Editorial: Development Banks – not only important in times of Covid-19

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The Covid-19 pandemic is hitting, directly and indirectly, economies throughout the world. While the pandemic is far from over, countries are searching for ways to enhance a quick recovery of their economies. Among others, the downturn is hampering the access of firms to the financial means necessary for investments. Therefore, facilitating access to financial means is an important component of rescue operations.

Stimulating investments and supporting desired (structural) changes are key tasks to be fulfilled by development banks. Fulfillment of these tasks, however, is not only important during crises but is also valuable for improving general economic well-being. The six articles in this issue discuss development banks, their purposes, and their activities from an international perspective, nicely complementing the papers in the previous issue.

Petra Dünhaupt and Hansjörg Herr, both at Hochschule für Wirtschaft und Recht (HWR) Berlin, build a base with their general analysis, **"Trade, Global Value Chains and Development – What Role for National Development Banks?"** They focus on the need for industrial policy in developing countries. A key issue there is the prevalence of labor-intensive industries, which are less productive when compared to industrialized countries. Even direct investment is not able to fully close this gap. Moreover, in developing countries, often banking systems are far from providing sufficient investment credit. Thus, national development banks are an instrumental part in the transformation toward higher productivity. As an example of an effective industrial policy, the German KfW (Kreditanstalt für Wiederaufbau) is used.

In the second paper, **Joachim Nagel**, board member of the aforementioned KfW banking group, writes about the role of development banks in international financing under the heading, **"Rolle von Entwicklungsbanken in der internationalen Finanzierung."** He stresses that development banks like the KfW are not profit maximizing, rather they are required to promote development in terms of economic, social, and environmental standards. Typical long-term financing of economically important projects is a common mean of support. In this process, private capital is often mobilized through a variety of financial instruments. In particular during recessions, the countercyclicality of development banks' financing is of utmost importance for firms and the economy as a whole. Development banks contribute to sustainable development from the social and the environmental perspective, with the potential to set standards through their activities in these areas.

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Correspondingly, **"Investing for a greener, competitive and socially inclusive Europe,"** is the title of the contribution by **Debora Revoltella and Patricia Wruuck**, both from the European Investment Bank (EIB). Not only do development banks mitigate market failure, they may also help to identify it and to shape markets, for instance by creating a green bonds market. The authors stress that financing by the EIB requires not just financially viable, but also socially and economically sustainable projects. Addressing climate change is a central challenge in the time to come. The COVID-19-crisis is slowing the transformation of economies considerably. Therefore, the EIB has acted in various ways to reduce the adverse economic effects of the crisis while simultaneously taking into account the persistent need for transformation.

While the first three contributions, to a certain extent, focus on specific banks, **Marco Frigerio and Daniela Vandone**, both at Universitá degli Studi di Milano, present a cross-sectional examination of the universe of development banks in, **"A firm-level analysis of development banks in Europe."** The authors investigate the financial profiles and efficiency characteristics of banks, based on financial statement analysis, examining these institutions' ability to raise external funds to complement their owners' capital contributions. Although development banks are not profit maximizing, as we learned earlier, they still must satisfy certain efficiency and profitability standards in order to demonstrate financial strength and stability, both relevant preconditions for raising funds. Several analyses pinpoint particular drivers of heterogeneity in these institutions' financial performance and show the considerable variety of business models and institutional frameworks.

We pointed out earlier that financing by development banks is often project related. A case in point, namely the activity of Chinese development banks in establishing the Belt and Road Initiative (BRI), a new silk road, is analyzed by **Dirk Linowski, Andrew Johansson, and Haifeng Zartoshti**, of Steinbeis University, Berlin, Central Asia Productivity Research Center, Chicago, and Universität Leipzig, respectively. Their article **"Zur Rolle der chinesischen Entwicklungsbanken beim Bau der Neuen Seidenstraße,"** describes the involvement of major Chinese development banks in BRI projects. Such participation is a qualitative signal that the Chinese state actually supports the projects. This is important for Chinese actors as they are typically entrepreneurs, accepting higher cluster risks, rather than acting as direct investors. The authors aim to improve the understanding of how BRI projects are financed by describing the two most important Chinese development banks and by examining the classical reasons for BRI projects. They also provide a number of examples from Africa and Central Asia, enhancing our knowledge about these issues. From a European perspective the results are important for understanding how China has gained its international influence and why it is sensible to move toward a partnership rather than merely acting as a competitor.

The preceding articles focus on traditional bank financing, although the specific instruments are sometimes non-standard and innovative. The closing article by **Andrew Lee and Christiane Weiland**, both at DHBW Karlsruhe, moves one step forward. They analyze **"Impact investing through crowdlending: Examining the role of intermediation and the potential for development banks."** When financing moves away from traditional bank financing toward financing via platforms, a natural question is whether this means development banks and their classical bank financing are en route to being obsolete. However, the authors argue that platform-based financing provides new opportunities for development banks. They analyze features of several crowdlending platforms and derive roads for development banks as intermediaries involved in related impact investment structures. One important aspect is that the reputation of traditional development banks, like the

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aforementioned KfW, can be combined with the use of new technologies, for example block chain, to reduce (the perception of) default risks.

This unique collection of articles deepens our understanding on the role of development banks as weapons against economic downturns, as tools for fighting the impact of the Covid-19 pandemic, and as promoters of ecological, social, and competitive economies.

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