Good Practices on Development Banking

WORLD BANK GROUP

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Mandate/strategy: Focus on complementing and crowding in private sector while preserving financial sustainability

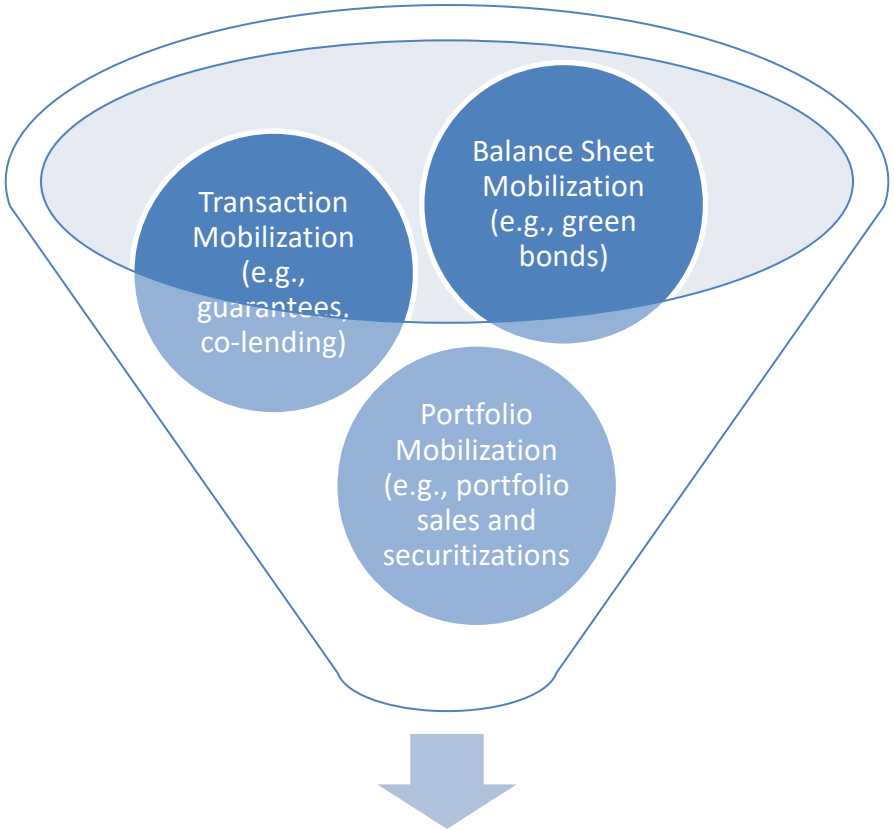
- Mandates often refer to support for SMEs or economic development. Focus should be on underserved markets/market gaps ("additionality") which requires finer targeting (e.g., firms affected by shocks, firms lacking collateral or track record, etc.)
  - As mandates are in legal documents that may be difficult to revise, mission and strategies provide flexibility to adapt, and banks have taken advantage (e.g., regarding climate)

- Crowding-in private sector reinforces additionality as it mobilizes private sector funding and fosters efficient use of banks' resources
  - It does not preclude direct lending, but the DB should have a target of mobilized funding for unit of own funds invested

- Financial sustainability protects the DB from pressures to underprice risks and criticism arising from frequent recapitalizations. Combined with additionality provides incentives for adequate risk-taking and risk-pricing

The Instituto de Crédito Oficial (ICO), Spain's development bank, is governed by the financial equilibrium principle, in accordance with its articles of incorporation. British Business Bank as well, understanding financial sustainability as average return over 5 years equal to 5-year gilt rate.

Private Capital Mobilization: Important to Go Beyond Balance Sheet Mobilization!

