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## **BANKING ON DEVELOPMENT: PRIVATE BANKS AND AID DONORS IN DEVELOPING COUNTRIES**

by

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## PREFACE

This working paper is a direct contribution to the newly created OECD Global Forum on Development that was launched in 2006.

This Forum has been created with the aim of improving dialogue between OECD and non-member governments, as well as private and civil society actors. During the Forum's first thematic cycle (2006-2009), participants are invited to identify options for a more effective development finance system. The OECD Development Centre is actively and deeply involved in this process. One of its objectives is to look beyond aid and foresee the potential synergies between different types of actors, public and private, national and international, governmental and non-governmental, involved in development finance activities.

The aim of this paper is precisely to contribute to this debate and process. It highlights how private banks and other private financial operators like private equity firms and investments funds, can play a pivotal role in economic development. All in all, they are interesting potential partners for public aid donors willing to deepen impacts on developing countries. As documented, some of the private banking firms are more active in specific regions. UK and French banks seem, for example, to be potential interesting partners for aid donors in Africa while Spanish banks or US counterparts are more relevant for Latin America and German, Swiss and Italian banks for Eastern Europe. Beyond international banks, local private banks in Brazil, India, South Africa, Morocco and other developing countries are becoming increasingly aware and sensitive to economic, social and environmental impacts.

Several policy recommendations are made in the conclusions. One of them is to create a Prize on Development Finance that could reward best practices of public and private partnerships in development finance. The OECD Global Forum on Development could host such a Prize as it intends to strengthen the dialogue between aid donors and private actors working on development issues and investing in developing countries. The objective of the OECD Development Finance Prize would be to underline already existing best practices and, through a worldwide media campaign (like the one developed by the IFC and the Financial Times), to stimulate projects between donors and private banks, asset managers and equity firms.

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## RÉSUMÉ

Au cours de ces dix dernières années, nous avons pu observer une double convergence. D'une part, l'intérêt des donateurs d'aide pour le secteur privé s'est accru, et d'autre part, les banques privées ont développé des programmes pour promouvoir la responsabilité sociale des entreprises, le crédit soutenable, et des projets dans le domaine de la microfinance. En conséquence, le dialogue entre les banques privées et les donateurs d'aide s'est intensifié, ce qui laisse entrevoir une collaboration plus étroite à l'avenir. Le but de ce papier est d'évaluer précisément le potentiel de ces synergies entre banques privées et donateurs d'aide. Dans l'objectif de réaliser un outil d'analyse pertinent et d'aider à identifier des partenaires potentiels pour les donateurs d'aide, nous avons conduit une étude des crédits accordés par les banques privées aux pays en développement afin de repérer les institutions financières privées les plus actives au sein de ces économies. Nous montrons qu'il existe une division internationale dans l'activité de prêt des banques : les banques des pays donateurs opèrent une spécialisation régionale dans les pays en développement. La réalisation d'une telle étude de l'activité créditrice des banques privées permet également d'introduire un exercice de repérage des meilleures pratiques, au niveau micro, des projets spécifiques développés conjointement par les banques privées et les donateurs d'aide. Nous dégageons les principaux cas d'étude, dans l'objectif de repérer les meilleures opportunités de coopération internationale et de mise en place de partenariats public/privé entre les banques privées et les donateurs d'aide.

**Mots clé :** Banques, Crédit, Donneurs d'aide, Finance du développement, Afrique, Amérique latine, Asie

## ABSTRACT

Over the past decade we have witnessed a double convergence. Aid donors have developed a growing interest in the private sector while private banks have set about creating corporate social responsibility programs, sustainable lending and microfinance programmes. As a consequence, the dialogue between private banks and aid donors has been intensifying, opening new avenues for collaboration. The aim of this paper is to map the potential synergies between private banks and aid donors. A survey of private bank lending towards developing countries is undertaken in order to identify the private banks most active in those economies and provide an analytical tool to help identify the scope for public and private partnerships. We find an international division of labour in bank lending: within the developing world, banks from OECD countries tend to focus their credit on specific regions and countries. This mapping of private bank lending also allows us to pinpoint concrete examples of best practices in private bank and financial actors/aid donors collaborations. We follow by discussing some of the more important cases in the field, and conclude with the potential implications for improved partnerships between private banks and donor organisations.

