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ARTICLE

EFFICIENCY AND PROSPECTS OF DEVELOPMENT BANKS IN RUSSIA

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ABSTRACT

This paper has identified the goals and objectives of development banks, generalizing and systematizing the economic, social and ecological efficiency indicators inherent in development banks in the current environment. In order to perform the research, the authors of this article have used structural, comparative and statistical analysis techniques. This paper presents a model developed based on the double-criteria analysis of the balanced scorecard system of development banks in China, Russia, Canada and Brazil. The research has shown that the activities of the Bank for Development and Foreign Economic Affairs (VEB), despite the high emphasis on project development and the activity in lending and providing investment funds to their agent banks, do not generate the needed social effect in comparison to the activities of development banks in other countries. This paper also explores the content and risk factors for development banks. The main ones are insufficiency of capital and unilaterality in concentrations of funds, lack of flexibility in the economic mechanism and lack of the necessary regulatory framework. This article's materials are of practical value to professionals in the banking field, the corporate management in development banks, investors interested in minimizing or fully avoiding industry-specific risks and increasing the financial sustainability of development banks.

KEY WORDS
development banks, investments, social-and-economic effect

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INTRODUCTION

Despite the high rate of economic recovery in the early 21st century, Russia is now facing serious social-and-economic development problems. The current situation calls for strategic institutional solutions and resources to improve competitiveness, to diversify the economy, to accelerate economic growth and ensure a more equitable distribution of benefits.

MATERIALS AND METHODS

The source material is represented by the business performance of Vnesh economy bank (VEB) - the development bank of Russia, and that of development banks in Brazil, Canada and China. The material was processed at the Department of Financial Management of the Kazan Federal University. In order to perform the research, the authors have used structural, comparative, statistical and model analysis techniques to assess the economic-and-social performance of banks in the development of their domestic economies

RESULTS AND DISCUSSION

One of the tools of strategic impact on the economy at the disposal of governments is development banks. In general, development banks operate in strategically important areas of the economy, but they are outside the realm of banks' interests. They can be used, for example, to lend to projects that cannot take out a loan from a commercial bank but whose implementation has considerable potential for generating jobs and income for the population. A development bank is intended to give loans to large-scale long-term projects, including infrastructure projects critical to the development of the country and to improving the quality of life.

The lack of "long" money is a significant limitation on the growth of Russia's economy. The functionality of the domestic development bank Vnesheconombank (hereinafter - VEB) is designed to address this problem. Over 92 percent of VEB's loans are given for more than five years and, as shown by the trend, the relative weight of these loans keeps increasing [Table 1]. That is why, in the context of the reform of the domestic economy from a commodity-based economy to an innovative one, such development institutions will play a key role. Consequently, the subject of the research is seen as relevant and significant at this point in time.

The underlying principle of the integrated system-wide evaluation of a development bank is the application of a system of performance scores to characterize the efficiency of lending and investment performance of a development bank and the impact of its activities on key national development indicators.

Unlike commercial banks, a development bank, together with internal efficiency indicators (return on assets (ROA), return on equity (ROE)), should assess and plan the external performance of its investments: changing the volume of new products sales, increasing its share in the financing of various sectors (SME, exports) and industries (agriculture, infrastructure, etc.) of the economy, social and environmental results and their corresponding investment performance.

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The underlying principle of an external evaluation of a development bank can be summarized as follows: the efficiency of a development bank's activities is equal to the performance of its investments and its impact upon the country's economy. Therefore, the methods for assessing the activities of development banks must also contain indicators of economic, social and environmental impact of the projects implemented or the success indicators for their implementation.

It should be clarified that the term "efficiency" is an economic category that would measure the effect of an activity against the costs of the resources required to obtain it [3, p. 32]. The term "effectiveness" refers to the extent of achievement of the set indicators: both the ratio of actual results and targets, and the absolute or relative change in the indicator.

The assessment of the efficiency and effectiveness of a development bank should be based on a system of indicators consistent with international standards for a multi-criteria evaluation of development institutions. The multi-criteria approach to assessing progress in development is enshrined in the United Nations Millennium Declaration [4], the GRI Global reporting Initiative [5], the European Commission INTOSAI Standards (International Organization of Supreme Audit Institutions - INTOSAI) [6] and other international instruments. The use of foreign methodologies and practices for the analysis and evaluation of the efficiency and effectiveness of development banks will make it possible to compare the national development bank's performance with development banks in other countries.

Table 1: The structure of VEB's loan portfolio in the urgency section

Indicators	January 01 2015		January 01 2016		January 01 2017	
	Amount, bln., rub.	Share,%	Amount, bln., rub.	Share,%	Amount, bln., rub.	Share,%
Up to 1 year	29.90	1.5	19.46	0.8	15,39	0,6
1 to 3 years	39,86	2,0	31,63	1,3	30,78	1,2
3 to 5 years	89,69	4,5	99,74	4,1	97,46	3,8
Over 5 years	1 833,65	92,0	2 281,97	93,8	2 421,17	94,4
Total	1 993,10	100,0	2 432,80	100,0	2 564,80	100,0

According to [1,2].

