

Chapter 11

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NATIONAL AND MULTILATERAL DEVELOPMENT BANKS DURING THE 2020 PANDEMIC: THE ROLE OF IADB AND CDC DURING THE FIRST PHASE OF COVID-19

This chapter focuses on the strategic role played over the first few months after the beginning of the Covid-19 pandemic by a Multilateral Development Bank – the Inter-American Development Bank (IADB) and a National Development Bank – the UK CDC Group. We also present an overview of the mandates, loan portfolios, services and clients of the two banks prior to the Covid-19 response, and how these adapted in light of the crisis in 2020.

INTRODUCTION

Before analyzing two public development banks, the IADB and CDC, we would like to emphasize the key difference between development banks (DBs) and commercial banks. A key difference between development banks and purely commercial banks is that the main (and usually only) aim of commercial banks and other private investors is to

maximize risk-adjusted expected returns, often short-term ones. Thus, they generally do not aim to pursue development goals. Their focus is on minimizing risks that may lead to financial losses or reduce profits. While commercial banks need to manage the full range of economic, environmental and social risks, they generally only do so to the extent that these risks have an impact on their financial returns.

In contrast, DBs have a double mandate. They mainly aim to maximize sustainable and inclusive development impacts (including economic, environmental and social impacts), while maintaining some financial profits or avoiding financial losses. A key point to make here is that for DBs the main goal is to achieve a high level of development impact – making a major contribution to meeting the Sustainable Development Goals (SDGs). Although important, achieving a good financial return is somewhat secondary to the dominant aim of development impact. In addition, DBs should evaluate investments over a longer period as their liability structure and projects have a long-term horizon, and because sustainable development results need to be evaluated over a longer timeframe to be sustained.

The Inter-American Development Bank (IADB) played a major role during the first phase of the Covid-19 pandemic, disbursing more than US\$7 billion, in response to Covid-19, over the first 10 months of 2020. The UK CDC (Commonwealth Development Corporation) Group also reacted quickly to offset the negative consequences since the beginning of 2020, disbursing over US\$650 million in its Covid-19 response, over the first few months of 2020, to primarily increase liquidity in the markets and to invest in long-term projects for the recovery phase.

This chapter is structured as follows: it begins by briefly discussing the background about the IADB, its history, shareholders, sources of funding, usual clients, services and loan portfolios, to then focus on the short-term measures put in place to address the consequences of the Covid-19 pandemic. Then, the same analysis is presented for the CDC Group, first briefly discussing the background of the bank and then focusing on the bank's short-term Covid-19 reaction.

INTER-AMERICAN DEVELOPMENT BANK (IADB)

Since World War II, Latin American representatives had been appealing for a regional aid and financing programme of substantial proportions, along similar lines to the Marshall Plan. Probably the most coherent and concrete of these Latin American proposals was created at the 1954 Inter-American Economic and Social Meeting at Quintadinha, inspired by Raul Prebisch and the thinking of the UN Economic Commission for Latin America and the Caribbean (ECLAC). The main proposals included the creation of an Inter-American bank. This, and other proposals, as well as similar ones repeated later, were consistently rejected by representatives of both the Truman and Eisenhower Administrations. The violence that Vice-President Nixon met on his Latin American tour, as well as the likely triumph of the Cuban Revolution, seems to have sparked off a concrete response from Washington. In 1958, the American Administration accepted some of the Latin American proposals, the main one being to establish and fund an Inter-American Development Bank. This was followed in 1961 by the launching by President Kennedy of a large US aid programme for Latin America.

The IADB was officially founded in 1959, and headquartered in Washington, D.C. Ownership is divided between 48 countries, although only 26 countries can borrow money from the bank. In terms of voting shares, the first largest shareholders are the US with 30%, followed by Brazil and Argentina both with 11.35% apiece, then Mexico with 7%. Overall, the 26 borrowing members have 50.01% of the voting shares of IADB (see IADBa). Until recently, the President of the IADB was always a Latin American citizen and the Senior Vice-President was a US citizen, giving a strong voice to the Latin American borrowing countries. This tradition was broken, however, when a US citizen was appointed as President of the IADB in 2020.

The largest borrower is Brazil, followed by Mexico and Argentina. The IADB is part of the IADB Group, which also includes the

Multilateral Investment Fund (MIF) and IDB Invest, both of which invest in private companies.

The mandate of the bank is “to foster the economic and social development of the IDB’s borrowing member countries, both individually and collectively” (see IADBb). In this light, reduction in poverty and inequality and sustainable development are among IADB’s top priorities. In 2019, the Institutional Strategy of IADB was approved by the Governors, ratifying three strategic priorities: i) Social inclusion and equality; ii) Productivity and innovation; iii) Regional economic integration. The Institutional Strategy also indicates that these priorities need to be combined with actions that highlight gender equality, inclusion, environmental sustainability and institutional capacity.

