banks in these economies have intervened to bring relief to the on-going economic downturn. By adopting unconventional measures of monetary easing, Central Banks seek mainly to stimulate growth, bring down joblessness to reasonable levels and support their banking systems by pumping more money into the economy to boost spending. However, some critics worry that these measures would fuel inflation and encourage unbridled government spending.

The Fed's QE3 is expected to widely affect global economies and this announcement caused euphoria in the financial markets, with stock prices reaching post-recession highs in the USA. In turn, emerging markets received these extraordinary monetary policy responses with scepticism. While Central Banks in developed economies have deployed monetary easing to ameliorate the impact of the recession, the collective magnitude of monetary easing may have unintended consequences in other countries, especially in emerging countries. As economies are more integrated, the implementation of QE in developed countries can cause excess flow of liquidity in emerging countries and inadvertently disrupt their currencies, exports, and inflation levels.

Kjell and I used an event-study methodology to analyse the impact of QE on interest rates. We then used large Bayesian vector auto-regression (BVAR) models to analyse the impact of QE on the wider economy.

The results clearly show that the unconventional monetary measures are effective policy options in supporting price stability. Inflation in the major economies would have been lower or more negative if the unconventional monetary policies had not been undertaken by their Central Banks. The results also suggest that the effect of QE on economic growth is rather limited. No significant effect of QE on GDP growth is found for the major economies, except for the UK where GDP growth would have been as much as 0.7 percentage points lower if the BOE had not implemented its unconventional monetary policies. Despite the failure of stimulating economic activities as a whole, our simulation results suggest that the unconventional monetary policies to some extent have a positive influence on industrial production in the USA, the UK, and Japan.

In addition, our analysis found that QE contributes to a reduction in unemployment in the USA and Japan, and a rise in inflation expectations in the USA, the UK, and Euro area. However, evidence of the QE's effect on house prices, stock prices, consumer confidence, and exchange rates is mixed and thus inconclusive. It does seem monetary policy alone is not enough, without some structural reforms and other policy measures.