

COLOMBIA'S SYSTEM OF NATIONAL DEVELOPMENT BANKS

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Outline:

1. The history and structure of the system

2. Mitigating market failures:

Infrastructure

Financial inclusion

Entrepreneurial growth

3. Conclusions

The history and structure of the system

Four specialized banks operate today

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The history of this system

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Bank	Predecessor fund (managed by Banrep)	Sector	Date of creation
IFI		Industrial development	1940-2002
FDN	Electric Development Fund	National infrastructure (PPP) – 4G Program	1982, 2011
FINDETER	Urban Development Fund	Urban and regional infrastructure	1989
FINAGRO	Agricultural Development Fund	Agriculture	1990
BANCOLDEX	Export Promotion Fund	Non-traditional exports/ entrepreneurial development	1991

Main features

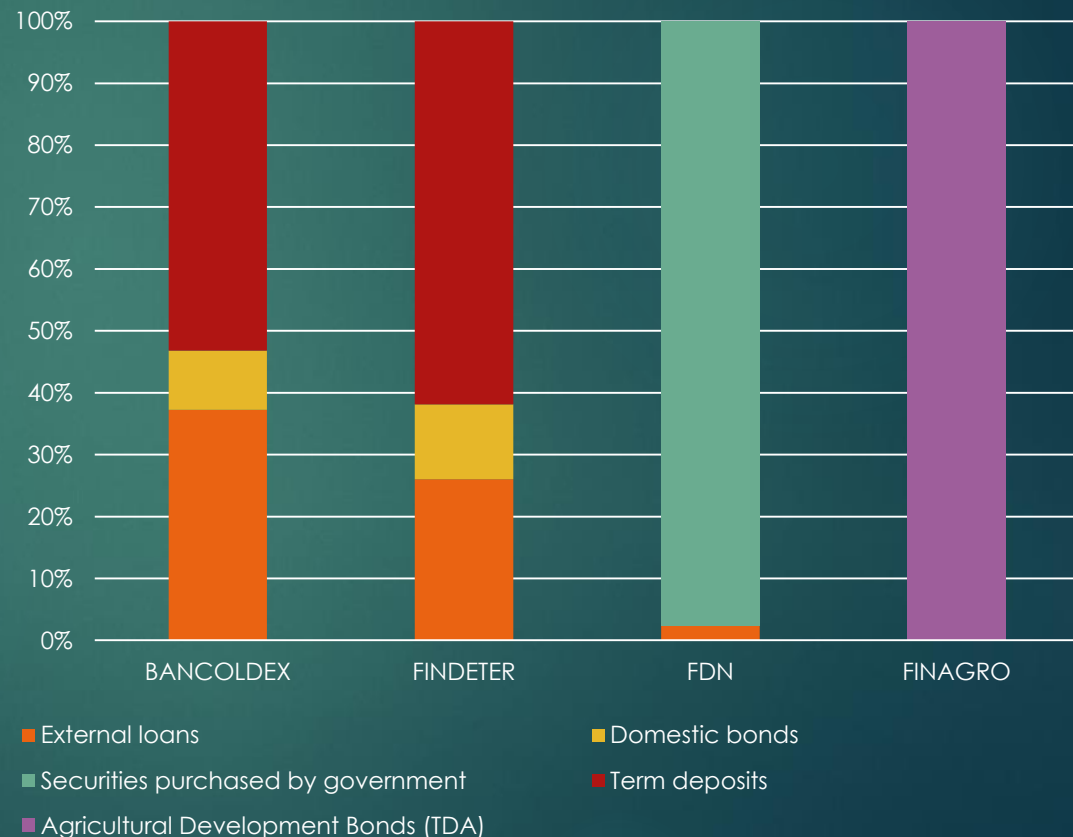
- Three of these institutions essentially operate as second-tier. FDN does first-tier lending, and BANCOLDEX has started to do so again.
- All can undertake equity investments but have done only sparingly. The major exception is the investment in capital funds.
- FDN also offers credit enhancement facilities, while FINDETER and BANCOLDEX are planning to do so.
- FINDETER and BANCOLDEX are totally controlled by the national government while FINAGRO and FDN have partial private ownership.
- FDN's strategic partners chair the board and have control over critical decisions (OCDE corporate governance recommendations)
- They also provide other services: advising, project structuring, technical assistance and training, and portfolio administration.