The financial instruments currently offered by IADB are: i) Loans; ii) Guarantees; iii) Non-reimbursable Grants; iv) Equity investment; and v) Technical cooperation. All these instruments can be combined by IADB. Table 11.1 highlights the number of funded projects and total disbursement of IADB over the last five years (period 2015-2019), by type of instrument.

Table 11.1: IADB disbursement from 2015–2019, by type of instrument

Instrument	Total disbursement (US\$ billion)	Number of approved projects
Loan operations	53.43	573
Container*	21.21	49
Non-reimbursable grants	1.25	84
Technical cooperation	1.23	2408
Guarantee	0.41	6
Equity	0.14	35
Total	77.6	3,155

Source: Authors’ own elaboration using IADB data. *Containers ‘contain’ a combination of instruments.

Over the last five years, IADB provided finance for US\$77.6 billion, with 69% of the overall financial resources distributed through loan operations. Technical cooperation instruments are the most recurrent type of instrument used, with more than 2,400 approved projects over the last five years, although the amount is only equal to 1.5% of the overall amount disbursed by IADB.

Table 11.2 gives an overview of the three sectors reporting the highest number of approved projects over the period 2015-2019, by type of instrument.

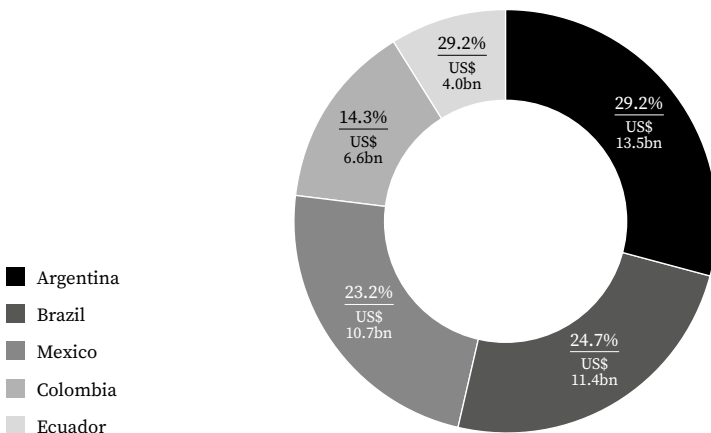
Table 11.2: IADB top three sectors of interest over the last five years, by type of instrument

Loan operations	Container	Non-reimbursable grants	Technical cooperation	Guarantees	Equity
Reform, Modernization of the State	Financial Markets	Health	Reform, Modernization of the State	Energy	Private Firms and SME Development
Trade	Transport	Energy	Social Investment	Environment and Natural Disasters	Energy
Energy	Reform, Modernization of the State	Agriculture and Rural Development	Environment and Natural Disasters	Urban Development and Housing	Agriculture and Rural Development

Source: Authors' own elaboration using IADB data.

Reform and modernization of the state, energy, environment and natural disaster, and agriculture and rural development are among the top sectors of interest for IADB. Over the last five years, these sectors have received funding for several projects through different instruments. Looking at how IADB financial resources are distributed among countries, Figure 11.1 reports the top five country recipients over the period 2015–2019.

Figure 11.1: Top five country recipients of IADB financial resources over the last five years, in US\$ billion



Source: Authors' own elaboration using IADB data.

Country	% Total disbursement 2015-2019
Argentina	17.4%
Brazil	14.7%
Mexico	13.8%
Colombia	8.5%
Ecuador	5.2%

Over the last five years, Argentina, Brazil and Mexico are the countries that have received more than US\$10 billion each, with Brazil receiving almost 30% of what was received by all top five countries combined. Colombia and Ecuador have received, respectively, US\$6.6 billion and US\$4 billion over the last five years.

Loan operations

IADB issues loans to the public sector, through Sovereign Guaranteed Loans (SGL) and to the private sector through Non-Sovereign Guaranteed Loans (NSGL). Table 11.3 gives an overview of the three sectors that have received the highest number of loan approvals over the last five years, by type of loan issued.

Table 11.3: IADB top three sectors of interest over the last three years, by type of loan

Sovereign Guaranteed Loans	Non-Sovereign Guaranteed Loans
Reform, modernization of the state	Private firms and SME development
Social investment	Agriculture and rural development
Transport	Financial markets

Source: IADB website.

While the majority of approved SG loans were addressed towards reforms and modernization of the state, together with social investments and transport, NSGLs for the private sector have been mainly directed towards support for private firms, agriculture and rural development, and financial markets. Looking at the type of financial resources offered to both the public sector, IADB offers three lending categories of SGLs, characterized by different types of instruments:

- i. **Investment lending:** to support the acquisition of goods, works and services to promote social and economic development and in case of natural disasters.
- ii. **Policy-based lending:** to support policy reforms and/or institutional changes, prior to approval from IADB.
- iii. **Special development lending:** to support countries during macroeconomic crises.