**JEL Classification:** F3; O1; G21.

**Key words:** Banks; Lending; Aid donors; Development Finance; Africa; Latin America; Asia.

## I. INTRODUCTION

“The life of money making is one undertaken under compulsion, and wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else”.

Aristotle, *The Nichomachean Ethics*, Book I.5, written around 350 B.C.

Over the past decade we have witnessed a double convergence. Aid donors have developed an increasing interest in the private sector while private banks have created corporate social responsibility programs, sustainable lending or microfinance programmes. This paper aims to map potential synergies between private banks and aid donors.

Over the course of the first OECD Global Forum on Development, held in early April 2007, many aid donors expressed a growing interest for a deeper dialogue with the private sector, including corporations or foundations, for example<sup>1</sup>. This interest found echo in the first flagship publication of the OECD Development Centre on development financing (OECD, 2007a), which argued on the need to go beyond aid and incorporate new actors into the financing of development. The 2005 OECD Development Assistance Committee (DAC) annual report also stressed the fundamental importance of this deepening dialogue with the private sector (OECD, 2007b).

Over the past decade, bilateral donors have developed new financial tools and institutions to improve their work with developing countries. Following the assumption that public money may be a catalyst for private resources, leading donor agencies have strived to mobilise private sector resources and capacities for poverty reduction. Most European donors, for example, have established Development Finance Institutions (DFIs) operating on a commercial basis, that have become an integral part of government development policy.

For instance, in 2005, Switzerland established the Swiss Investment Fund for Emerging Markets (SIFEM)<sup>2</sup>, as a spin-off of SECO (Swiss State Secretariat for Economic Affairs, one of the main national institutions in charge of development cooperation). In collaboration with other donor agencies such as Proparco (the French Development Finance Institution, a subsidiary of

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1. See the web page devoted to the OECD Global Forum on Development: <http://www.oecd.org/dev>

2. See for more information: <http://www.sifem.ch/>



the French Development Agency<sup>3</sup>) or the Belgian Investment Company for Developing Countries (BIO<sup>4</sup>), SIFEM now participates in many private equity projects around the developing world, working with local private financial operators like Tuninvest in Tunisia, Fidelity Capital Partners (a private venture capital and private equity company, subsidiary of Fidelity Investment) in Ghana, Ethos in South Africa, Nexxus in Mexico or BTS Investment Advisors in India<sup>5</sup>. As we will see, these initiatives are not the only ones where private and public institutions have converged to boost development projects.

These national financial institutions also developed the European Development Finance Institutions (EDFI) network, a group of fifteen bilateral institutions providing long-term capital for private sector enterprises in developing and reforming economies. The institutions in this group share common objectives but are quite different in the way they develop their operations. Some of them are still mostly financial institutions offering capital and advice to joint venture enterprises in developing countries, and collaborating on projects with national. Danish IFU, Swedish Swedfund or Spanish COFIDES<sup>6</sup>, both members of EDFI, support projects mostly in a context of Danish or Spanish companies' involvement.

Other members like CDC<sup>7</sup>, a UK government-owned fund with nearly \$3 billion of net assets, work actively with worldwide private equity partners like London based Aureos Capital, Indian based Barings Private Partners or ICICI Venture, Canadian based Cordiant or Citigroup Venture Capital<sup>8</sup>. As an example, in 2007 CDC backed a new African initiative, committing \$100 million to Citigroup's first private equity vehicle entirely dedicated to Africa. The Netherlands Development Finance Company (FMO)<sup>9</sup>, another leading and very active EDFI,