Main features

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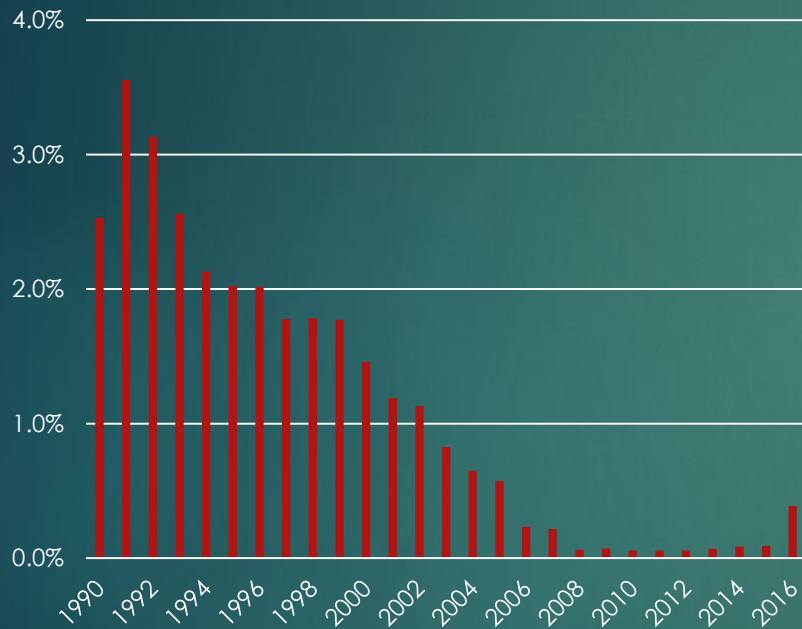
- Except for FINAGRO, which benefits from the mechanism of directed credit, the others must fund themselves in the markets.
- BANCOLDEX and FINDETER mix domestic term deposits and bond issues with loans from MDBs and international banks.
- FDN is essentially financed from equity investments and the government's purchase of securities issued by this institution.