In addition to the three lending categories described above, the IADB can also guarantee loans issued by private financial in-

stitutions and directed to public sector projects. Currently, IADB offers two types of guarantees: i) Partial Credit Guarantees, to partially cover the risk of repayment for private financial institutions; and ii) Political Risk Guarantees to cover for the risk of non-compliance and non-repayment of sovereign or other public institutions.

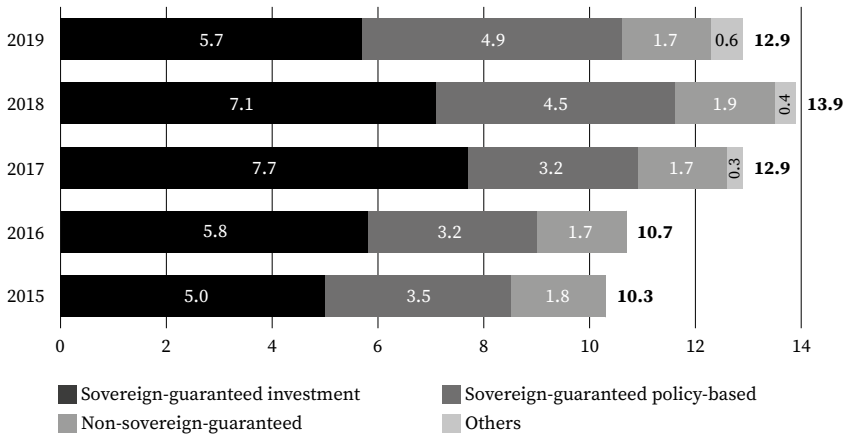
For the private sector, the IADB offers the financial resources in the form of NSGLs for investments for transactions generally in all sectors, subject to an exclusion list. There are currently four instruments issued by the bank:

- i. **A/B Loans and Syndications:** loans to attract and engage with co-funders.
- ii. **Small enterprises:** to support participation in local markets of small- and medium-sized enterprises (SMEs).
- iii. **Social Entrepreneurship Programme:** to support sustainable solutions to socioeconomic issues.
- iv. **Opportunities for the Majority Initiative:** to promote sustainable business models.

Over the last five years, IADB overall disbursement in SG and NSG loans has been equal to US\$60 billion. Figure 11.2 shows the total amount of approved loans over the last five years, by type of loan disbursed by IADB.

SG loans account for most of the amount disbursed by IADB, generally more than 80% of the overall number of loans funded by the bank. Among SG loans, SG Investment are the instruments accounting for the highest amount disbursed, although these are very similar to the amount disbursed with SG policy-based instruments.

Figure 11.2: *Loan approvals over the last five years by category of loan, in US\$ billion*



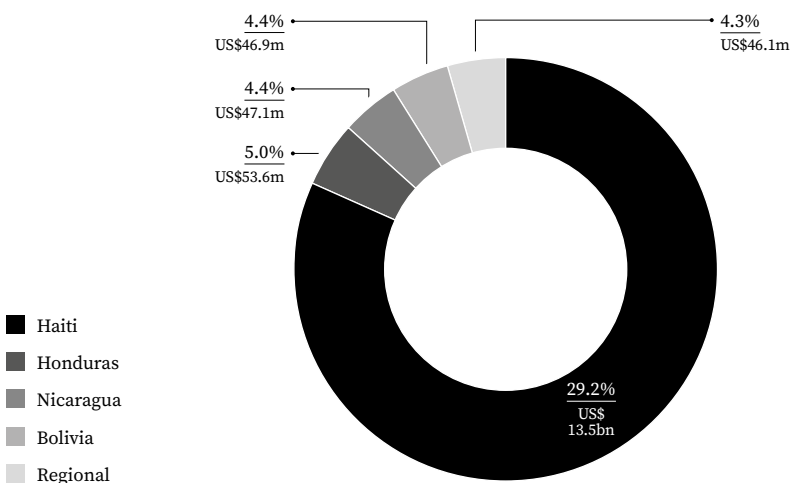
Source: IADB Annual Report 2019.

Non-reimbursable grants

IADB issues non-reimbursable funds for technical cooperation programmes that can be financed by either IADB's own financial resources or from funds received from other institutions. Currently, there are four different programmes through which IADB distributes non-reimbursable grants:

- **IADB Grant Facility:** to provide financial support for Haiti, established in 2007.
- **Trust Fund Grantees:** grants for the relatively less developed countries, for both public and private sector organizations.
- **IADB Lab Grants:** administered by IADB Lab, member of the IADB Group, to support small-scale targeted investment for both public and private sector organizations.
- **Social Entrepreneurship Programme:** for private, non-profit, community-based organizations and public local development institutions.

