Opcion, Año 35, Especial Nº 19 (2019):*2861-2871*
ISSN 1012-1587/ISSNe: 2477-9385

Regional Development Banks: Theory And Practice

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Abstract

The international regional development banks are an international financial institution, which was formed after the collapse of the colonial system to support the economic and social development of the countries liberated from colonial dependence, or the so-called developing countries.

International development banks are a necessary center for the accumulation of financial resources, ensuring the solution of global socio-economic problems of the strategic development of the regional economy.

At the current stage, the role and principles of international development banks are being transformed. From the international institutions of financial enslavement of developing countries, they become centers of accumulation of financial resources ensuring the sustainable development of the regional economy, addressing and respecting the national interests of the participating countries. They provide resources for the social development of the region and form positions for the protection of the national states in international organizations.

Keywords: International development banks, financing, regional infrastructure, regional projects, strategic economic development.

Bancos Regionales De Desarrollo: Teoría Y Práctica

Resumen
Los bancos internacionales de desarrollo regional son una institución financiera internacional, que se formó después del colapso del sistema colonial para apoyar el desarrollo económico y social de los países liberados de la dependencia colonial, o los llamados países en desarrollo. Los bancos internacionales de desarrollo son un centro necesario para la acumulación de recursos financieros, asegurando la solución de los problemas socioeconómicos mundiales del desarrollo estratégico de la economía regional. En la etapa actual, el papel y los principios de los bancos internacionales de desarrollo se están transformando. Desde las instituciones internacionales de esclavitud financiera de los países en desarrollo, se convierten en centros de acumulación de recursos financieros que aseguran el desarrollo sostenible de la economía regional, abordando y respetando los intereses nacionales de los países participantes. Proporcionan recursos para el desarrollo social de la región y forman posiciones para la protección de los estados nacionales en las organizaciones internacionales.

Palabras clave: bancos internacionales de desarrollo, financiamiento, infraestructura regional, proyectos regionales, desarrollo económico estratégico.

1. Introduction

International development banks are one of the most important forms of international financial institutions.

Regional development banks emerged in the 20th century due to objective reasons. To date, they continue to form, evolve and improve functions, adapting to the current economic conditions (International Regional Development Banks: The History of Creation, Their Purpose and Role in the Economy, 2017).

Over the half-century history, regional development banks have confirmed their role in financing large-scale investment projects.

Today, development banks operate in more than 30 countries. This list includes not only underdeveloped and developing countries but also the highly developed European countries: Germany, Norway, Denmark, Spain, Canada, etc. (According to the New World Bank Report, by 2030, 2013).

Evolving for over 60 years, regional development banks not only increase in number and territory but their role in the regional economy and addressing international socio-economic problems is also changing.

2. Methods

In preparing the materials for this article, the authors used general scientific research methods: grouping, comparing, summarizing, classifying, analyzing, and the forecasting of economic processes.

3. Results

In international law, there are different approaches to the interpretation of such category as development banks. Thus, the United Nations (UN) experts define international development banks as a development finance institution ¬□ a bank or organization that performs the function of long-term financing of projects, which cannot be financed by private business and are aimed at socio-economic development (The EU Bank. (n.d)

Organization for Economic Co-operation and Development (OECD) in its conceptual strategy defines development banks as “national or regional financial institutions to provide medium-term or long-term capital for productive investment, often with the purpose of accompanying technical assistance to poor countries” (Development Bank, n.d.).

The greatest activity of creating regional development banks was noted in the 1960s. It was at that time that the Inter-American Development Bank (IDB, 1959), the African Development Bank (AfDB, 1963), and the Asian Development Bank (AsDB, 1965) were established.

The main factors for the formation of regional development banks were:

- political restructuring of the planet: the end of the colonial system and the formation of the bloc of developing countries;
- the eagerness of developing countries for economic development and integration into the world economic community;
- the need of developing economies for investment resources to finance the development of the national manufacturing sector;
- the need for regional accumulation of financial resources to solve problems of infrastructure development, and production co-operation;
- the need for global financial resources to form the assets of the innovative development of independent developing countries;
- development of new forms of economic relations between the countries of the regions.

Initially, regional development banks were formed by analogy with the International Bank for Reconstruction and Development. The founders of the development banks are the national governments. Thus, in the form of property, they are partially or fully state-owned. The UN Committee defines a regional development bank as "a bank or an organization that performs the function of long-term financing of projects that cannot be fully financed by private business and are aimed at social and economic development".

Like many international financial institutions, development banks have positive and negative factors.