Source of Funding Percentage

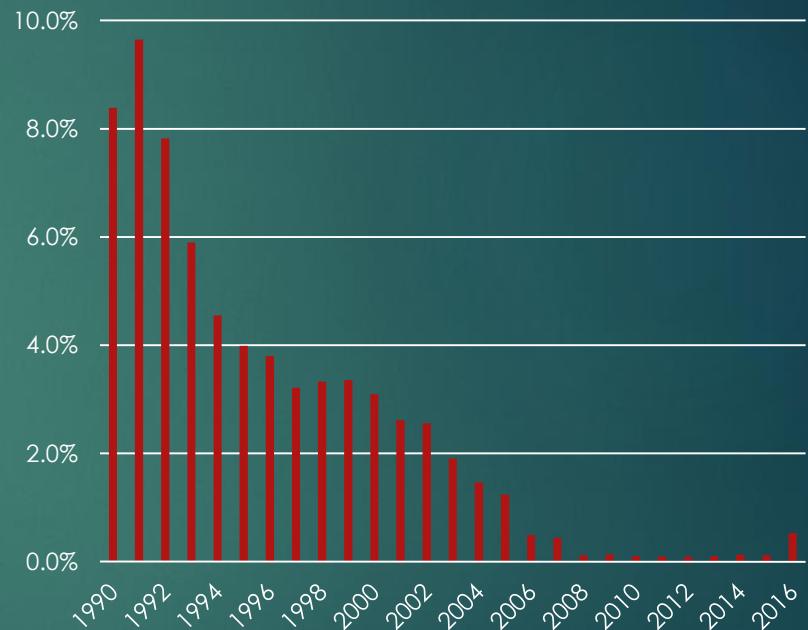


Size and impact

FEN/FDN Assets as % of GDP



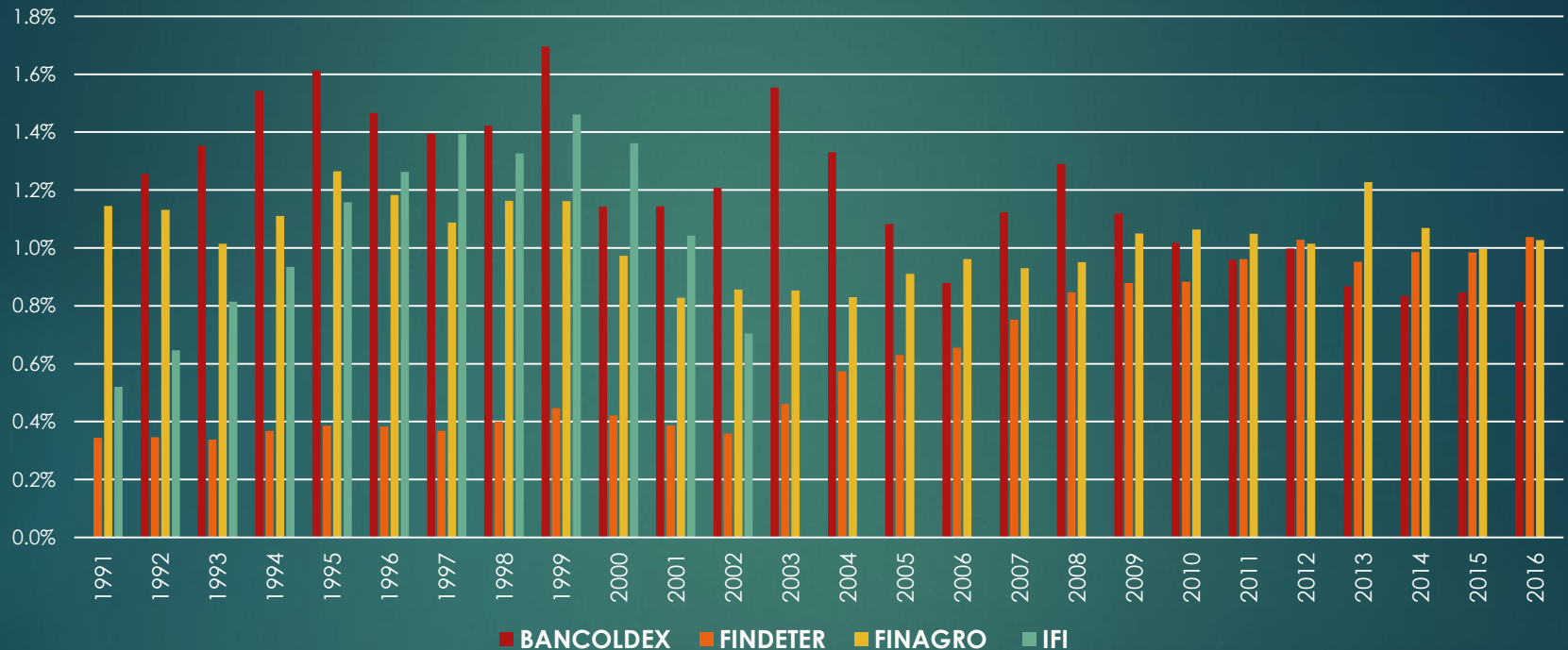
FEN/FDN as % of Financial Assets



FEN was the largest bank in the early 1990s (peak of 3.5% of GDP). Those shares came down dramatically in the 1990s and were very small by the late 2000s. This is true of FDN today, but it is growing with its new mandate.

Size and impact

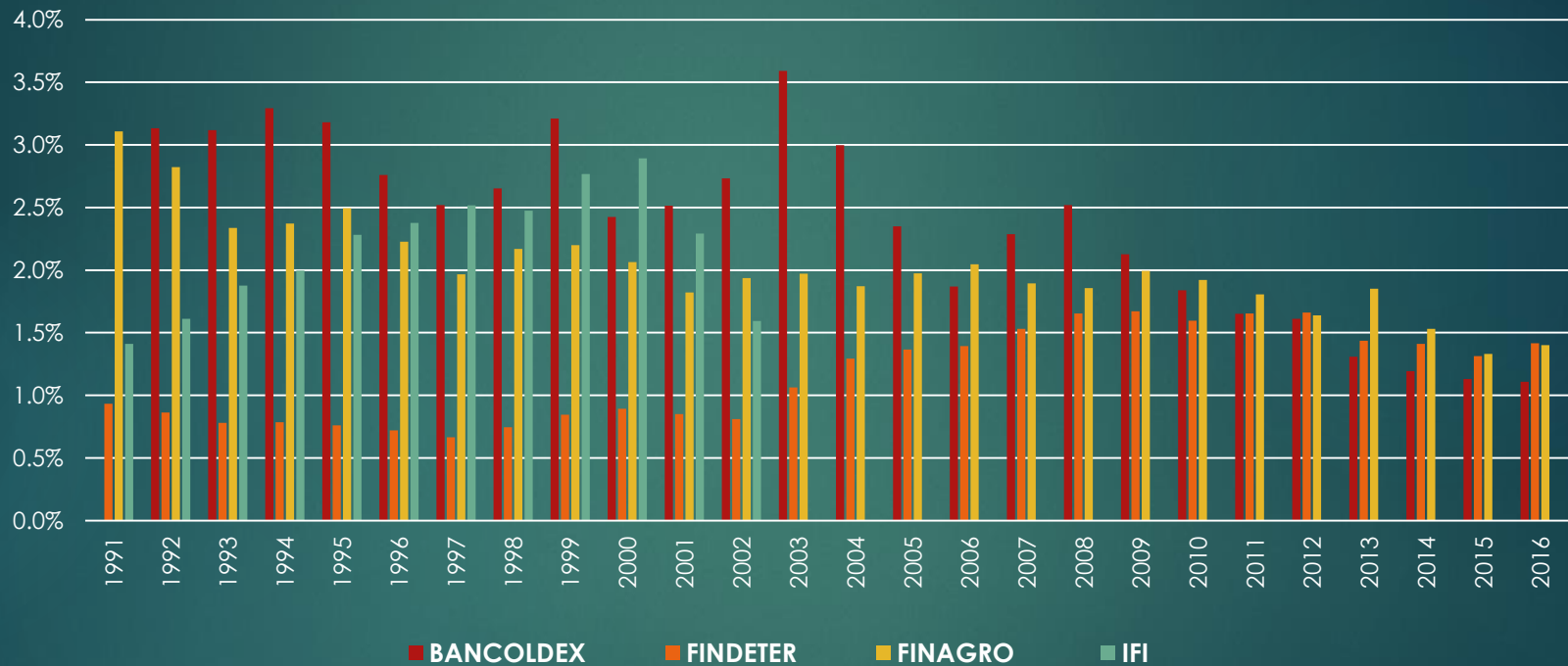
Other Development Banks as % of GDP



- BANCOLDEX+IFI have shrunk from 3% of GDP in the early 1990s to 1% in recent years.
- FINAGRO's assets have remained around 1% of GDP.
- FINETER's assets now represent about 1% of GDP, about three times its weight in the early 1990s.

