

4.2. Breakthroughs in development financing: The Hellenic Development Bank

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4.2.1. Introduction

Development banks form a particular type of financial institution which traces back to industrial financing in 19th century France and Germany. However, these banks became widely known and spread out after the Second World War, during the reconstruction of war-torn economies around the world. In post-war Greece, development banking was initially operated by the Economic Development Financing Organization (EDFO) (1954-1964) and the Industrial Development Corporation (IDC) (1960-1964). Eventually, three development banks were established (1963-2002): the Hellenic Bank of Industrial Development (ETBA), the National Investment Bank for Industrial Development (ETEBA) and the Investment Bank (TE). Contrary to the Greek case, in which development banks ceased to exist as of 2002, in many countries, development or investment banks adapted their double role of financial and economic development by providing long-term financing to the economy and boosting institutional development. The recent global financial crisis and the ensuing recession rendered development banking topical, in combination with the anticyclical credit policy which was followed in many countries.¹ In this context, Greece set up the Hellenic Development Bank (HDB), whose features are described in the next sections.

4.2.2. The Hellenic Development Bank in the current conjuncture

The Greek economy experienced a protracted economic recession during the last decade, which revealed the serious weaknesses of its productive model and the urgent necessity to transform it. The HDB should be able to play a significant role in this affair, as a crucial promoter of a multifaceted development process. According to the Explanatory Statement of the relevant bill,² the point is the restructuring of the productive system of the country within a *holistic* development process which satisfies the economic, social and environmental dimensions of development altogether. Consequently, the HDB will seek to fill a gap in development banking in Greece which has existed for the last seventeen years, despite international experience and the significance attributed to national development banks by the European Commission.³ In addition, the nascent development bank should operate as an “institutional accelerator”, a major agent of the Greek polity in promoting a development model characterized by efficiency and sustainability.

4.2.3. Aims and directions of activity for the HDB

According to its founding legal framework,⁴ the HDB integrates its strategy in the context of national development policy by orientating its activity towards the satisfaction of a series of intermediate targets such as: supporting entrepreneurship, developing financing instruments with a special emphasis on new-innovative and Small and Medium Enterprises (SMEs), promoting the innovation and competitiveness of enterprises, providing consulting services to the private and public sectors of the economy, encouraging a Social Solidarity Economy and, in general, the emergence of the

1. *The Economist* (2019), “National Development banks are back in vogue”, March 7; De Luna-Martínez, J. (2017), “Findings of the 2017 Global survey on Development Banks”, Presentation at the *World Bank Group Global Knowledge and Research Hub*, Malaysia, September 19.

2. Explanatory Statement on the bill of the Ministry of Economy and Development, “Hellenic Development Bank and attracting of Strategic Investments and other provisions”, April 8th, 2019 (in Greek).

3. *European Commission* COM (2015) 361, “Working together for jobs and growth: The role of National Promotional Banks (NPBs) in supporting the Investment Plan for Europe”. Communication from the Commission to the European Parliament and the Council.

4. “Hellenic Development Bank and attracting of Strategic Investments and other provisions”, passed Bill, Hellenic Parliament, Minutes of PIB, April 17th, 2019 (in Greek).

HDB's role as a significant attractor of capital as well as a promoter of investment projects.

Eventually, the Hellenic Development Bank aims at a multifaceted support of enterprises that are active in leading sectors of the Greek economy, especially those that are new, developing, exporting and their products are of high value added. Also, the majority of them are SMEs that have difficulty in accessing external sources of financing. Furthermore, the HDB broadens the scope of its activity thereby including the support of local authorities' development projects as well as the Social and Solidarity Economy. The composite role of the HDB is not exhausted in supporting the above mentioned economic and social units to obtain financing for their projects. The HDB should also be able to carry out studies by sector and industry. Additionally, it will seek to disseminate its know-how in issues of economic planning along with its offering of consulting services to firms and the state. Finally, it is within the duties of the new development bank to coordinate public developmental agencies and cooperate with financial institutions, public policy agents and research institutes.

In the above context, the HDB has to launch a series of actions, such as:

- Providing credit to businesses through third parties (other funding bodies). It should be noted that the HDB will not have the ability to grant loans directly.
- Providing guaranties to firms against their obligations to other financial institutions.
- Designing and implementing instruments of financial engineering which serve the purpose of the bank.
- Targeted financing of businesses aiming at their restructuring towards improving their effectiveness, innovation and competitiveness.
- Participating in various financing mechanisms and bodies in order to serve its purpose along with developing cooperation with international investment organizations.
- Supporting new and innovative entrepreneurship and businesses that are export-oriented.
- Financially supporting scientific research and studies at the enterprise level to the degree that they promote firms' productive efficiency.
- Accommodating the financing of institutions that encourage social cohesion and economy as well as advancing alternative ways of funding, such as microcredit.
- Providing firms (especially SMEs) and other bodies with consultancy, dissemination of know-how con-

cerning a wide range of issues such as designing financing instruments, business restructuring, capital structure, organization and corporate governance, human resource management, formulating investment projects, etc.

- Writing macroeconomic and microeconomic studies in various sectors of the economy so that policy makers can spot financing needs and fill in the gaps in institutional development caused by market deficiencies.

4.2.4. The distinctive character of the HDB

At this point it should be obvious that the HDB is structured as an organization with particular characteristics. It aims at maximizing developmental and socioeconomic returns. On the other hand, it should be financially sound in order to be able to fulfill successfully its mandate. In this sense, the HDB should aim at increasing the value of its assets so as to succeed in its double goal of being financially viable and socioeconomically efficient. For this reason, it is provided that the government will have a majority stake in the capital of the HDB and, at the same time, the bank will operate as a private firm, which would be self-financed and whose pricing policy would follow market practices. On the top of this, the HDB should follow the basic principles of corporate governance and the best practices which ensure transparency in its activity whilst, at the same time, it should function with private economic criteria.

Finally, the HDB will be a multifaceted developmental agency with three major dimensions: 1) the *financing* dimension, which refers to the conclusion of loan contracts and the granting of guarantees; 2) the *administrative* dimension, which pertains to the use of financial engineering instruments and the implementation of funding programmes; and 3) the *consultative* dimension, which relates to the dissemination of know-how and conducting research or writing studies. In any case, the HDB will operate as a complement of incumbent financial institutions rather than as their competitor, since it will be active in areas where existing banks cannot fulfill their role. Alternatively, one might say that the HDB pursues a guiding role in development financing.

4.2.5. Conclusions

The Hellenic Development Bank was founded during a critical era for the Greek economy, in agreement with the long international experience which indicates that development banks play a pivotal role in crucial mo-

ments in economic history throughout the world. In this sense, it is considered the appropriate mechanism to act as a developmental catalyst in the Greek economy, which needs a new productive model. Moreover, development banks have always been engaged in a double role of financing targeted investment projects and emphasizing and promoting the institutional preconditions of economic development. Certainly, the success of this venture depends on how clearly the

objectives of the HDB have been defined, the quality of its staff and its corporate governance. However, the greatest challenge for the Hellenic Development Bank is the balanced satisfaction of the criteria of its efficiency in terms of financial viability and socioeconomic returns. Only in this case, will the HDB be able to fulfill credibly, effectively and transparently its task as a critical arm of the national strategy for inclusive and sustainable development.