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3. See <http://www.proparco.fr/>. Interestingly, among the institutions that fund Proparco are also some French private banks like BNP Paribas, Société Générale, Natixis, Dexia Crédit Local or other private financial institutions like COFACE or Gras Savoye. African banks or other financial institutions from developing countries also participate in the capital, for example, Banque Marocaine du Commerce Extérieur, Aga Khan Fund for Economic Development (AKFED) or Banque de Tunisie. The Aga Khan Fund is particularly interesting. It is an international development agency dedicated to promoting entrepreneurship and building economically sound enterprises in the developing world. On Aga Khan Fund see <http://www.akdn.org/agency/akfed.html>
  4. <http://www.b-i-o.be/>
  5. See: <http://www.tuninvest.com/>; <http://fidelitycapitalpartners.com/>; <http://www.btsadvisors.com/>; <http://www.nexxuscapital.com/>; and <http://www.ethos.co.za/live/index.php>
  6. See <http://www.ifu.dk/><http://www.swedfund.se/>; and <http://www.cofides.es/>. Swedfund developed an interesting strategy of partnering with private sector asset managers and private equity companies like East Capital (<http://www.eastcapital.com/>) or Swedish companies like Tetra Pak or Ikea. Interestingly, as for Proparco, COFIDES also has private banks involved in its core capital, mainly BBVA, Santander and Banco Sabadell.
  7. See <http://www.cdcgroup.com/>
  8. See <http://www.aureos.com/>; <https://www.citigroupai.com/>; <http://www.bpepindia.com/>; <http://www.iciciventure.com/>; and <http://www.cordiantcap.com/>.
  9. FMO was formed in 1970 through a partnership between the Dutch government (the majority shareholder with 51 per cent) and Dutch financial institutions like ABN Amro, ING and Rabobank, In

launched with Citigroup in 2006 a \$540 million risk sharing facility aimed at providing loans to small and medium sized companies in poor countries. This was the first global partnership between an EDFI institution and a leading private retail bank. EDFIs have even participated in the creation of private equity companies, one of the most dynamic being Aureos Capital, created in 2001 by two leading EDFIs, the Norwegian Norfund (Norwegian Investment Fund for Developing Countries) and the UK's CDC Capital Partners<sup>10</sup>.

Private banks have also shown an increasing awareness of social, environmental or labour issues in developing countries. In the course of their global expansion and acquisitions, OECD-based bankers have encountered new realities, constraints and opportunities in developing countries. Through either their lending operations, retail business on the ground or investment banking and asset management activities, emerging markets and developing countries have gradually grown to become core business areas. In parallel, when faced with increased pressures and demands from NGOs, activist investors and government pressures, private banks have also developed new programmes of sustainable lending and investment, and corporate social responsibility. These private institutions have thus found themselves entering projects in which they, directly or indirectly, may find themselves working to provide public goods such as education, health, microfinance and remittances-related services to the poor.

Private banks have also become involved in infrastructure projects, and increasingly often sealing partnerships with the public sector in many countries. In Brazil, the ABN Amro subsidiary Banco Real<sup>11</sup> became a leading provider of micro-credits and grants to the poor for education related activities. Spanish banks, which are heavily involved in Latin America, have multiplied their initiatives throughout the region. Banco Santander, for example, promoted the creation of a huge educational platform *Universia*<sup>12</sup>. Both of Spain's leading banks, Santander and BBVA<sup>13</sup>, in 2000 participated together with other ministries and private corporations in the creation of the Fundación Carolina, a unique Spanish institution funded by both the public and private sectors whose aim is to provide grants for Latin American wishing to pursue studies in Spain<sup>14</sup>.

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2007, FMO has an investment portfolio of almost €2 billion and a staff of more than 200. It is one of the largest bilateral private sector oriented development banks worldwide.

10. See <http://www.norfund.no/>. Norfund also participated in the creation of another private equity company, specializing in renewable energy related investments in Asia, Africa and Latin America: SN Power. See <http://www.snpowerinvest.com/>
11. See <http://www.bancoreal.com.br/>. In 2006, Banco Real doubled its microfinance clients (350 000 worldwide) and consolidated its sustainable banking division. See its Sustainability Report: <http://www.abnamro.com/com/about/reports.jsp>
12. See <http://www.universia.es/>
13. For BBVA corporate social responsibility programs, see <http://www.bbva.com/TLBB/tlbb/jsp/ing/resreco/index.jsp>
14. See <http://www.fundacioncarolina.es/fundacioncarolina/>

## II. BANK LENDING IN DEVELOPING COUNTRIES

Bank(er)s have been very active in developing economies over the past decades, either through bank lending or through securities markets. The rising number of foreign claims (loans made and deposits placed in other countries) is a good measure of the rapid internationalisation of banking over the past decades. Nonetheless, it is not the only way in which OECD private banks have been involved in emerging countries.