Size and impact

Other Development Banks as % of Financial Assets

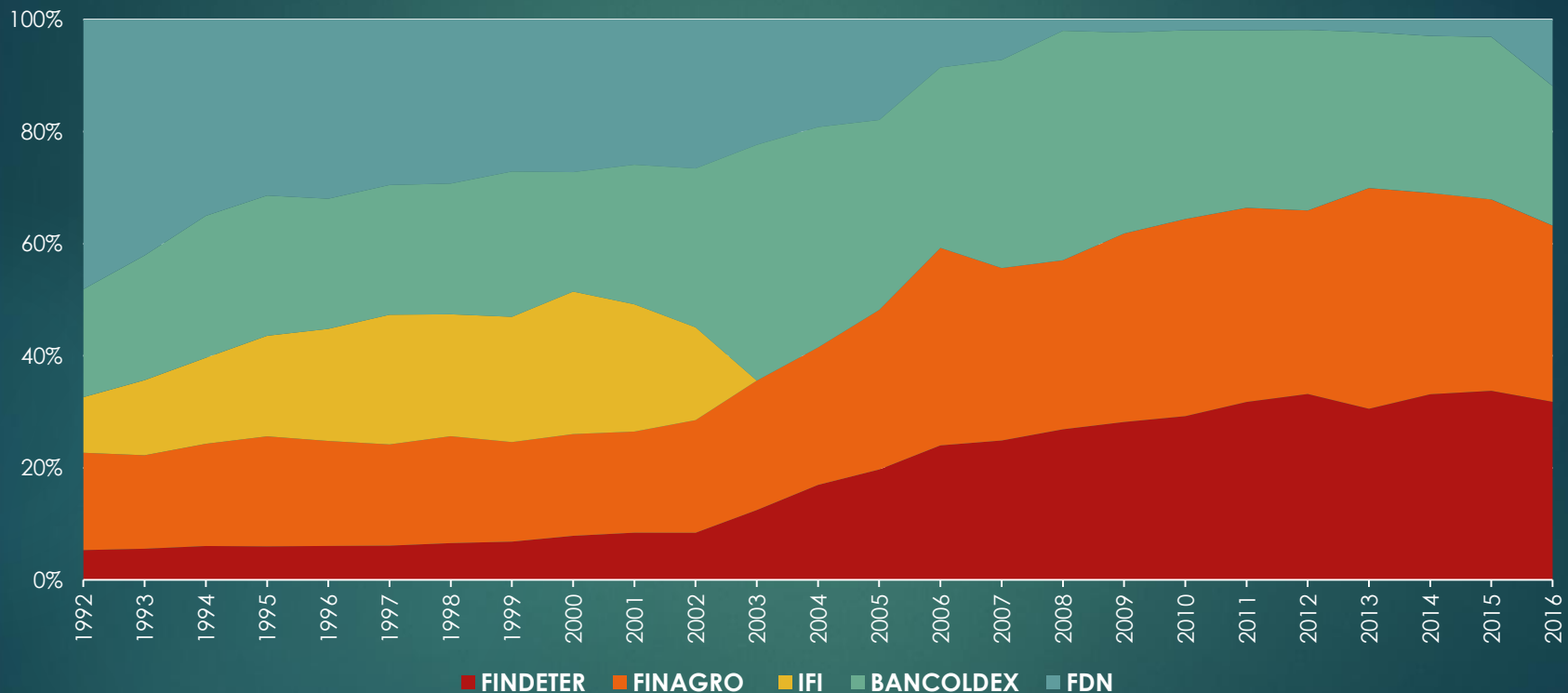


As a share of financial institutions' assets, all the banks, with the exception of FINETER, have shrunk.

Size and impact

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Share of Development Banks in the System
Percentage



FDN is the smallest institution today, whereas FEN was far the largest in the early 1990s. Jointly BANCOLDEX-IFI became the largest institution by the mid-1990s, but then also fell in relative terms, as FINAGRO and FINDETER have expanded their shares in the system.