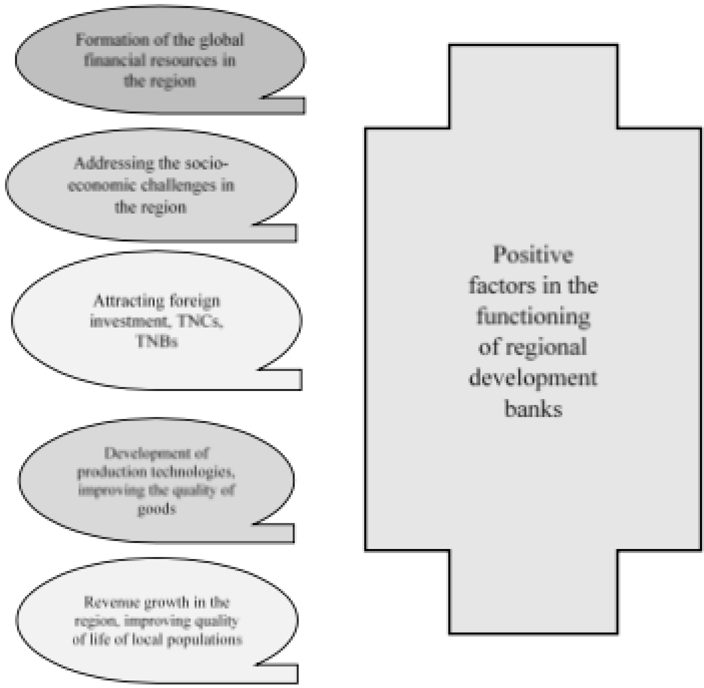
The positive factors in the functioning of regional development banks (Figure 1) are:

- The possibility of accumulating global financial resources. Formation of a regional development bank allows accumulating huge financial resources through contributions from the founding countries, international funds, transnational banks (TNB), financial associations and other sources. Economic development in the regions of developing countries requires significant investment and capital transfers. In this regard, addressing the financing issues is a priority.
- Priority solution of socio-economic problems of the region's countries. The long colonial development resulted in a low-level, and even a complete lack of social institutions and infrastructure in developing countries. The economy of the colonial countries was

completely focused on the needs of the metropolitan countries. The highest economic effect of such countries is the development of the agricultural sector and processing food industry. In some mineral-rich countries, this is the sphere of extraction and primary processing of the extracted raw materials.

- Attracting foreign direct investment, transnational corporations (TNCs), production, technologies, improving the quality of goods and services. Regional development banks ensure the obligations to foreign investors; stabilize the risks of managing the flow of the TNC investments. The implementation of foreign direct investment resources, the development of industrial complexes ensures the improving quality of life of the population, the developing infrastructure, the improving quality standards of goods and services, tax revenues to the budget.
- The possibility of economic revenge of the developing countries based on foreign investment. Developing countries have enormous economic potential. Effective public financial policy, regional investment, bank guarantees, favorable investment climate stimulating the inflow of foreign investment, will be able to determine the activation of resources of developing countries, their historical traditions and socio-geographic, resource and production features. Due to global investments, such countries as India and Brazil can become leaders not only in the agrarian sector, but also in such industries as programming, Internet technologies, space development, and creation of innovative industries.

Figure - 1. Positive factors in the functioning of regional development banks



Note: Compiled by the authors

In this regard, these countries tend to create a single financial alliance in the BRICS group (Brazil, Russia, India, China, and South Africa). Accumulation of resources for innovative development implies a parity exchange of financial and intangible assets of the member countries.

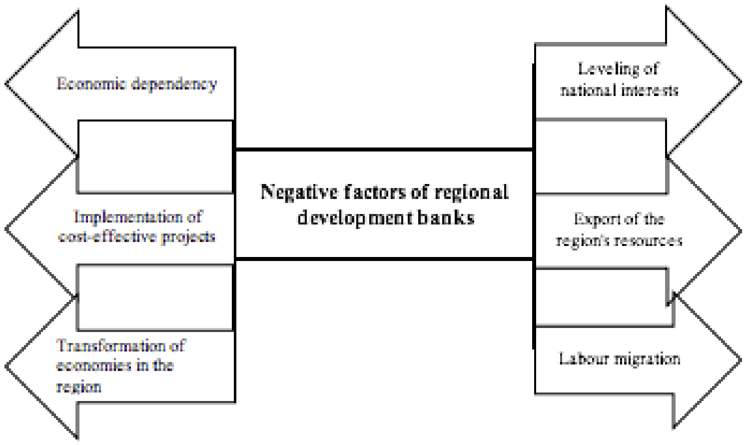
The negative factors in the functioning of regional development banks (Figure 2) are:

- Strengthening dependence of the countries of the region on the economically developed countries-founders of a regional bank. The experience of development banks shows that their founders are the governments of highly developed countries: the USA, Canada, Great Britain, Germany, Japan, Italy, and France. By providing resources for the economies of the developing countries in the region, highly developed countries invest resources in areas of their own economic or social interest, not for the countries of the region. They invest credits and funds in highly profitable economic sectors of activity: mining, processing industry, food industry, trade. Thus, they level the priority spheres of the economies of developing countries that have shaped their distinctive appearance on the world stage. The production of fruits and vegetables in Latin America and the Near East is implemented with the use of the protected ground of technology, despite the fact that the agriculture of these countries always had a favorable warm climate and a highly fertile land. The production of protected soil using modern technologies (hydroponics) is primarily due to the reduction of agro-technical and environmental risks, as well as the higher profitability of investment costs.