Figure 11.3: *Top 5 recipients IADB grants over the last five years*



Source: Authors' own elaboration using IADB data.

Country	% Total grant disbursement 2015–2019
Haiti	70.0%
Honduras	4.3%
Nicaragua	3.8%
Bolivia	3.8%
Regional	3.7%

Among the top five recipients of IADB grants, Haiti is the country that has received most of the financial resources, equal to US\$874 million or 82% of the disbursement for the top five recipients. Honduras, Nicaragua and Bolivia are the other countries in the ranking, together with regional programmes involving more than one country, receiving a similar amount of resources equal to US\$50 million each.

Technical cooperation

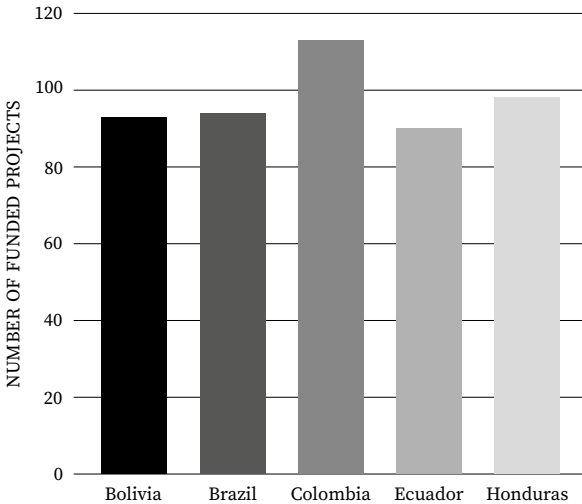
The IADB also offers financial resources to achieve objectives in line with the mandate of the bank – reduction of poverty, capacity building, etc. To do so, the IADB provides the funds for technical cooperation activities, through the Fund for Special Operations (FSO), in three different forms:

- **Non-reimbursable resources:** generally targeted at the relatively least-developed countries.
- **Reimbursable resources:** in the form of non-sovereign guaranteed loans.
- **Contingent recovery resources:** to provide financial resources that will be reimbursed if a loan from any other source is obtained.

The majority of the resources for technical cooperation disbursed by IADB over the last five years have been distributed over several regional programmes involving more than one country. The total number of funded projects for the period 2015-2019 has been equal to 786 approved projects, for an overall amount of US\$501.1 million. Figure 11.4 shows the countries with the highest number of funded projects for technical cooperation over the last five years, together with the total amount received.

Focusing the attention on countries only, and excluding regional programmes, over the period 2015–2019 Colombia has been the country receiving the highest number of approved projects – 113, and the highest amount received – US\$82.3. Among the other top five recipients, Bolivia, Brazil, Ecuador and Honduras have reported a similar number of funded projects, although the overall amount received differs between countries, with Brazil receiving US\$72 million and Ecuador and Bolivia receiving slightly more than US\$30 million.

Figure 11.4: *Top recipients of IADB technical cooperation resources over the last five years*

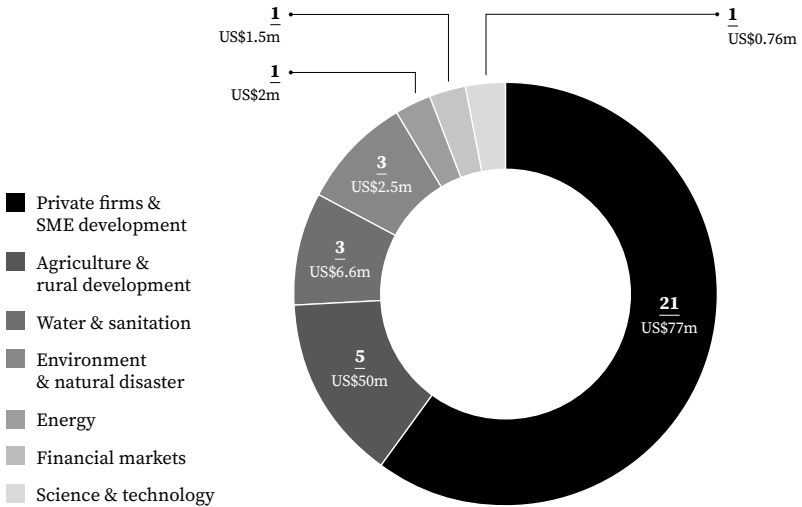


Source: Authors' own elaboration using IADB data.

Equity investment

Due to the mandate of the bank, the IADB cannot directly invest in equity. However, other members of the IADB Group, such as IDB Invest and the Multilateral Investment Fund (MIF), can make direct equity investments and in equity funds. Over the period 2015–2019, IADB Group made 35 investments in equity to a total value of US\$140.3 million. Figure 11.5 presents the economic sectors where equity investments were made by IADB.