Over the past decades, OECD private banks have invested in and acquired major banks in developing countries<sup>15</sup>, boosting the share of foreign bank credit in total domestic credit: South America, for example, saw a jump from less than 6 per cent to nearly 40 per cent in 2005<sup>16</sup>. US and Spanish banks have been the most active in developing countries: between 1990 and 2003, they invested respectively \$74 and \$68 billion in developing countries, far ahead of UK (\$38 billion), German (\$34 billion) or French (\$32 billion) banks (Goldberg, 2007).

Investment banks and asset managers did not stay behind in the emerging markets gold rush, investing through their regional or global emerging market funds<sup>17</sup>. International bank lending also provides a good indicator of a division of labour that aids us in identifying key potential partners and synergies for public sector aid donors. The sums involved are quite

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15. On internationalisation towards emerging markets, see Moreno and Villar, 2005; Domanski, 2005; Arena *et al*, 2006; Levy-Yeyati and Micco, 2007; Cerutti *et al*, 2007, and on banking internationalisation processes in general, see Schoenmaker and van Laecke, 2007.
  16. Obviously the differences between regions, Africa and Latin America, or even within a region are important, foreign banks being much more present in some areas or countries than others. In Latin America, foreign banks' credit as a share of total domestic credit has jumped from less than 1 per cent to more than 90 per cent in a country like Mexico, between 1990 and 2005, In Costa Rica it is still lower than 1 per cent in 2005. In Belize, Bolivia or Panama, the share has been decreasing over the same period (BIS, 2007).
  17. Not all the regions enjoyed a boom of portfolio flows, Africa remaining largely a "frontier" market with less bond and equity flows than other emerging markets areas like Asia or Latin America. Most of the Africa dedicated funds created in the 1990s by asset managers have been short lived, most of them closing at the beginning of the 2000s. By 2006 only seven of the Africa dedicated equity funds remained active. Interestingly, however, a new generation of funds started by the mid 2000s with asset managers like Investec opening a Pan-African Fund. For Global Emerging Markets Funds, investing worldwide, Africa represents 10 per cent of the total holdings, South Africa being by far the largest African holding of this category of funds. The 11 other African markets, where some investments are registered, attracted only a combined 0.03 per cent of total assets of global emerging markets funds. For a complete review of foreign institutional investors' activity in Africa see Moss, Ramachandran, Standley, 2007.

impressive: according to BIS, the total claims flowing from OECD private banks to emerging economies in 2005 reached \$230 billion, an amount twice as large as the total OECD official aid to developing countries<sup>18</sup>.

That said, bank flows to emerging markets remain much weaker than those crossing borders between OECD countries: total cross-border claims of BIS reporting banks expanded by nearly 3 000 billion in developed countries in 2005, ten times more than in developing countries. All in all, by the end of 2005, the stock of cross-border claims of BIS reporting banks was \$21 450 billion (BIS, 2006). Of this total, the bulk was directed to OECD developed economies, all of them democracies. Only \$2 396 billion, less than 11 per cent of the total, went to emerging markets economies, the bulk of which went to emerging democracies such as South Korea, Brazil, and Mexico. A country like China only concentrates a stock of \$114.6 billion of cross-border bank claims, less than 0.53 per cent of the world stock<sup>19</sup>.

Private foreign bank lending nonetheless constitutes a substantial fraction of development financing in emerging countries. As mentioned above, bank flows towards emerging countries are very low (in nominal terms) when compared with OECD countries. Despite this, bank loans are still very important for developing economies for despite actual amounts received are much lower than their OECD counterparts in nominal terms they represent a relatively high percentage of GDP. For example, in 2005, bank loans received by Brazil, Mexico and South Korea were equivalent to 20.1 per cent, 34.3 per cent, and 28 per cent of their GDP, respectively. Predictably, financial depth is lower in Latin America and Africa than in developed countries: during the 1990s credit to the private sector represented a paltry 21 per cent of GDP in sub-Saharan Africa and 28 per cent of GDP in Latin America, in comparison with the 84 per cent of GDP in developed countries (BIS, 2007).