- Priority implementation of cost-effective projects, to the detriment of social projects pursuing the national interests of the region's countries. First, the investment resources are provided for projects with lower risks, shorter payback period and high financial and economic indicators. Last, the investors implement infrastructure projects to ensure the accessibility of remote regions of developing countries, projects that allow improving the habitat of the local population: to improve living conditions, water and heat supply, health care, education, etc.
- Transformation of the structure of the regional economy, considering international integration, specialization and cooperation of countries in the global economy. As noted earlier, the advanced countries with large quotas to the regional development banks decide the fate of the industry restructuring of the economy in developing countries. In the era of "financialization" of the financial market, it is the system of financial redistribution of credit and investment resources that determines the regional and sectoral economy, not the economic needs of the region. Economic expediency and calculation today are driven by international investment flows, including international financial institutions such as the regional development banks. Such a mechanism of redistribution transforms the role of the economies of developing countries in the world market and creates a mechanism for the "use" of resources of the developing countries in the interests of investors and creditors.

- Leveling national features and interests of developing countries in the region. Considering the investment analysis and financial evaluation, the sectoral structure of the national economy of developing countries is restructured. Separate spheres and sectors of activity are entirely eliminated as unprofitable, and new spheres and sectors, previously unusual for the economies of developing countries in the region, are created. Thus, in Hungary, the sugar industry, power generation, viticulture and others were eliminated. The European Central Bank has allocated special funds for elimination of these sectors in the national economy.
- Use of the most popular resources of the region, their export to enterprises of developed countries. The economy of developing countries is not functioning for the benefit and in the interests of these countries; it is subject to the interests of the investing countries. Depleting and rare minerals, agricultural and natural resources are produced in order to meet the interests of the economic entities of highly developed countries.
- Migration of labor and population from the developing countries of the region. Labor force, formed from the economically active population, is one of the most important resources of any economy. The lack of qualified personnel in the countries of the Old World creates the demand for cheap labor from developing countries. Certainly, the level of skills, intellectual abilities of migrant workers do not fully comply with the requirements of employers. However, regarding the automation of production, the introduction of new technologies, these workers are very effectively used in developed countries. Liquidation of enterprises and industries in their home countries, low living standards and wages also contribute to labor migration from developing countries.

Figure - 2. Negative factors of regional development banks for developing countries



Note: Compiled by the authors

The Eurasian Development Bank (EARB) occupies a special place in the system of international development banks.

Established in 2006, this Bank became a financial center for solving the regional problems of the Russian Federation and the Republic of Kazakhstan on a parity basis. The informal territorial neighborhood, long-term financial and economic ties during the period of the united socialist development of the economy, have provided an effective mechanism for solving global regional programs under the conditions of modern financial requirements. Modernization of the regional infrastructure, formation of comfortable conditions for the development of entrepreneurship in the region, attraction of foreign investments, creation of a high-tech environment for the development of the economy are all factors for creating this international financial institution.

The high efficiency of the EARB, the formation of new principles of interaction among its members has led to the expansion of the number of participants. One by one, the Republic of Armenia and the Republic of Tajikistan (2009), the Republic of Belarus (2010), and the Kyrgyz Republic (2010) became members of the Bank.

The main factors contributing to the dynamic development and stra-

tegic sustainability of the EARB are:
- ensuring the solution of strategic goals and improving the competitiveness of the founding countries of the Bank;
- ensuring the liberalization of the movement of goods, capital, labor;
- assistance in strengthening the position of the member countries in international organizations.

4. Conclusion

Created during the collapse of the colonial system in the 1960s, international regional development banks are passing through a new stage of evolutionary development.

Initially, international regional development banks were created as a mechanism for the financial enslavement of developing countries, implying the continuation of colonial principles, but at a new qualitative level, namely, the intermittent control due to the financial support of the national economies' development.

Today, international regional development banks are designed to address other problems. This leads to the weakening of banks operating on the old principles, and the emergence in the 21st century of the new international development banks, aimed at innovative development of the region, respect for the national interests and sovereignty of member countries, creation of integrated developing programs for joint business projects, strengthening the position of the region's countries in international organizations, formation of infrastructure conditions in the region based on innovative science, maintaining and upholding the historical features of the region (Kovalev and Rumas 2016; Rovenskii and Bunich 2016).

Of course, given the regional, economic, social and historical conditions, it is difficult to form universal principles for the development of international regional development banks. However, one can note their activity and demand, due to the need to form financial, political and socio-economic interests to solve strategic programs for the development of regions of the world.

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