

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

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

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

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'**

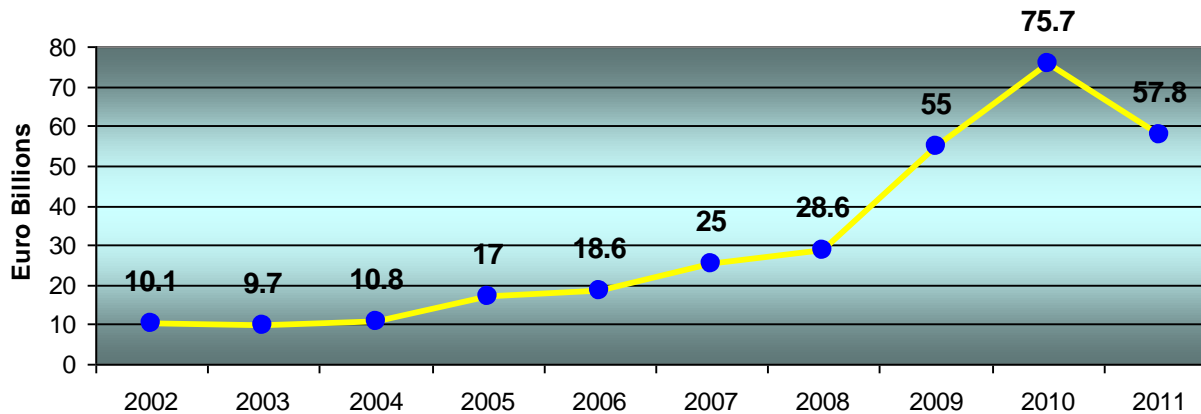
Germany *KFW*

- **3 Domestic Pillars**
 - **SMEs**
 - **Exports**
 - **Municipal/Social**
- **Government programmes secondary**
- **'Lending-on' operation, sets framework for direct engagement with firms by partners**