Of particular relevance for aid donors looking to promote economic, social, environmental and political development in emerging economies, private bankers have, over the past decade, also begun, in their assessment of investment decisions, begun to take new variables into account. In 2003, for example, a leading group of top global bankers adopted the *Equator Principles*, an unprecedented initiative led by 10 of the world's largest banks to address the social and environmental impact of the projects that they finance<sup>20</sup>. Based on IFC's environmental and social standards and developed with IFC's advice, the Principles are a voluntary set of guidelines for managing environmental and social issues in project finance lending. Since then, all the big

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18. This is in fact the tip of the iceberg of international banking involvement in developing countries as, through the acquisitions processes, there has been an important shift towards more local activities, through branches and subsidiaries, with the subsequent implication that direct cross border activities are only part of the picture, with local lending by foreign banks in developing countries also being on the rise as underlined by the IMF (IMF, 2007).

19. In terms of bank assets the picture does not change as bank assets vis-à-vis OECD developed countries account for 37 per cent of world GDP and bank assets vis-à-vis emerging economies less than 3 per cent of world GDP.

20. See <http://www.equator-principles.com/>. For a critical monitoring of this initiative by a group of leading NGOs see BankTrack, *Principles, profits or just PR? Triple P investments under the Equator principles. An anniversary assessment*, BankTrack, 2004. See also <http://www.banktrack.org/>

names in project finance (46 in total by early 2007, accounting for around 85 per cent of the world's cross-border project finance and 80 per cent of the lending market by the end of 2006<sup>21</sup>) have signed up for this series of guidelines for assessing their project finance deals, based on those used by the *International Finance Corporation* (IFC), the World Bank's private financing arm (see Eiris, 2006 for an evaluation). As a result, the Equator Principles have become the project finance industry's global standard for addressing environmental and social issues.

OECD banks with such impeccably capitalist credentials as Citibank, Standard Chartered, Calyon, Dexia, Credit Suisse, Intesa Sanpaolo, Dresdner, BBVA, ABN Amro or HSBC have all been eager to prove that their operations can measure up on sustainability goals. In 2006, a new revised set of guidelines (*Equator II*) was produced and approved by private banks, again with the help of the IFC. Equator II expands requirements for labour conditions, community health, safety and security. In complement to this, the IFC and the Financial Times launched in 2006 a sustainable banking award. The following year, more than 151 institutions from 51 countries submitted entries to the 2007 FT Sustainable Banking Awards, over 50 per cent more than the 98 entries submitted to the inaugural 2006 Awards, a testimony to the programme's success and banks' increasing awareness of the issues promoted by the initiative.

Dialogue between private banks and aid donors has also been intensifying on a number of levels, opening new avenues for collaboration. The UK official aid agency, Department for International Development (DFID), jointly with the Dutch development finance arm FMO, DEG, a subsidiary of Germany's KfW<sup>22</sup>, and the Development Bank of Southern Africa have created a public private equity African Infrastructure Fund with UK based private banks, Barclays and Standard Chartered, and the investment firm Emerging Markets Partnership<sup>23</sup>. The Government of Canada also established a Canada Investment Fund for Africa (CIFA)<sup>24</sup>, a \$220 million fund dedicated to making private equity investments in businesses throughout Africa. Investors in CIFA include the Canadian International Development Agency (through the Canada Fund for Africa program) and CDC Group plc. The fund is managed through a joint venture between two leading private equity fund managers, London based Aureos Capital and Montreal based Cordiant<sup>25</sup>.

In both sending and recipient countries, banks such as BBVA, the leading Spanish bank in Latin America, have targeted specific projects and programmes dedicated to migrants and remittance recipients. The extent of services provided go well beyond financing: in early 2007, BBVA launched a foundation dedicated to microfinance with an initial endowment of €200 million, making it one of the major initiatives in this field in Latin America. The bank became the first private international banking group to embrace micro-finance with direct investment via a non profit-making foundation. BBVA Microfinance Foundation initiated its first

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21. See [http://www.equator-principles.com/documents/ClientBriefingforEquatorPrinciples\\_2007-02-07.pdf](http://www.equator-principles.com/documents/ClientBriefingforEquatorPrinciples_2007-02-07.pdf)

22. See [http://www.kfw.de/EN\\_Home/index.jsp](http://www.kfw.de/EN_Home/index.jsp); and [http://www.deginvest.de/EN\\_Home/index.jsp](http://www.deginvest.de/EN_Home/index.jsp). DEG is one the largest European development finance institutions (EDFI) with €1.1 billion of equity capital.