Figure 11.5: Number of equity investments over the last five years, by economic sector



Source: Authors' own elaboration using IADB data.

The highest number of funded equity investment projects made over the last five years have been directed towards “Private firms and SMEs development”, with an overall disbursement equal to US\$77 million. Furthermore, energy is the second sector for IADB equity investment, with only five funded projects that have attracted investments of US\$50 million. Finally, financial markets, water and sanitation, science and technology, and environment have received marginal resources, equal to an overall disbursement of roughly US\$13 million.

IADB AND COVID-19

In light of the Covid-19 pandemic, the IADB is generally operating according to four aims:

1. Strengthening health systems.
2. Helping fund non-conditional transfers – more resources to vulnerable people.
3. Providing liquidity to ministries of finance.
4. Funding to SMEs.

Being aware that the recovery will not be linear, while discussing the potential recovery plan, there is a need to keep the disbursement for social expenditure at the same time as increasing the disbursement for infrastructure and green transformation; for Latin America, another sector of primary importance is the food industry, which will need adequate financial resources. For the short and medium term in Latin America, the social component will need primary attention. Counter-cyclical finance is seen as crucial both for urgent short-term expenditures, as well as for longer term investment, to help minimize damaging effects for long-term development.

At the moment, the IADB has increased both policy-based loans – to supply more liquidity – and non-conditional transfers. In light of Covid-19, the IADB also began a ‘fast-track’ procedure to facilitate the approval of projects, with a 66% time reduction, leading to procedures that allow the bank to issue a loan in one and a half months or maximum two. On the other hand, equity investments are now more complicated, due to the uncertainty brought by the Covid-19 pandemic. The three instruments mainly used by IADB during the initial phase of the Covid-19 pandemic – Investment Loans; Policy-based Loans; Special Development Lending – have been mainly directed towards the following areas of intervention:

- Immediate public health response.
- Vulnerable populations.

- Productivity sector & employment.
- Multiple priority areas.
- Public policy and fiscal management.
- Special development lending.

Table 11.4 illustrates the overall IADB disbursement since the beginning of the Covid-19 pandemic, by area of intervention.

Table 11.4: IADB disbursement in response to Covid-19, by area of intervention	
Areas of intervention	Disbursement (US\$ million)
Vulnerable populations	2,000
Productivity sector & employment	1,900
Public policy and fiscal management	1,200
Special development lending	1,200
Immediate public health response	666
Multiple priority areas	250
Covid-19 Response Total	7.2 billion

Source: Authors' own elaboration using IADB data.

The main focus of IADB intervention over the first phase of the 2020 pandemic has been towards the areas of “Vulnerable populations” and “Productivity sector & employment”, both receiving financial resources for US\$2 billion dollars (US\$1.9 billion for the latter). Among the other areas of IADB intervention, “Public policy and fiscal management” and “Special development lending” have both received US\$1.2 billion. Looking at a country level, Table 11.5 illustrates the amount of financial resources received, and areas of intervention, by country.

Table 11.5: IADB country breakdown operations in response to Covid-19

Country	Loan size (US\$ million)	Areas of intervention
Brazil	1,750	Vulnerable populations; Productivity sector & Employment
Argentina	970	Immediate public health response; Productivity sector & Employment
Bolivia	580	Vulnerable populations; Productivity sector & Employment
Uruguay	555	Vulnerable populations; Productivity sector & Employment; Public policy & Fiscal management
El Salvador	550	Immediate public health response; Public policy & Fiscal management; Special development lending
Panama	550	Productivity sector & Employment; Special development lending
Costa Rica	515	Vulnerable populations; Special development lending
Dominican Republic	500	Public policy & Fiscal management; Special development lending
Ecuador	344	Productivity sector & Employment; Multiple priority areas
Paraguay	210	Public policy & Fiscal management
Mexico	154	Productivity sector & Employment
Honduras	146	Immediate public health response; Productivity sector & Employment; Special development lending
Guatemala	100	Vulnerable populations
Trinidad And Tobago	100	Public policy & Fiscal management
Haiti	87	Immediate public health response; Vulnerable populations
Nicaragua	43	Immediate public health response
Suriname	20	Immediate public health response
Bahamas	19	Vulnerable populations
Belize	18	Immediate public health response; Vulnerable populations
Barbados	0	
Chile	0	
Colombia	0	
Guyana	0	
Jamaica	0	
Peru	0	
Venezuela	0	
Total	7.21 billion	

Source: Authors' own elaboration using IADB data and IADBc.

As of October 2020, Brazil has been the largest recipient of financial resources disbursed by IADB since the beginning of the Covid-19 pandemic, receiving US\$1.7 billion towards the areas of ‘Vulnerable populations’ and ‘Productivity sector & Employment’. Argentina is the second largest recipient of IADB funds, receiving roughly US\$1 billion invested in the areas of public health and productivity sector, and employment.