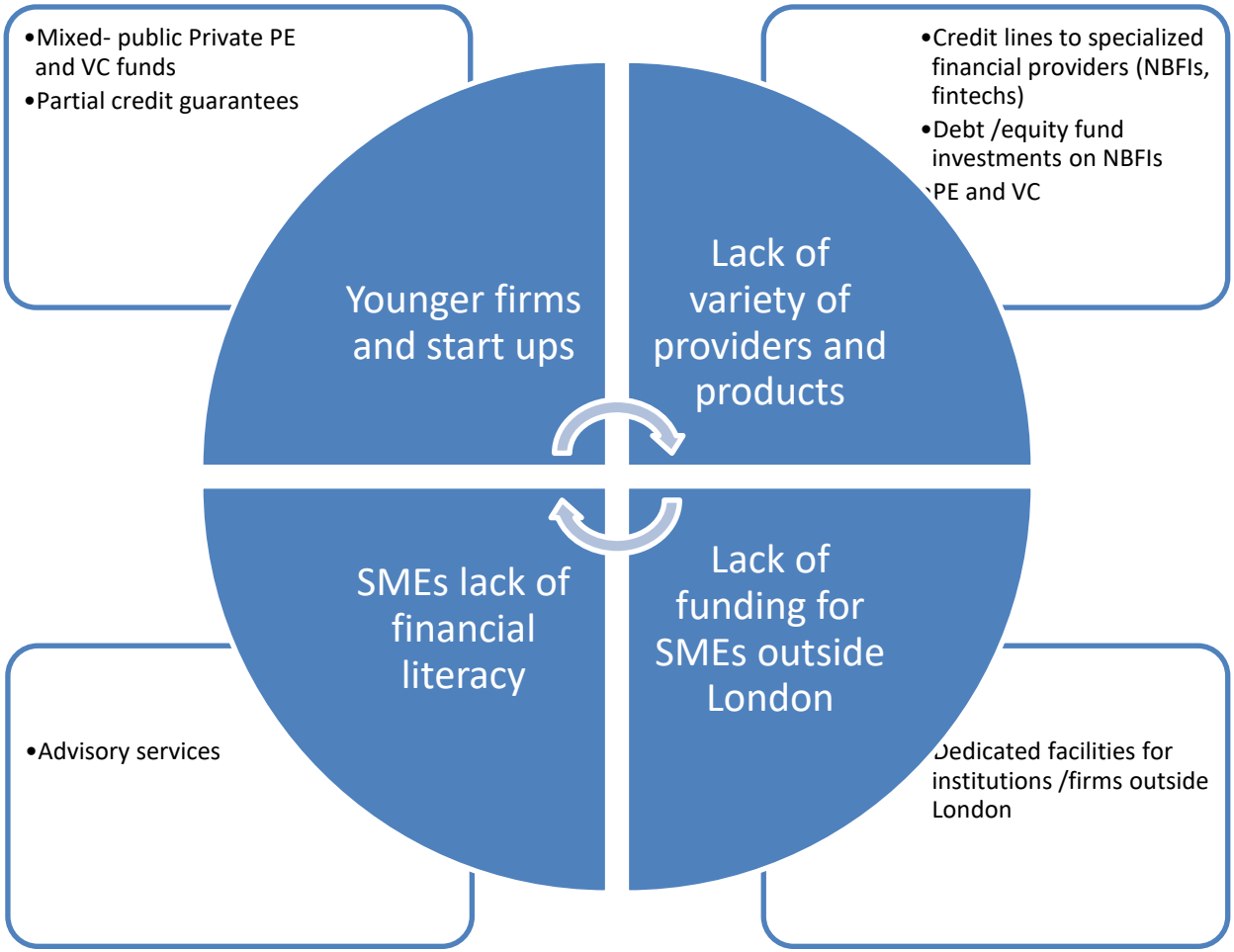


Efficient Use of Capital

Transaction Mobilization can support mobilization beyond ratio of 1

British Business Bank approach to additionality and crowding in

Market failures identified and instruments offered at the time of bank creation (2014)



Retail vs Wholesale Deposits

- ✓ Retail demand deposits not suited to fund long term investments typically made by development bank

- ✓ Retail deposit collection and management requires large network or partnership with other institutions to collect deposits, increasing operational costs and operational risks. Also introduces competition with private sector

- ✓ Few DBs take retail deposits, mostly those focused on financial inclusion and provision of savings options. Caisse de Depots in France in Italy administer resources from tax-free savings accounts collected by commercial banks. Caisse de Depots also take judicial deposits or dormant deposits

- ✓ Use of guarantees allows to support large transactions using equity without requiring liability mobilization. More crowding in and less scope to compete with private sector

Important to attract funding suited to the term and risk profile of the investments undertaken. Funding from other development banks and partners and capital market funds are best for infrastructure lending while credit guarantees are very effective for infra and SME funding.