In accordance with international standards GRI [5], The Equator Principles (EP) III effective from 4 June 2013 [7], the UNEPFI 8 declaration, and other international initiatives, a comprehensive assessment of the efficiency and effectiveness of development banks should include an assessment of their contribution to the sustainable development of the country's economy, the provision of environmental security and solutions to social issues [9].

Development institutions, including development banks, development funds and specialized state development corporations have strategic objectives and their respective strategic indicators of their development in conformity with approved corporate strategies. Almost development institutions have integrated an incentive system for top managers based on Key Performance Indicators (KPI) which describes the strategic objectives of the organization in a specific area of its activity planning.

Most often, however, the KPIs do not characterize the performance of the development bank, but rather the volume, scope of activities (for instance, the number of projects reviewed and approved for funding, funding scope in the various areas of activities of the development institute, loan portfolio, etc.) [10]. The KPIs that are used do not always reflect (hence do not stimulate) the impact of the development bank on the economy, the social field and solutions to environmental problems nor are they linked to strategic targets of the social-and-economic development of the country.

Forming a list of quantitative indicators of the economic, environmental and social effectiveness of the development bank consistent with the strategic objectives of the state economic policy is a complex process. Accordingly, the strategic objectives and goals of the development bank should reflect not only the bank's investments, the amount of loans provided, participation in companies' capital, investment in long-term corporate bonds and others, but also the result of these investments in the economy (contribution to GDP and GRP, impact on budgets at different levels) and social field (increase in the employment rate, income growth, improvement of people's living conditions).

Economic effectiveness indicators characterize the bank's contribution to the country's economic development [10]:

- the contribution on the part of the development bank to GDP is defined as the ratio of the annual economic effect of the bank's activities (e.g. added value generated from loans) to the nominal value of the country's GDP for the relevant year;
- the bank's contribution to GRP in the region is defined as the ratio of the annual regional economic impact of the bank's activities in a particular region to the nominal value of GRP in the region for the relevant year;

IIOAB JOURNAL
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- the bank's contribution to an increase in exports of goods and services is defined as the ratio of companies' earnings from exports of industrial and agricultural commodities and services as a result of the bank's projects and those of its subsidiaries aimed at developing exports during the accounting period to the amount of exports in the country as a whole;
- the bank's contribution to the development of small and medium-sized businesses (SMB) is measured by the share of SMB loans given by the development bank out of the total number of loans and the growth in the loans given to SMB's as compared to the previous period;
- the contribution of the development bank to the budget is defined as an increase in budget revenues as a result of investment activities (budgetary efficiency);
- the development bank's contribution to the development of innovations is defined as the ratio of revenues from sales of innovative products (services) by companies as a result of projects (programs, contracts) taking into account the bank's participation factor during the reporting period to the value of produced innovative goods (services) in the country as a whole;
- the development bank's contribution to an increase in productivity is defined as a gain in productivity through the bank's fulfilled projects.

The social effectiveness indicators of the development bank characterize its contribution to achieving the goals of generating employment, improving quality of life, improving working conditions and other indicators of social development:

- the development bank's contribution to employment generation is defined as the ratio of new jobs in companies (a gain in the number of employees) as a result of investment projects (programs, contracts) taking into account the bank's participation factor to the number of new jobs in the reporting period in the country as a whole;
- the development bank's contribution to the overall household income is defined as the ratio of the average monthly nominal wage of employees in companies and organizations implementing projects (programs, contracts) with the bank's participation to the average wage level in the country (region);
- the bank's contribution to improving the skills of the labor force and working conditions is defined as the number of specialists trained, re-trained and those who have had their skills improved taking into account the bank's projects.

The environmental performance indicators of the bank characterize its contribution to tackling challenges related to improving the efficiency of natural resource use, environment protection and improving environmental conditions. The bank's contribution to improving the environment is defined as the ratio of the bank's investments into projects containing environmental and/or natural resource management programs to investments into fixed assets aimed at the protection of the environment and rational use of natural resources during the reporting period in the country as a whole. The reduction of emissions to the atmosphere also represents an important indicator (hazardous wastes).

An area that has been necessary and relevant lately focuses on lending to projects aimed at the adaptation of agriculture to global warming. Therefore, attempts are being made to introduce such an indicator as the bank's impact on mitigating the adverse effects of climate changes [9,10].

These indicators can be calculated for a given year and for a number of years as well as compared with other development banks in the world.