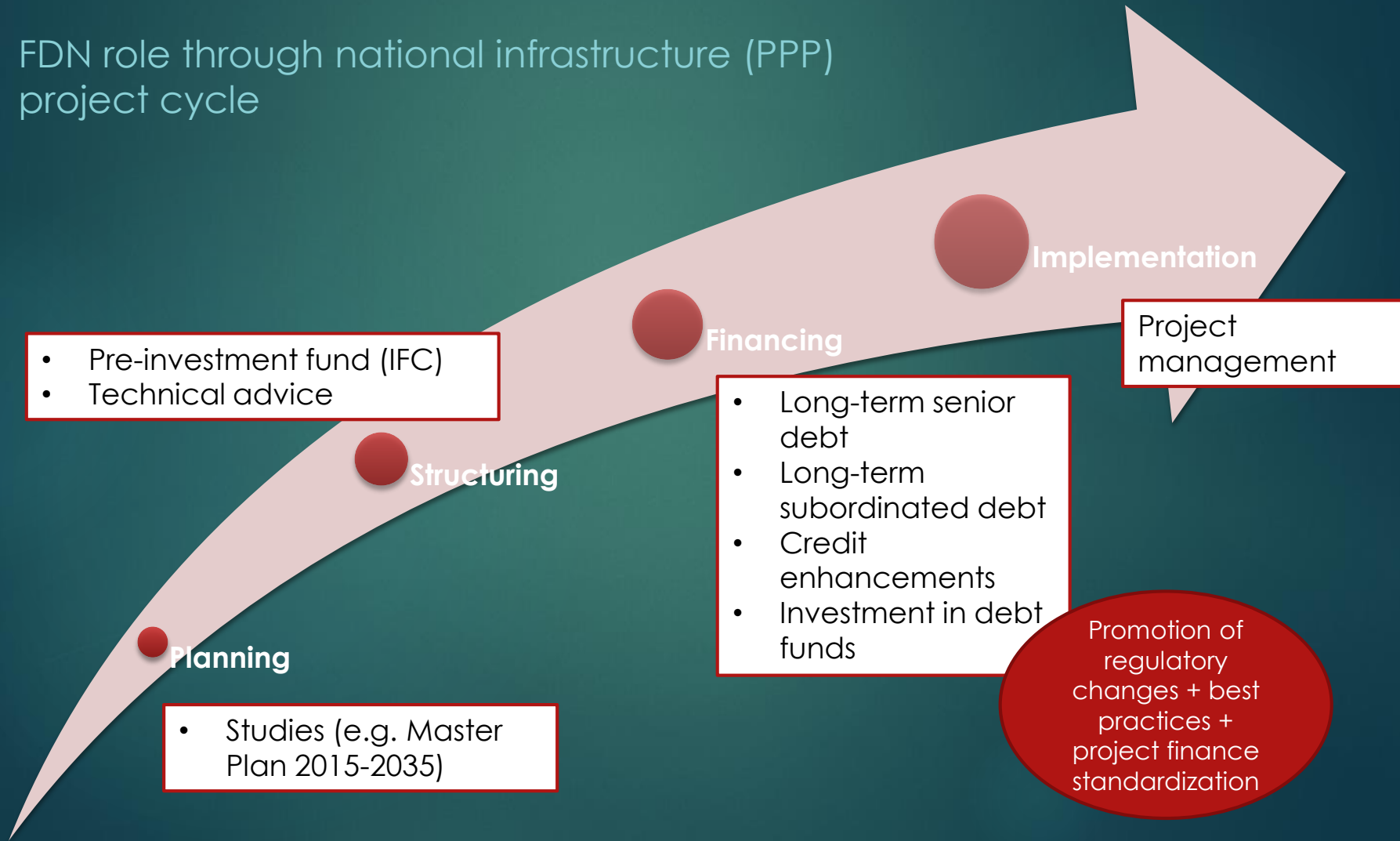
Mitigating market failures

INFRASTRUCTURE, FINANCIAL INCLUSION AND
ENTREPRENEURIAL GROWTH

FDN: Development of infrastructure

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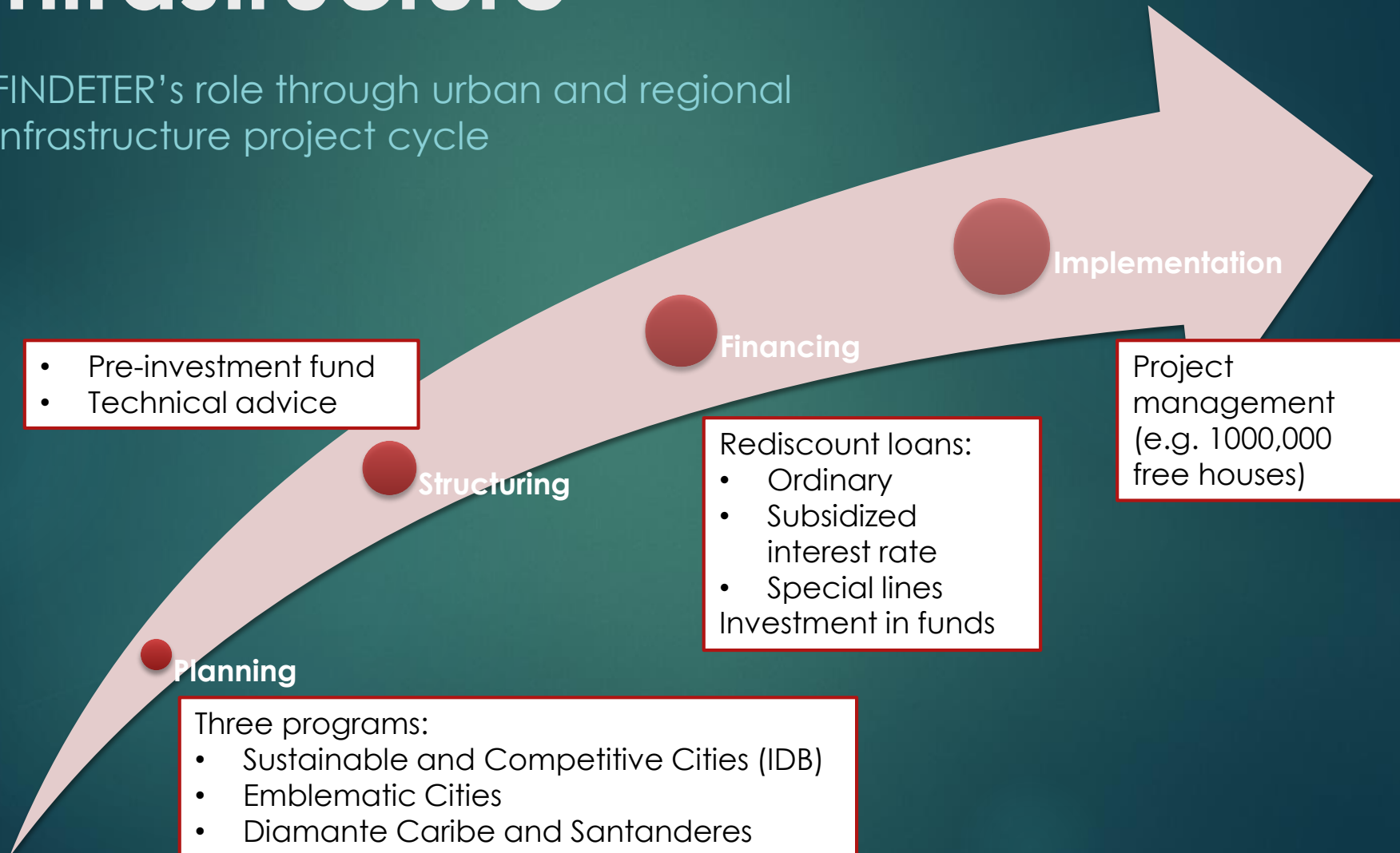
FDN role through national infrastructure (PPP) project cycle



FINDETER: Development of infrastructure

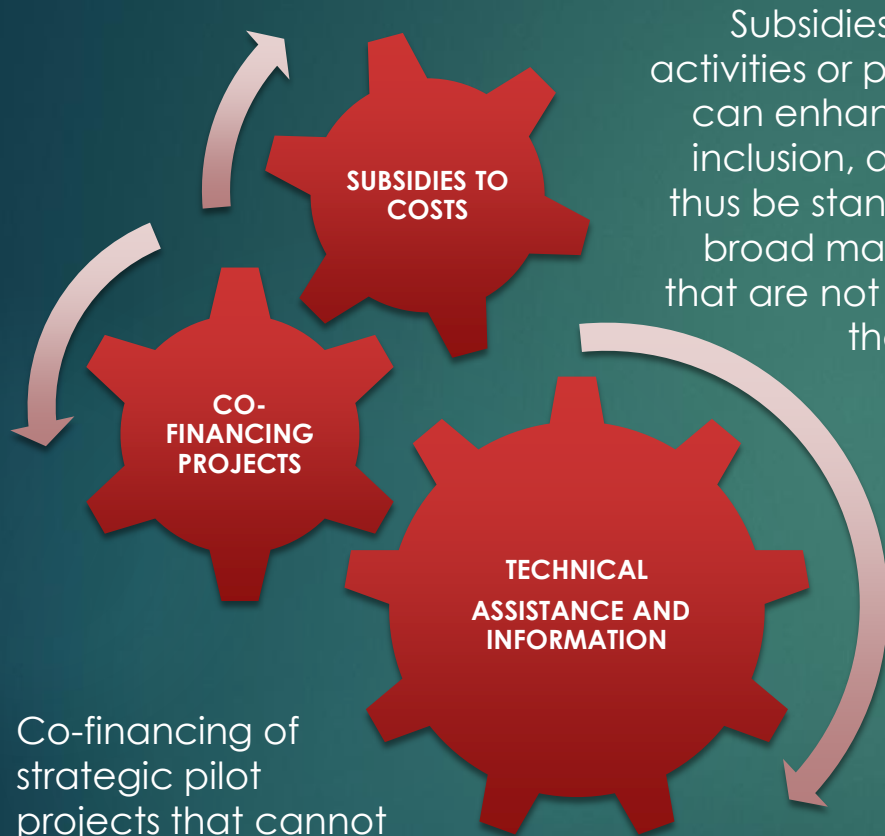
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FINDETER's role through urban and regional infrastructure project cycle



BANCA DE LAS OPORTUNIDADES: FINANCIAL INCLUSION

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Subsidies to strategic activities or products that can enhance financial inclusion, and that can thus be standardized for broad market use, but that are not profitable in the short term.

Co-financing of strategic pilot projects that cannot be standardized, as they have to be custom-designed for each institution.

