Institutionalizing Investments in Innovation: Models of State Development Banks

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Networks, Finance and State Developmental Agencies

Pre-Crisis
- Networked production and innovation
- Financial markets and corporate governance
- ‘Hidden Developmental State’ (Block and Keller)

Post-Crisis
- SMEs and ‘network failures’ (Schrank and Whitford)
- Financialisation and the weakness of the real economy
- Search for models – revealing and developing the hidden hand of the state?
### Models of State Investment Vehicles: A Typology with Examples

<table>
<thead>
<tr>
<th>Form of Relation between State and Firms</th>
<th>Institutional Form of State Agency</th>
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<tbody>
<tr>
<td><strong>Direct</strong></td>
<td>Bank</td>
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<tr>
<td>Evaluation carried out by agency staff or investment committee</td>
<td>Mobilises and channels funds to firms</td>
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<td><strong>Indirect</strong></td>
<td>Development Agency</td>
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<td>Setting criteria for decentralized evaluation by partners or via external peer review</td>
<td>Targets business and technical capabilities of firms</td>
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<td>BNDES (Brazil)</td>
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<td>KfW (Germany)</td>
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<td>IDA/Enterprise Ireland (Irish Strategic Investment Fund, 2013)</td>
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<td>SBIR (USA)</td>
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## Integration with Public and Private Spheres

### Brazil
**BNDES (1952)**

**Public**
- Publicly owned
- Direct public funding central (incl. Workers’ fund)
- Supervision by Government Ministers through Board

**Private**
- Financial agents used for projects of < €3.4m
- ‘BNDES card’ – pre-approved credit of up to €300,000

### Germany
**KFW (1948)**

**Public**
- Publicly owned
- Direct public funding minimal
- State guarantee
- Supervision by Federal Ministers through Board

**Private**
- International Capital Markets 90% +
  - Savings banks, cooperative banks and commercial banks are KfW's main distribution partners

### Ireland
**IDA (1948)**
**Enterprise Ireland (1994)**
**ISIF (2013)**

**Public**
- Publicly owned
- Direct public funding
- ISIF borrowing from KfW model?
- Supervision by civil servants and business board members

**Private**
- Stimulating private funds
- Financial agents used to manage venture and recovery funds
### Operation of State Investment

<table>
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<tr>
<th>Country</th>
<th>Institution</th>
<th>Key Activities</th>
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| Brazil        | BNDES       | • Large firm focus (64%)  
• Long term investment financing  
• Recent turn to SMEs  
• Central role in government programmes  
• Direct engagement with key ‘client firms’ |
| Germany       | KFW         | • 3 Domestic Pillars  
  • SMEs  
  • Exports  
  • Municipal/Social  
• Government programmes secondary  
• ‘Lending-on’ operation, sets framework for direct engagement with firms by partners |
| Ireland       | Enterprise Ireland / ISIF | • Key Activities  
  • Exports  
  • FDI and SMEs  
  • Turn to infrastructure  
• Government programmes secondary, becoming more important  
• Direct engagement with key ‘client firms’ (FDI) and diverse firms (SMEs)  
• Indirect engagement through funds |
BNDES Disbursements 2002-2011

KfW Disbursements 2002-2011

Enterprise Ireland Total Financial Support To Industry 2002-2011

Sources: BNDES, Enterprise Ireland and KfW Annual Reports 2002-2011
KfW Financing by Sector 2002-2011

Euro Billions

2002 2003 2004 2005 2006 2007 2008 2009 2010 2011

Domestic promotional loans (excluding securitization)
Infrastructure
Housing
Domestic environmental and climate protection
Kfw Mittlestandbank (SME)

Source KfW annual reports 2002-2011
BNDES Disbursements by Sector 2002-2011

Source BNDES annual reports 2002-2011
THE ‘WASHINGTON CONSENSUS’ AND THE DISAPPEARING STATE

- NETWORK PRODUCTION & NETWORK FAILURES
  - SME FINANCING
    - THE RE-APPEARING DEVELOPMENTAL STATE?
      - INSTITUTIONAL RESOURCES
        - RECOMBINANT STRATEGIES
          - POLITICS AND CRISIS
            - VARIETIES OF STATE DEVELOPMENT AND INVESTMENT BANKS
  - FINANCIALISATION AND CAPITAL MIS-ALLOCATION
    - BANK FAILURES
Ireland’s Interesting Case

• From development agency to development bank?
  • Linking developmental and financing agencies
  • Mandate: productive, commercial (not assets), ‘Ireland-focused’, strategic

• What kind of bank? (institutional history of state)
  • Privatisation of state assets (liberal)
  • Austerity by diverting spending (post-crisis management)
  • Election ‘war chest’ (clientelism)
  • Stimulus delivery (capital investment)
  • Development (developmental network state)

• Still the Hidden Developmental State
  • The role of party politics and elite movements
  • Dangers of the hidden public role
  • Keeping politics at arms’ length … and weakening political accountability