Finally, we compare the disbursement of IADB over the first 10 months of 2019 and 2020, looking at whether the bank supplied any additional resources during the Covid-19 pandemic compared to the same period in the previous year. Table 11.6 shows the overall 2019 and 2020 disbursement of IADB, by type of instrument.

Table 11.6: Comparison of IADB disbursement in 2019 and 2020, by type of instrument

Instrument	Jan 1, 2019 – Oct 21, 2019		Jan 1, 2020 – Oct 21, 2020	
	Total disbursement (US\$ billion)	Number of approved projects	Total disbursement (US\$ billion)	Number of approved projects
Loan operation	7.45	68	19.62	154
Container*	2.59	11	6.46	16
Technical cooperation	0.17	348	0.23	451
Non-reimbursable grants	0.15	12	0.37	30
Equity	0.02	4	0.01	4
Total	10.38	443	26.69	655

Source: Authors’ own elaboration using IADB data. *Containers ‘contain’ a combination of instruments.

The IADB reacted quickly to the challenges brought about by the Covid-19 pandemic in 2020, increasing both the number of funded projects and the amount disbursed compared to the same period in 2019. Looking at loan operations in particular, IADB almost tripled its disbursement and more than doubled the number of funded projects.

THE COMMONWEALTH DEVELOPMENT CORPORATION (CDC)

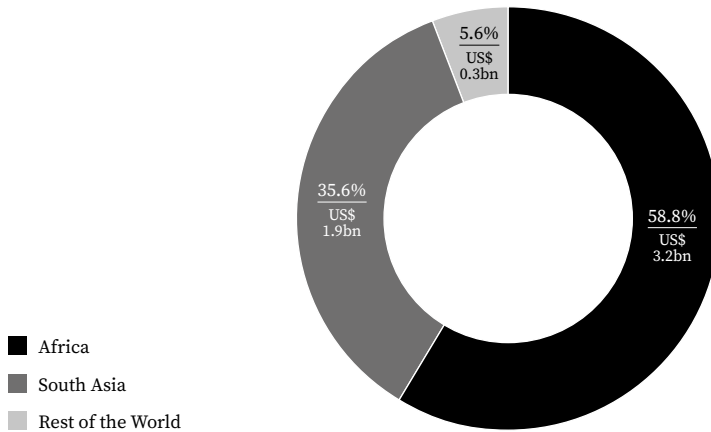
The CDC Group plc (CDC, hereafter) – formerly the Colonial Development Corporation, Commonwealth Development Corporation and Capital for Development Corporation – is the UK development bank. It was 100% owned by the Department for International Development (DfID) until 2020, when DfID was merged with the Foreign Commonwealth Office into the Foreign, Commonwealth & Development Office (FCDO). Although it is entirely owned by the UK Government, CDC’s operations and investment decisions are independent.

The CDC was founded in 1948 and has changed its structure and mandate over the years. The current mandate of the bank is to “[...] solve the biggest global development challenges by investing patient, flexible capital to support private sector growth and innovation. It is the world’s first impact investor with over 70 years of experience of successfully supporting the sustainable, long-term growth of businesses in Africa and South Asia” (CDCa).

Figure 11.6 shows the overall disbursement of the CDC from 2015–2019, by geographical area and Table 11.7 reports the country breakdown of the overall exposure of the CDC.

Almost two-thirds of the funds disbursed by the CDC over the last five years have been invested in the African continent, while almost all the remaining financial resources went to the South Asian continent and only 5% was disbursed in other countries. Looking at the countries where the CDC invested more resources, India accounts for 27.6% of the overall CDC investments, followed by four African countries – Nigeria, Kenya, South Africa and Côte d’Ivoire – each accounting for around 5% of the overall CDC investments.

Figure 11.6: *CDC disbursement over the last five years, by geographical region*



Source: Authors' own elaboration using CDC data.

Table 11.7:
*Country breakdown,
total portfolio*

Country	% investment
India	27.6%
Nigeria	6.8%
Kenya	4.9%
South Africa	4.8%
Côte d'Ivoire	4.5%

Source: CDC website (CDCb).

The financial resources disbursed by the CDC are generally for long periods, often for more than 10 years, and are aimed at increasing the capital flows in underdeveloped markets, particularly in fragile sectors or in those with the highest growth potential (CDCc). In line with the Sustainable Development Goals (SDGs) and the Addis Ababa Action Agenda, the strategic priorities identified in the CDC Strategic Framework 2017–2021 are the following:

Developmental: The main developmental goal of CDC is to eradicate poverty through the creation of decent jobs, in line with SDGs 1 and 8. However, other broader impacts that are expected as a result of CDC investments are the removal of market constraints in energy and infrastructure, promoting access to essential goods and services – health and education – and increasing capital flows to support the process, with particular focus on women’s empowerment and climate change.