23. See [http://www.emergingafricafund.com/stake\\_fr.htm](http://www.emergingafricafund.com/stake_fr.htm). See also <http://www.empglobal.com/>

24. See <http://www.cifafund.ca/>

25. See <http://www.cordiantcap.com/> and <http://www.act.is/>

operations with four local organisations (Caja Nor Perú, Caja Sur, also in Peru, and Corporación Mundial de la Mujer in Bogotá and Medellín) and is part of the Group's investments in its social action program to the height of €55 million in 2006<sup>26</sup>.

The potential synergies between private banks and aid donors are therefore considerable. In order to provide an analytical tool and to help identify potential partners for aid donors, we conducted a survey of private bank lending towards developing countries, to identify the most active private bankers in those economies. More precisely we find an international division of bank lending: UK banks are, for example, much more active in Africa than any others, along with some French based banks, while Spanish banks remain attached to Latin America, a region where US banks are also heavily involved. In Asia, the leading private lenders are UK based banks, followed by US banks. In Eastern Europe, Austrian and German banks dominate lending activities, although, after recent mergers and acquisitions operations, Italian and Belgian banks are also becoming increasingly heavy players in this region. Other private lenders like Dutch, Swedish or Swiss banks have a more global and balanced portfolio.

For aid donors willing to develop financing programs with private bank actors, Spanish banks would be the natural partners in Latin America, while French or UK banks would be more suited for African related projects, as US and UK banks might be in Asia. In Eastern Europe, the natural partners would be German and Austrian private banks, along with perhaps Italian and Belgian banks.

The mapping of private bank lending also helps introduce a more micro-exercise, relating to the specific projects already developed by private bankers and aid donors. We identify outstanding case studies and best practices, with the objective of underlining the available avenues for international cooperation activities in terms of public/private partnerships between private banks and aid donors.

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26. See presentations by Francisco González, President of BBVA, and Manuel Méndez, President of BBVA Microfinance Foundation, *Fundación BBVA par alas microfinanzas*, Madrid, February 2007. According to the IADB more than 4.5 million of borrowing households in Latin America were connected in 2005 with a microenterprise and microfinance (Navajas and Tejerino, 2006).

### III. PRIVATE BANK LENDING FLOWS TO EMERGING MARKETS: STYLISED FACTS

The current trend of increasing financial integration and the opening up of emerging countries to capital flows has brought about a sharp increase in foreign bank claims over the past decade. This brought private international loans to reach the equivalent to 48.3 per cent of global GDP in 2005<sup>27</sup>, more than the total of international trade flows combined with global foreign direct investment and tourist receipts (from 32 per cent in 1999 – a jump of more than 16 percentage points in only half a decade). In real terms, foreign claims in all non-BIS reporting countries<sup>28</sup> rose by more than 120 per cent, while claims in developing countries jumped by more than 100 per cent.

Among emerging countries, Latin America and Eastern Europe experienced the biggest increase, rising by more than 110 per cent and 165 per cent respectively. It is interesting to note that both of these regions are where democratisation and the consolidation of democracy have been the most intensive<sup>29</sup>.

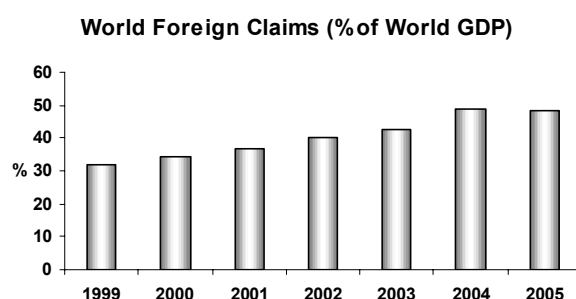
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27. The Bank for International Settlements, which monitors the foreign claims held by banks mostly from OECD countries vis-à-vis the rest of the world, defines these claims as those authorised by international banks on residents outside the country in which they are headquartered. Foreign claims may range from assets such as loans, debt securities to equities, including equity stakes in local subsidiaries.