A tool for the harmonization of strategic objectives (and related target strategic indicators) of the public economic policy with the objectives (and corresponding target indicators) of the development bank can be found in the methodology of known as Balanced Score Card-BSC. It is known that the BSC methodology involves a cascading of the strategic objectives and target indicators of the activities of economic entities in several areas (projections) and reconciling these indicators among themselves based on cause and effect [10, p. 78].

The BSC methodology allows for building a vertical development of strategic management (planning, monitoring and stimulating) of the country's economy as a whole, agreeing strategic objectives for the country's social and economic performance reflecting the planned results of economic policies with the objectives of industries, regions, large enterprises and development institutions. BSC (as evidenced by the foreign and domestic management practices of companies and public organizations) allows for exercising control over and monitoring the achievement of goals, linking the budget process and incentive systems to performance of the country's development and the contribution on the part of development institutions into it.

IIOAB JOURNAL
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Generally (according to the COMPAS and MOPAN systems), the indicators entered are translated according to standard methods used for scaling into scores from 0 to 5 and are aggregated (arithmetic average) to the resulting index which, when seen in the trend, can help one make conclusions about the bank's activities [11, p.122].

As an example, a bank activity efficiency and effectiveness assessment system for development banks in Canada, China, Brazil and Russia is cited. A efficiency and effectiveness assessment system for development banks implies:

- an assessment performed by the bank's internal specialized units;
- an assessment performed by external independent experts of the Supervisory Board.

The internal evaluation consists of three elements [10]:

- an assessment of the economic-and-social effects of projects financed by the bank;
- an assessment of the efficiency of the loan scheme and the investment system;
- an assessment of the efficiency of projects with due regard to their objectives, categories and sectors.
- an assessment of the economic-and-social effects produced by projects financed by the bank is performed by;

(a) a ranking of projects based upon the results of the assessment of the social and economic effect generated by the project as a whole:

A- the project has a particularly important social-and-economic effect (social-and-economic effect higher than expected);
B - the social-and-economic effect corresponds to the expected level;
C - the social-and-economic effect is below the expected level;

(b) a ranking of projects based on the results of the bank implementing its role as a project participant in giving loans or investing:

A - extremely important;
B - expected;
C - below expected.

The ranking is performed as a percentage ratio of the total values for each indicator; if the ranking is to be turned into a double-criteria analysis system, the 3-to-3 matrix is formed. [Fig. 1] shows the double-criteria analysis matrix system based on the BSC of the development banks in China [12, 13], Russia [2,11], Canada [14], and Brazil [15] from the perspective of the social-and-economic effect of the importance of public development banks in the development of their domestic economies.