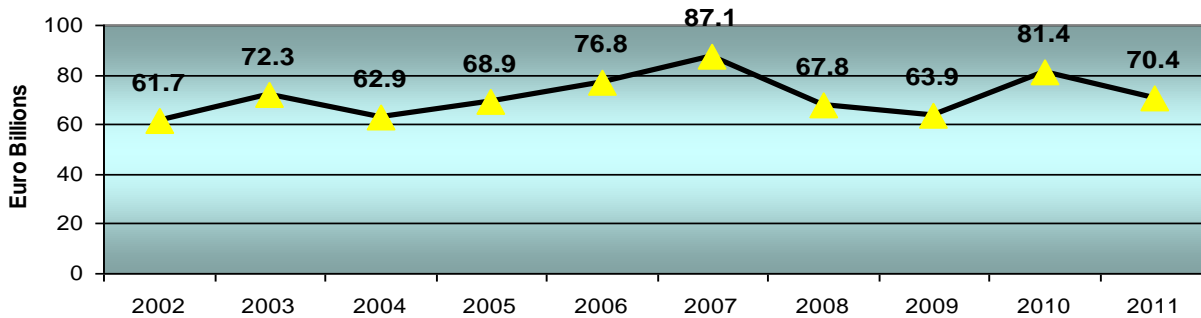
Ireland *Enterprise Ireland / ISIF*

- **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**

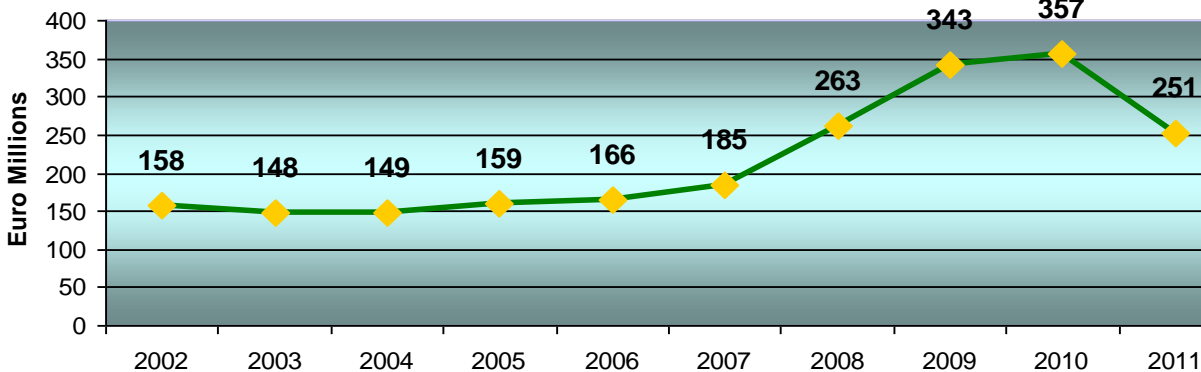
BNDES Disbursements 2002-2011



KfW Disbursements 2002-2011

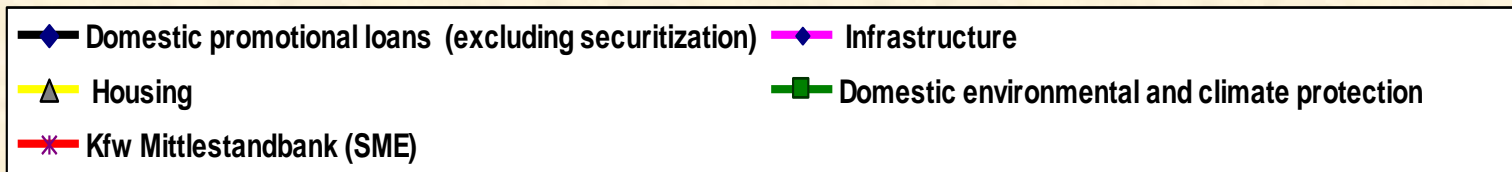
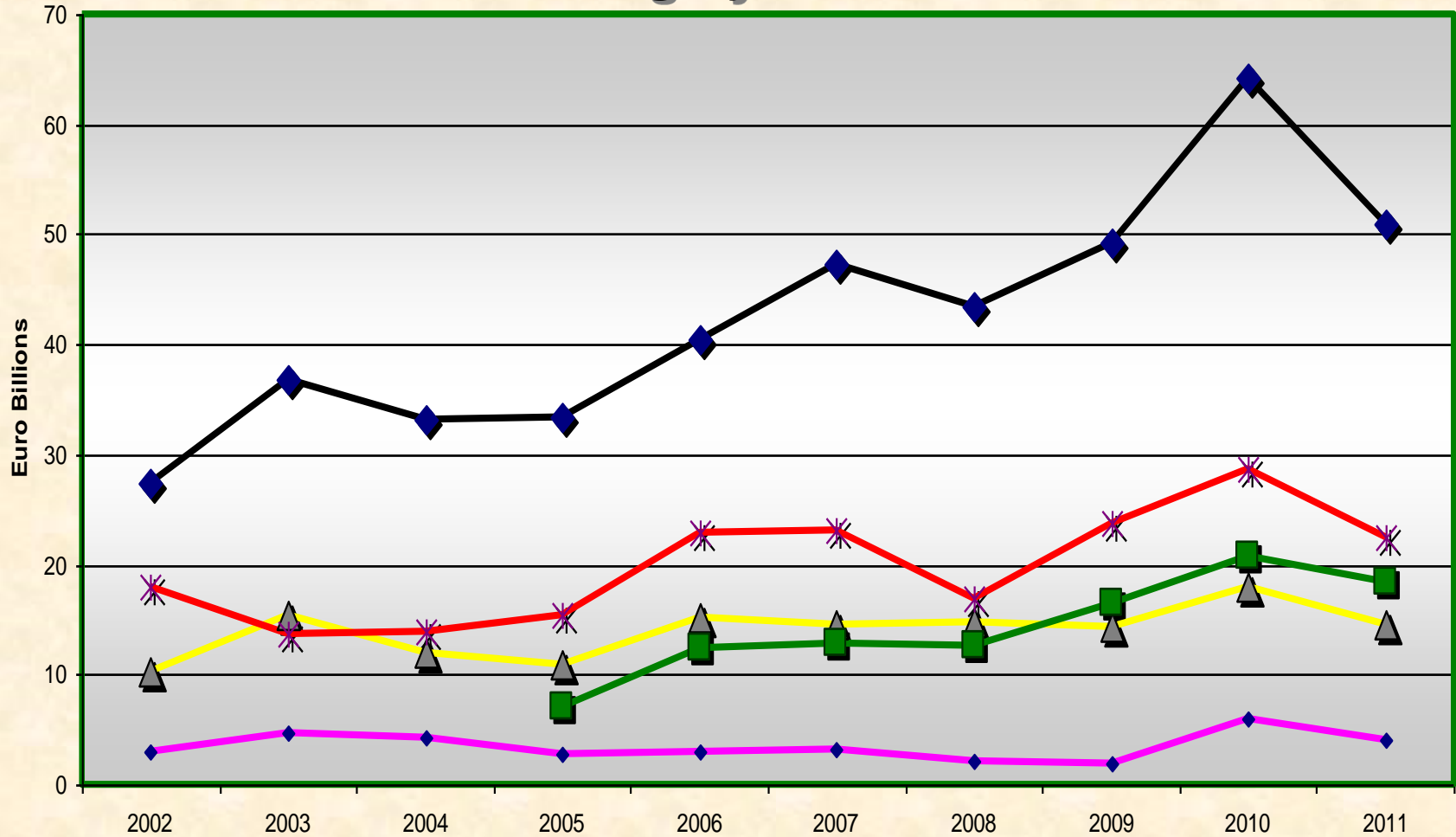