28. There are a total of 40 BIS reporting countries in 2007, i.e. financial centers providing locational banking data. Not all OECD countries provide this data (this is the case, for example, of Iceland or Poland). Some non-OECD and developing countries like Chile or Brazil do provide this data to the BIS. The major non-BIS reporting emerging countries are Argentina, China, Russia, and South Africa. There is no BIS reporting country from Africa.

29. For an analysis of the relations between democracy and private bank lending, see Rodríguez and Santiso, 2007.

Graph 1. Global Foreign Claims (% of Global GDP)



Source: based on BIS and IMF

This increase in foreign claim flows is due to a number of factors. Financing has the advantage of being less restricted than trade, tourism, direct and portfolio investments and remittances. For trade and tourism flows, distance is the determining factor: the greater the distance between countries, the greater the transaction cost. The situation is similar for remittances, which reflect in general migration patterns, which are more based on proximity or historical or cultural ties

In contrast, foreign claims are not limited either by distance or other limiting factors, and therefore have few constraints with regards the destination of funds. The greater dynamism of foreign claim flows should also be emphasised in that loans can be granted or received immediately, since little information is needed to carry out a transaction and the time required for closing such deals is minimal. The reduced time involved favours foreign claim flows, compared with trade or direct investments, which require longer periods for closure. Foreign claims are also more liquid than other fund flows.

In order to define the mapping of private bank lending flows to developing countries, we draw on the BIS's "Consolidated Foreign Claims of Reporting Banks on Individual Countries" statistical series for the period from the fourth quarter of 1983 to the first quarter of 2006. The BIS collates data on the international loans of private banks and deposit organisations worldwide, and separates data on domestic loans from foreign loans. Domestic loans are those advanced to third persons resident in the country where the bank is based. The BIS does not provide any information on these operations.

Foreign loans are provided to third persons resident in a different country from the one where the bank is based. These foreign claims can also be divided into: *i*) cross-border positions – for example, credits granted by the head office of a Spanish bank to a Mexican organisation – and *ii*) local positions, managed, for example, by a Mexican branch of a Spanish bank. At the same time, credits granted by local branches may be divided into those denominated in foreign currencies and those denominated in local currency. The concept of Foreign Claims, as developed by the BIS, includes all loans granted by one country to another, independent of the currency in which they were made and also of where they were granted (either by the head office or one of its branches). The BIS periodically publishes this data in their *Consolidated Banking*



*Statistics* as well as what it defines as *International Claims*, where it only includes foreign currency positions, independent of where they were granted<sup>30</sup>.

The 27 countries that report the international operations of their banks and deposit institutions to the BIS are: Austria; Belgium; Brazil; Canada; Chile; Chinese Taipei; Denmark; Finland; France; Germany; Hong Kong, China; India; Ireland; Italy; Japan; Luxembourg; Norway; Panama; the Netherlands; Singapore; Spain; Sweden; Switzerland; Turkey, the UK and the US. The respective banking authorities of these countries compile the information and send it on a quarterly basis to the BIS<sup>31</sup>.

A detailed analysis of the data shows that international financing is dominated by a limited number of countries. The 27 countries that report to the BIS issue overseas credits totalling \$23.5 trillion (2006). This is equivalent to approximately 95 per cent of total private international loans according to the BIS. There are, however, other countries not included in the list of those that report to the BIS which are net issuers of international loans, such as some oil exporting countries (Russia, Saudi Arabia). The figures also show that the recipients of international loans are strongly concentrated.

As well as being the main issuers of international loans, the more developed countries are also the main recipients. That is to say, loans are made mainly between developed countries. In 2006, Australia, Austria, Belgium, Canada, France, Germany, Ireland, Italy, Japan, the Netherlands, Spain, Sweden, Switzerland, the UK and the US accounted for 81.5 per cent of the total loans issued by the countries that report to the BIS, and in turn received 75 per cent of the total.