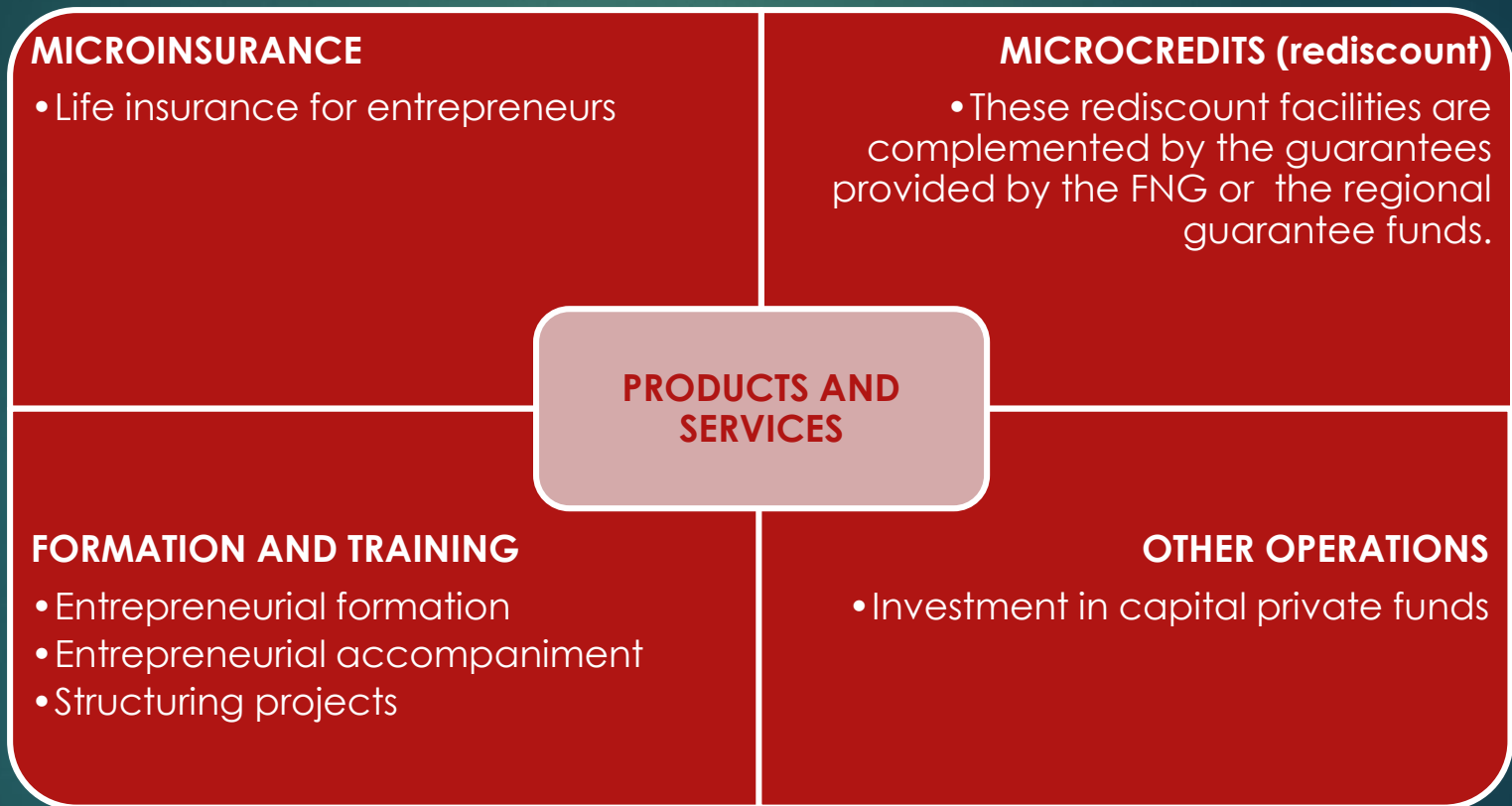
Technical support to microfinance institutions, credit unions and NGOs, and the promotion of research to increase the knowledge about the country's financial inclusion needs.

Bank Correspondents (milestone):

- In 2016, there were 94,260 correspondents in stores, drugstores, post offices, telecommunication centers and credit unions that provided financial services from one or more banks, thus guaranteeing access to those services in all Colombian municipalities.
- Since the launch of this program in June 2007 to the end of 2016, there were 702 million transactions done through these correspondents for Col\$178 trillion.

BANCOLDEX: Financial inclusion

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BANCOLDEX is planning to create a new specialized unit for financial and social inclusion

FINAGRO: Rural financial inclusion

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Microcredits (rediscount)

- Through this facility, financial intermediaries can lend to microenterprises (no access to formal credit) in smaller amounts than the traditional loans for smallholders.

Associative loans (rediscount)

- To have access to these credit lines, associations are now required to have at least 50% of small-sized producers.

FAG (Guarantee Fund)

- Guarantees for small agricultural producers (similar mechanism to the FNG).