Enterprise Ireland Total Financial Support To Industry 2002-2011



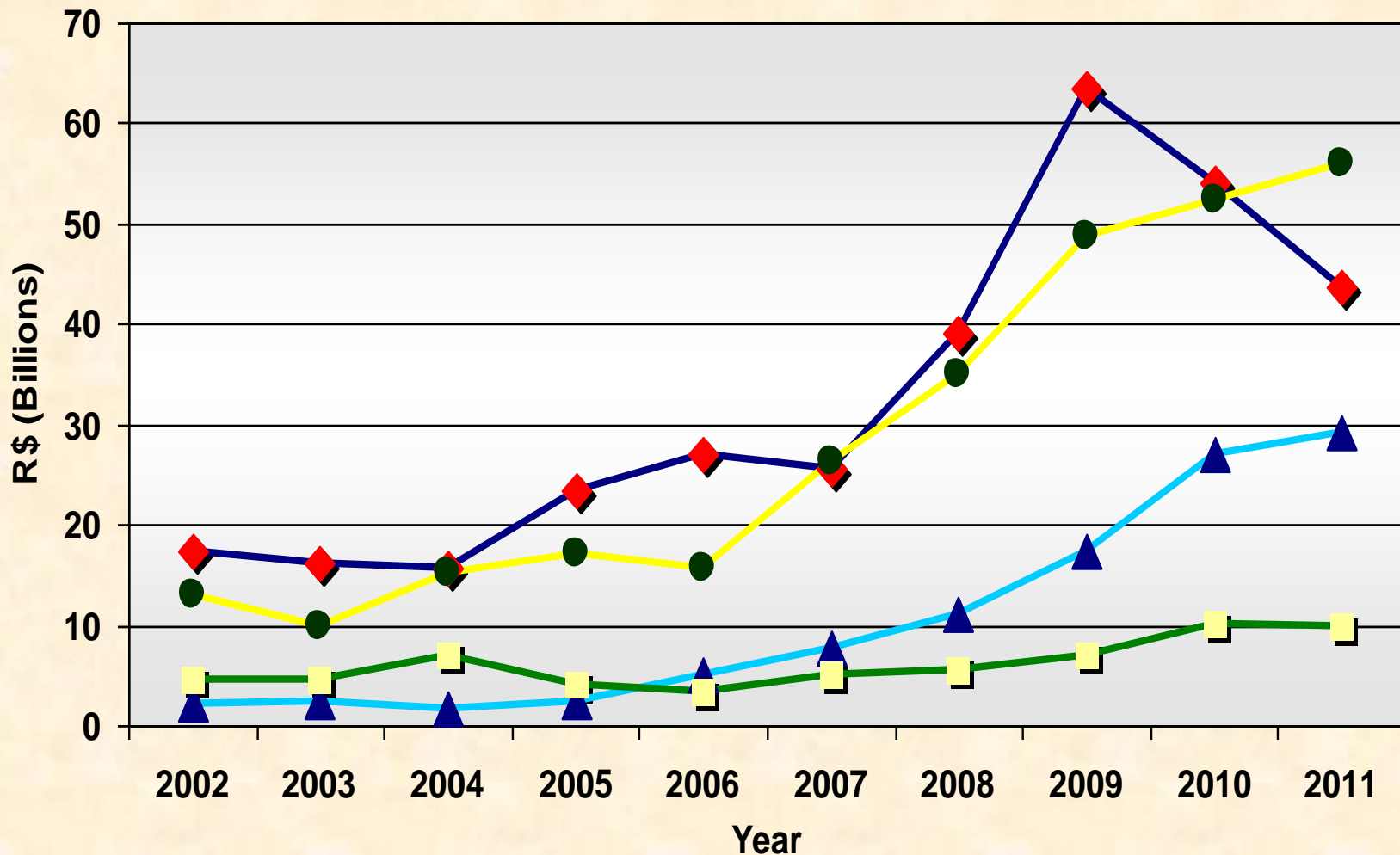
**Sources: BNDES,
Enterprise Ireland
and KfW Annual
Reports 2002-2011**

KfW Financing by Sector 2002-2011



Source KfW annual reports 2002-2011

BNDES Disbursements by Sector 2002-2011



Industry Infrastructure Trade and services Agriculture

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