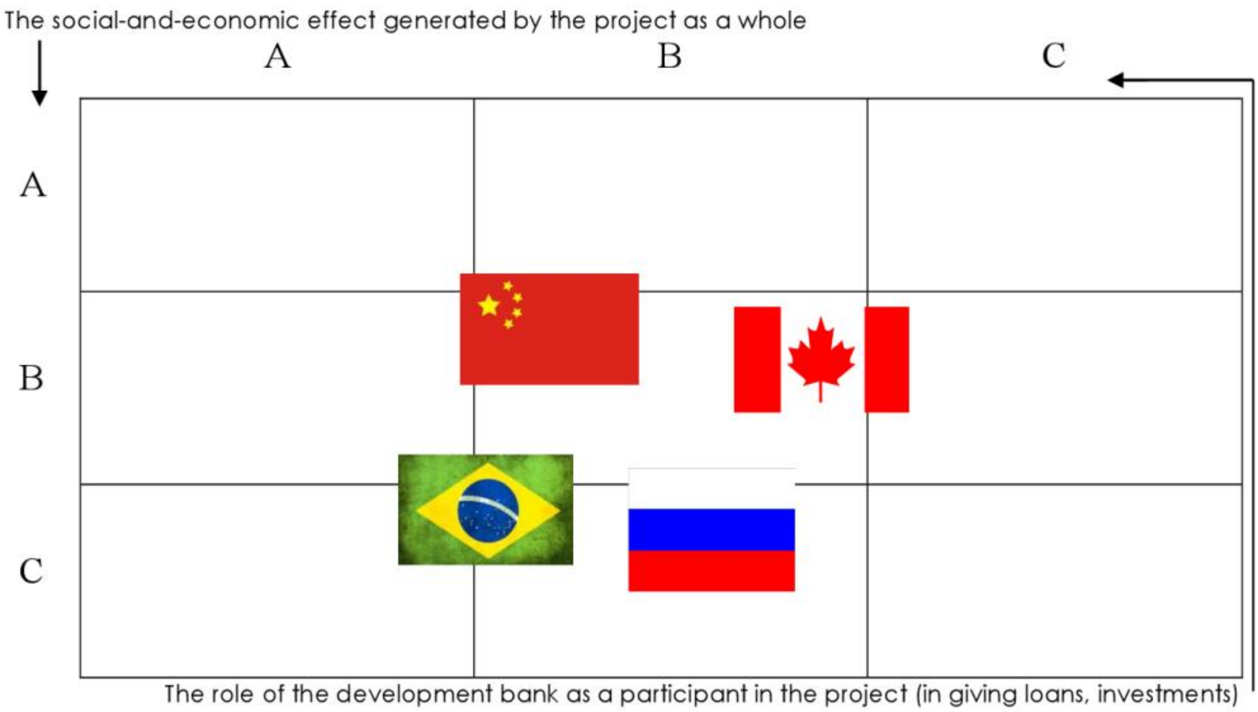

Fig. 1: A comparative assessment of the performance of the development banks in China, Russia, Canada and Brazil.

A detailed assessment of the efficiency of projects taking into account their objectives, categories and sectors is performed in two stages: the stage where the bank reviews the project (preliminary assessment) and the outcome of the project's implementation (final assessment). Development banks monitor the implementation results of their projects. To this end, an operational activity plan is prepared for the next 12-18 months following the implementation of the project which monitors the planned financial performance of the project as well as assessing the economic contribution to the country coming from the implementation of the project [11].

An external assessment of the bank's performance within the strategic management cycle is performed by the Consultative Committee of Development Banks. These committees are made up of outside experts from different sectors and areas of administration.

As can be seen in [Fig. 1], most of the assessed projects of the China Development Bank have shown an expected or particularly important economic-and-social effect since their inception. This is in contrast to the activities of VEB which despite the high importance of project development and the activity in providing loans and investment funds to its agent banks, does not generate the needed social effect in comparison to the activities of development banks in China and Canada. Even in Brazil (a member state of the BRICS just like Russia), the social effect generated by investment and project lending on the part of the Brazilian Development Bank is somewhat higher than in Russia [16]. It is obvious that Brazilian Social and Economic Development Bank (BNDES) is different from VEB in its key mission which lies not only in economic development, but also in social development whereas the social aspects of VEB's activities are less represented. As for the Development Bank of Canada, as has already been stressed, its goal is to develop small and medium-sized businesses in the country, which naturally produces a social effect, as this area of the bank's activities provides new jobs, employment growth and lower unemployment.

In general, we see that the efficiency of modern development banks on a state-wide scale is around at the intersection of the "B" cells, which speaks to the expected effect on the part of the state, but this effect is not always achievable. Consequently, there are a number of problems that can be noted in the development banks' activities.

The main ones are insufficiency of capital and unilaterality in concentrations of funds, lack of flexibility in the management system and lack of the necessary regulatory framework. Development banks quite often lack the legal and regulatory framework which would regulate the relationship between banks and the Central Bank, investors and authorities, which does not contribute to the growth of development banks.

SUMMARY

The activities of VEB in project development and in lending and providing investment funds to agent banks are of much importance to the development of the Russian economy. Yet it does not achieve the social impact comparable to the one generated by development banks in other countries, such as China, Canada. Brazil. The social effect produced by the investments and project lending carried out by VEB is somewhat lower than the social effect generated by the development banks in the aforementioned countries. As we believe, the reason for this is that social aspects in the activities of VEB are less represented while development banks in many countries have identified their key mission in not only of economic development but also in social development.

CONCLUSION

With the development of market relations, development banks around the world are facing problems related to the need to introduce new, non-traditional functions for this group of banks, such as consulting, asset management, investment bank operation.

In summing up the comprehensive research in terms of analysis and review of development banks' activities, it may be noted that, in the short period of time which their activities have spanned, modern development banks have had a significant impact on the economic development of each state with a development bank as well as on improving the investment financing system.

The paper shows that the lack of flexibility in the activities of development banks remains a major obstacle. Objects to be granted lending are put forward by state structures and local authorities which results in the assets of these banks having a relatively high risk potential. In addition, this group of banks has some management-related problems. Consequently, the operations scope of development banks and that of commercial banks have to be distinguished between and the place of development banks in the country's national economy must be provided a legislative framework for. It is of particular importance to legitimize the relationship between development banks and the state, and to implement ways of redressing the benefits of development banks.

In each country, a large portion of strategic and key projects pass through a development bank that acts not only as the guarantor of the financial security of projects, but also carries out a balanced examination of them. When implementing projects at the international level, development banks can provide each other with advisory and informative support. Constructive interaction between banks will have a greater impact on the development of large infrastructure projects [17]. The intensive development of the regional economy lies in solving large-scale economic and social problems. Under these circumstances, the activities of development banks which build on interaction with the state and business, are important and will be required for quite some time.

CONFLICT OF INTEREST
There is no conflict of interest.

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None.

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