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THE ROLE OF DEVELOPMENT BANKS IN PROMOTING ECONOMIC GROWTH

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The role of a development bank has been emphasized in this definition. In this view a development bank aims to provide financial and promotional facilities for the overall development of a country.

In the words of A.G. Kheradjou “A development bank is like a living organism that reacts to the social–economic environment and its success depends on reacting most aptly to that environment”. Kheradjou assigns an important task to the development banks. He feels that these banks should react to the socio–economic needs. They should satisfy the developmental needs of the economy and their success is linked to the satisfactory growth of the economy [1].

In the views of William Diamond “A development bank has the opportunity to promote enterprises i.e. to conceive investment proposals and to stimulate others to pursue them or itself to carry them through, from ‘conception’ to ‘realization’. In principle, a development bank is well suited to assume this kind of role. Yet, enterprise creation is fraught with costs and risks which development bank cannot neglect. Development banks can prudently undertake them only when they have the requisite financial strength, technical expertise and the managerial skill to bank”. In his views, a development bank is an institution which takes up the job of developing industrial enterprises from its inception to completion. This process involves costs as well as risks. The bank should have sufficient financial sources and expertise to promote a new unit [2].

D.M. Mithani states that. “A development bank may be defined as a financial institution concerned with providing all types of financial assistance (medium as well as long–term) to business units in the form of loans, underwriting, investment and guarantee operations and development in general and industrial”[3].

A development bank has the following features or characteristics:

1. A development bank does not accept deposits from the public like commercial banks and other financial institutions who entirely depend upon saving mobilization.
2. It is a specialized financial institution which provides medium term and long–term lending facilities.
3. It is a multipurpose financial institution. Besides providing financial help it undertakes promotional activities also. It helps an enterprises from planning to operational level.
4. It provides financial assistance to both private as well as public sector institutions.
5. The role of a development bank is of gap filler. When assistance from other sources is not sufficient then this channel helps. It does not compete with normal channels of finance.
6. Development banks primarily aim to accelerate the rate of growth. It helps industrialization specific and economic development in general.
7. The objective of these banks is to serve public interest rather than earning profits.
8. Development banks react to the socio–economic needs of development.

Thus development bank, national or regional financial institution designed to provide medium– and long–term capital for productive investment, often accompanied by technical assistance, in poor countries [4].

The number of development banks has increased rapidly since the 1950s; they have been encouraged by the International Bank for Reconstruction and Development and its affiliates. The large regional development banks include the Inter–American Development Bank, established in 1959; the Asian Development Bank, which began operations in 1966; and the African Development Bank, established in 1964. They may make loans for specific national or regional projects to private or public bodies or may operate in conjunction with other financial institutions. One of the main activities of development banks has been the recognition and promotion of private investment opportunities. Although the efforts of the majority of development banks are directed toward the industrial sector, some are also concerned with agriculture.

Development banks may be publicly or privately owned and operated, although governments frequently make substantial contributions to the capital of private banks. The form (share equity or loans) and cost of financing offered by development banks depend on their cost of obtaining capital and their need to show a profit and pay dividends.

Development practices have provoked some controversy. Because development banks tend to be government–run and are not accountable to the taxpayers who fund them, there are few checks and balances preventing the banks from making bad investments. Some international development banks have been blamed for imposing policies that ultimately destabilize the economies of recipient countries. Yet another concern centres on "moral hazard" – that is, the possibility that fiscally irresponsible policies by recipient countries will be effectively rewarded and thereby encouraged by bailout loans. While theoretically a serious concern, the existence of such moral hazard has not been proved. An example of a successful private development bank is the Grameen Bank, founded in 1976 to serve small borrowers in Bangladesh. The bank's approach is based on microcredit – small loans amounting to as little as a few dollars. Loan repayment rates are very high, because borrowers are required to join "lending circles." The fellow members of a circle, which typically contains fewer than 10 people, are other borrowers whose credit rating is at risk if one of their members defaults. Therefore, each member drives other members to pay on time. The Grameen approach has spurred the creation of similar banks in numerous developing countries [5]. The International Bank for Reconstruction and Development (IBRD) is an international financial institution that offers loans to middle–income developing countries. The IBRD is the first of five member institutions that compose the World Bank Group and is headquartered in Washington, D.C., United States. It was established in 1944 with the mission of financing the reconstruction of European nations devastated by World War II. The IBRD and its concessional lending arm, the International Development Association, are collectively known as the World Bank as they share the same leadership and staff. Following the reconstruction of Europe, the Bank's mandate expanded to advancing worldwide economic development and eradicating poverty. The IBRD provides commercial–grade or concessional financing to sovereign states to fund projects that seek to improve transportation and infrastructure, education, domestic policy, environmental consciousness, energy investments, healthcare, access to food and potable water, and access to improved sanitation.

Creation of the Development Bank of the Republic of Belarus was carried out in close cooperation with the leading international financial institutions, in particular, the International Monetary Fund and the World Bank and based on the analysis of international practice of the similar institutions functioning.

The Development Bank continued its activities in the international financial market. Despite the negative trends, which for a long period dominated in the global financial landscape, from the beginning, the Bank implemented a number of large–scale projects with foreign partners, expanded the geography of cooperation, attracted the interest of creditors and new investors to the domestic financial market as well as provided a significant credit support to Belarusian exporters in promising regions abroad (Asia, Africa and the Caribbean).

The main objective of the DBRB is elaboration of financing system for government programs and the implementation of socially significant investment projects.

Three main goals set to the DBRB are:

1. financing of long–term and capital–intensive investment projects in the framework of government programs and activities implementation;
2. supporting small and medium–sized enterprises by means of special credit products granted through a network of partner banks;
3. extension of concessional export credits to support large (over USD 1 million) projects of domestic exporters.

Thus unlike commercial financial institutions, geared towards short–term projects and returns, development banks are by design providers of long–term finance. Their funding is predominantly in the form of long–term liabilities, they have technical expertise to take a leading role in the design and execution of development projects and they have the financial means to attract other players to co–financing. In future, they should continue to be a key feature in the development finance landscape [6].

Список использованных источников

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