The Role of the Ministry of Finance as Owner

- ✓ Ownership tasks (OECD principles for SOE Corporate Governance)
  - Participate in shareholders' meetings and vote on matters that as per laws/statutes must be decided by shareholders (e.g., dividend policy, acquisitions/divestures, etc.)
  - Appointment and removal of members of the Board of Directors
  - Monitor and evaluate the performance of the Board, executive management and the company itself
  - Develop disclosure policies
  - Establish remuneration policies for board members
  - Dialogue with external auditors and regulators

- ✓ Important to have professional unit supporting the agency in charge of shareholding function (e.g., crown entity resource center in New Zealand supports the Public Service Commission, who exerts shareholding function)

- ✓ Shareholder representative and Board/CEOs should enter into agreements documenting objectives, strategies, and performance targets

The Public Financial Management Act of South Africa requires that the shareholder representative annually concludes a Shareholder Compact with SOE boards, including state owned banks. A corporate plan is annexed to the shareholders compact. In India, performance agreements are signed with CEOs.

Performance Evaluation: The Case of BBB (2024)

- ✓ BBB agrees on 4 KPIs with its shareholder to measure strategic objectives, updated to align to government policies
  - ❑ Obj1. Ensure SMEs can access funding to start, survive and grow

    KP1. Debt and guarantee commitments
  - ❑ Obj 2. Ensuring innovative business can start and grow

    KP2. Equity commitments
  - ❑ Obj 3. Supporting growth/ ensuring access to finance to SMEs wherever they are

    KP3. Gross deployment outside London
  - ❑ Building modern green economy

    KP4. Sustainability reporting

- ✓ Red Amber Green status (not/partially/fully met) report on KPIs.
- ✓ Board and Shareholder review report as well as key initiatives implemented and assess performance
- ✓ Remuneration Committee to determine pay-out based on performance

Impact reporting ensures accountability and improves effectiveness

Our impact in 2023

Inputs[1]

We deployed
£3.5bn
of public funding into smaller businesses

with an additional
£2.5bn
of sector private capital leveraged alongside our own funding

Outputs[1]

Funded
23,100
smaller businesses

84%
of businesses supported were outside London with £2.9bn of finance

18%
supporting deals which accounted for 18% of all 2023 UK smaller business equity investment

40%
of our Start Up Loans have gone to female founders

21%
Start Up Loans have gone to founders from Black, Asian or other Ethnic Minority backgrounds

53
Net promoter score of 53 from our delivery partners

1 Excludes Investment Programme Fintech and Structured Capital and the ENABLE Build programme.

The British Business Bank's role is to stimulate growth in UK smaller businesses whilst making returns for the taxpayer.

Over the last five years we have made a 4.5% adjusted rate of return on taxpayer investment through a combination of commercial and sub commercial (mandated) activity. Our commitments made in 2023 are expected to generate £19.8bn of additional business turnover over the life of the finance – equivalent to £8.4bn of additional economic activity (Gross Added Value, or GVA) created.

Outcomes[1]

35%[2]
of finance drawdown being used to reduce environmental impact in some way or support business models focused on environmental objectives

60%
of additional jobs created by our funding are linked to our support for innovation, although this accounts for only 25% of our total funding

4.5%
Our 5-year combined commercial and mandated adjusted rate of return

2 In many cases this may be a small part of the overall funding.

The figures on this page refer to the latest available figures, for calendar year 2023.

Activities (2023/24)

£777m
of new commitments through our debt programmes

£1.73bn
of new commitments through our guarantee programmes

£1.53bn
of new equity commitments under BPC, BBI, ECF and Enable Funding

£721m
of new commitments under ENABLE Guarantee/Build transactions

£1.1bn
committed by our regional funds

Expected long-term impacts

Creation of
39,400
additional jobs

£19.8bn
of additional business turnover

£8.4bn
Equivalent to an extra £8.4bn of Gross Value Added (GVA)

Thank You!