Responsible: Particular attention is also paid to the quality of the investments, with standards defined in the ‘Code of Responsible Investing’, which reports the guidelines for environmentally, socially and business responsible investments. To achieve the targets, CDC provides financial resources under the principle of additionality, both in financial terms – do not supply resources that are already offered in the market – and in terms of value – to provide value beyond the capital itself, as technical assistance.

Innovative: The CDC invests in long-term projects with higher developmental impacts aiming to create new markets and reinforce existing ones. These investments, which come at greater risk and where capital markets perceive a risk that’s too high to commit, are funded by the CDC with the provision of concessional capital, always in light of the principle of additionality.

Enduring: The CDC operations are independent from the UK Government and are in line with the Investment Policy and the Code of Responsible Investing set by DfID – now FCDO. The activity of the CDC is primarily based on five principles that aim to guarantee

the self-funding of the institution and the long-term sustainability: i) Accountability; ii) Proficiency; iii) Independence; iv) Continuity and stability; v) Financial regulation

The CDC works under the principle of capital preservation and therefore cannot undertake operations like first loss guarantees, which could break the capital preservation. As a consequence, the CDC does not offer provision against losses and is not allowed to borrow on the capital markets. This implies that the CDC can either participate in funds that invest in projects – intermediate investments – or can raise funding from government grants and resources coming from the aid budget.

To maximize the impact of the intervention, the CDC channels funds through regional development banks, like the TDB (Trade and Development Bank) in Africa, as well as commercial banks, as both know the local/regional clients better, leading to less information asymmetry.

Table 11.8 presents the type of instruments used by the CDC, with relative disbursement and number of approved projects over the period 2015–2019.

Table 11.8: CDC disbursement from 2015–2019, by type of instrument

Instrument	Disbursement (US\$ million)	Number of approved projects
Direct equity	1,803.7	39
Intermediated investment	1,496.2	525 (54 funds)
Direct debt	1,313.2	39
Trade finance	550	3
Direct debt, direct equity	227.4	3
Co-investments equity	7.9	1
Total	5.4 billion	610

Source: Authors' own elaboration using CDC data.

Direct equity investments are the CDC instrument with the highest disbursement from 2015–2019, with US\$1.8 billion distributed over 39 projects only. Intermediate investments, as previously discussed, are types of operations where the CDC invests in funds that eventually invest directly in companies; from 2015–2019, the CDC invested in 54 funds that led to investments in 525 projects proposed by companies, for an overall amount of US\$1.5 billion.

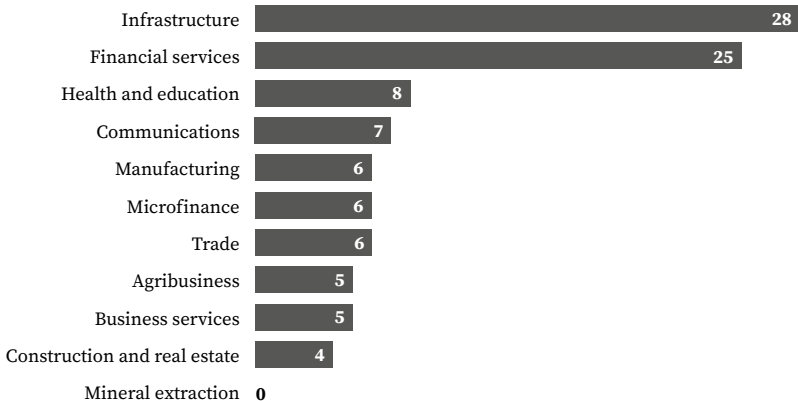
Direct debt operations are the third type of instrument in terms of disbursement, with around US\$1.3 billion disbursed by the CDC over the last five years. Finally, trade finance, combined operations of direct debt and direct equity and co-investment equity represent the minority of CDC investments, with less than US\$1 billion disbursed over the last five years. Among CDC direct operations, hence excluding intermediated investments, we can see from Figure 11.7 that 50% of CDC resources are invested in direct equity operations. This is a significant share of the overall disbursement, but is still lower than in the past, when the CDC used to have 80% of its direct transactions in equity. Although riskier than other types of commitments, equity investments allow the CDC to have a greater engagement with the companies. However, these imply a riskier and more volatile portfolio. The seven priority sectors of intervention identified by CDC are presented in Table 11.9, together with the share of budget allocated in 2019.

Looking at the sectorial breakdown of the 2019 disbursement in Table 11.9, more than half of the resources invested by the CDC have been directed towards financial services, while almost a quarter was granted for investments in infrastructure. However, it should be noted that many of the funds channelled to financial services would have been on-lent to other sectors. Food and agriculture and health both accounted for 3% of the overall CDC spending in 2019 while the category ‘Other’ also including projects with more than one sector of intervention, have accounted for 17% of the total disbursement. Looking at the composition of the overall CDC portfolio in Figure 11.7, infrastructure is the sector where the CDC has the greatest exposure, closely followed by the financial services sector.