PADEMÉR

- This instrument operates through rotating funds managed by the non-banking institutions, which lend to microenterprises.

FMR

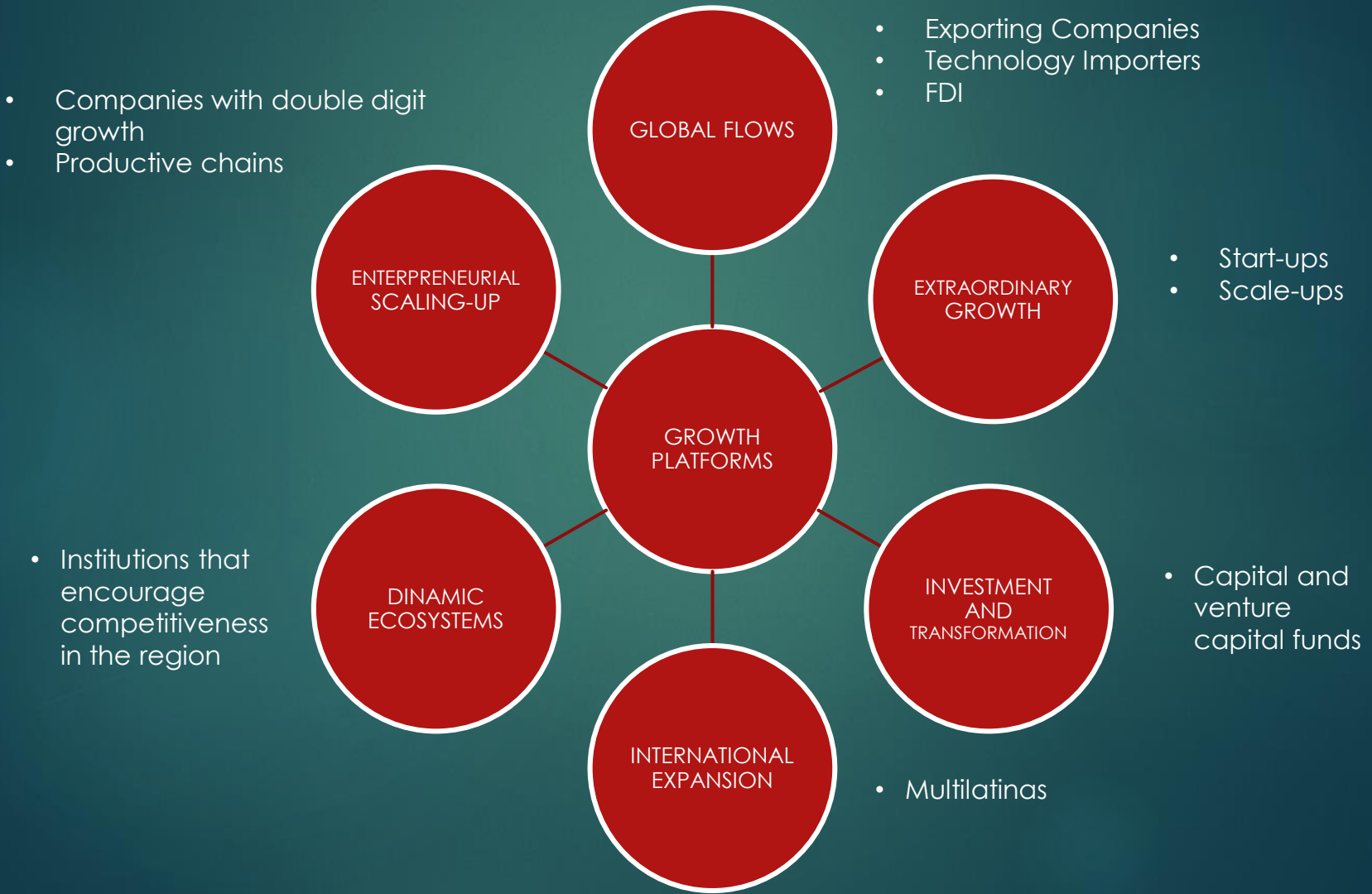
- FMR, based on the experience of PADEMÉR, offers rediscount credits to non-banking institutions and also provides technical assistance for these institutions.
- FMR would be capitalized with resources from PADEMÉR.

2016

BANCOLDEX:

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Entrepreneurial growth



Conclusions

Conclusions

- The redefinition of the functions of these institutions look promising, and there is probably today the strongest support for the role of development banks since the market reforms of the early 1990s.
- Although specialized in their specific areas, it is important that they operate as a system, interacting in areas where the mandates of two or more of them intersect.
- Funding strategies could also be an area of mutual interaction and learning, particularly to guarantee that their lending strategies is consistent with the more competitive financial sector that characterizes Colombia today.
- There is an ongoing discussion on whether the boards of the banks should cease to be chaired by the respective Ministers to meet OECD standards. This would weaken an essential element of public sector administration characteristic of Colombia.
- There are no specific prudential regulations for these institutions. This is also a feature of world financial regulation. It should be corrected, as the risks that these institutions face are very different to those of commercial bank

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