Table 11.9: Sectorial breakdown of CDC operations, 2019

Areas of intervention	Share of disbursement
Financial services	53%
Infrastructure	23%
Food and agriculture	3%
Health	3%
Education	1%
Manufacturing	0%
Construction and real estate	0%
Other	17%
2019 Disbursement	1.66 billion

Source: CDC website (CDCd).

Figure 7: Total CDC underlying portfolio, by sector (%)

Source: CDC Annual Accounts 2019.

THE CDC AND COVID-19

Finance and support from institutions like the CDC have been critical during the Covid-19 pandemic and will be so for the rebuilding process. To achieve better alignment and coordination with other institutional actors, the CDC currently works in collaboration with the group of European Development Finance Institutions, the EDFI and with other institutions such as UNICEF for the distribution of medical products in lower and middle-income countries through a CDC subsidiary, MedAccess.

In light of the Covid-19 pandemic, the CDC identified three areas of focus: ‘preserve’, ‘strengthen’ and ‘rebuild’ (Covid-19 briefing document 2020, CDCe).

Preserve: provide working capital and technical assistance to the most affected sectors.

Strengthen: channel liquidity to local banks to be distributed to the domestic supply chains.

Rebuild: invest in long-term projects for the recovery phase.

Over the first nine months of 2020, the CDC disbursed more than US\$650 million: US\$400 million to increase liquidity in the markets under the ‘Strengthen’ pillar, together with health, social and finance programmes in Asia and Africa and US\$250 million under the ‘Rebuild’ pillar to invest in long-term projects for the recovery phase.

As a first response to the Covid-19 pandemic, the CDC also issued two new technical assistance and support facilities: the “Covid-19 Business Response Facility”, for the healthcare sector and the distribution of basic goods and pharmaceuticals; and the “Covid-19 Emergency Technical Assistance Facility”, to provide technical assistance and expertise during the pandemic crisis (CDCf). Using both facilities, over the three rounds in April, July and September, the CDC funded 50 projects for an overall amount of £4.5 million (CDCg).

During a pandemic crisis with high levels of uncertainty, there is greater emphasis on loans, as they are perceived to be easier to roll out. Equity instruments, on the other hand, are harder to roll out, come with higher costs and time of approval, and are also harder to price given the context of uncertainty. Hence, debt instruments are the preferred mechanism in the initial phase of Covid. At the same time, in situations where companies are already highly indebted, increased debt would imply too much leverage for companies. In conclusion, Table 11.10 compares the amount disbursed by the CDC over the first nine months of 2020 compared with the overall amount disbursed in 2019.

Table 11.10: Comparison of CDC disbursement in 2019 and 2020

	2019	Jan 2020 – Sep 2020
CDC total disbursement (US\$ billion)	1.66	0.65

Source: Authors' own elaboration using CDC data and CDC website.

From January to September 2020, the CDC provided technical assistance to companies and disbursed more than US\$650 million in the form of liquidity and investment as first response measures in light of the Covid-19 pandemic (CDC Covid-19 Briefing Report – see CDCh). The financial resources disbursed over the first nine months of 2020, equal to 40% of the overall disbursement in 2019, represent an important first step in supporting companies; nevertheless it is very likely that additional financial resources will be necessary in the near future to allow for the countercyclical role that Development Finance Institutions (DFIs) are required to fulfil.

In this sense, it becomes important for the CDC, like other bilateral DFIs, to be capitalized soon and at a significant level, to meet the challenges both of Covid and of green and inclusive development.

CONCLUSION

Since the beginning of the Covid-19 pandemic, the IADB and the CDC have been very active, disbursing financial resources and providing technical assistance for governments and companies in the short term. The increase in activities seems far more significant in the case of the IADB. There is, however, the need to expand the activities of both these financial institutions, to cope with the future social and economic challenges that the Covid-19 pandemic will bring over the next months, as well as supporting the important structural transformation to more dynamic, greener and more inclusive economies.

In order to increase their activity, there is a need to take into consideration the nature, mandate and structure of these financial institutions. The IADB, as a Multilateral Development Bank with several states as shareholders, has a wider spectrum of duties around its own shareholders' country-specific and general priorities, both in the short and long term. The CDC, as a development finance institution owned by the UK that is geared towards funding the private sector in poorer countries, has a different mandate and mission, and therefore faces different challenges. The type of instruments they use are also different, in that the IADB mainly uses loans, whilst the focus of CDC instruments is on equity.

However, both banks face major challenges in terms of fulfilling their mandates. Therefore, it seems key in both cases that their capital is significantly increased to allow them to fulfil their roles properly, and at sufficient scale.

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