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30. It is possible to argue that when using for this paper the concept of Foreign Claims instead of International Claims, we measure the degree of internationalisation of a particular bank in any country, as well as the extent of its overseas lending. However, it is impossible to do it in any other way. Most of the countries that report to the BIS do not segment their International Claims by country, as is the case with Germany or Switzerland. Since these two countries are respectively the leading and third most important sources of international financing, any analysis of international flows that is carried out without including this data would fail to give a true picture of the situation. It should be pointed out that the BIS statistics do not entirely reflect the liabilities incurred among different entities in different countries. For example, if a Spanish bank issues debt abroad, it is entered in the statistics. But issues carried out in Spain are not reflected in the statistics even though they were mainly taken up, for example, by French banks. It is important not to forget that these statistics reflect the activity of private entities, which by their nature are more sophisticated and complex than those of the State. For example, if a Spanish organisation finances a French company, one could assume that one was dealing with a credit flow from Spain to France. But if that credit is backed by guarantees issued by a third-party resident in Brazil, what would appear to be exposure to French risk could be transformed under certain conditions into Brazilian risk. For each one of these categories, the BIS compiles separate series of statistics; such as its "*Signed International Syndicated Credit Facilities*", "*International Debt Securities*" and its "*Amounts Outstanding of Over-The-Counter (OTC) Derivatives*".

31. For more information, see [www.bis.org](http://www.bis.org)

During the 2000s, European banks have been the main financing organisations worldwide. In 2006, Germany, the UK, Switzerland, France and the Netherlands accounted for 50.6 per cent of loans globally, with Germany the leading lender with 13.4 per cent of total loans granted globally. On the other hand, the country that receives most private loans is the US, with 22.5 per cent of the total. The US is the main recipient of international funds, sourced mainly from Europe. The five European countries mentioned above receive 32.9 per cent of total loans. They therefore grant more loans than they receive, while the US grants only 5.23 per cent and receives 22.5 per cent of the total. Since banks only grant loans when they believe the principal and interest charges are recoverable, logic dictates that developed countries be the main recipients of credit because of their better risk-return profile and repayment capacity.

France is a case of particular interest that deserves some specific attention. It is the major source of finance for countries to which the US does not lend, for political or other reasons. In 2006, France was the principal lender to 37 countries, 20 of which receive no finance from the US (out of the 67 countries to which the US does not provide loans). This means that 30 per cent of the countries that receive no funding from the US rely on France as their main source of financing (down from 40 per cent in 2004). Of the 47 remaining countries to which the US does not grant loans, Germany is the main source of funding for 10 of them. In 2006, France and Germany together therefore provided finance to approximately 45 per cent of these countries (65 per cent in 2004).

France and Germany are also an important source of financing for countries that are, or have been, on non-friendly terms with the US. In 2006, Germany, for example, was the main lender to Syria and Libya, and France to Afghanistan, Cuba, Iran, Iraq, North Korea, Somalia and Vietnam.

Tables 1 and 2: France & Germany's Foreign Claims to countries that are non-recipients of US finance in 2004 and 2006

<b>Foreign Claims: France</b>			<b>Foreign Claims: Germany</b>		
<i>(% of total received by emerging countries)</i>			<i>(% of total received by emerging countries)</i>		
	2004	2006		2004	2006
Afghanistan	..	29,4	Afghanistan	14,3	..
Angola	..	25,4	Bhutan	88,2	..
Benin	54,5	..	Guernsey	27,9	..
Burkina Faso	91,0	88,1	Jersey	18,6	..
Burundi	89,1	68,2	Libya	34,3	22,6
Cambodia	33,3	33,3	Liechtenstein	32,5	23,0
Comoros Islands	90,0	100	Marshall Islands	52,7	41,3
Congo	87,3	89,3	Mongolia	37,5	50,0
Cuba	28,0	22,0	Myanmar	95,1	95,9
Djibouti	94,3	72,7	Niger	44,2	..
French Polynesia	97,0	..	North Korea	91,6	..
Guinea-Bissau	..	50,0	Swaziland	66,7	..
Guinea	92,7	76,1	Syria	..	26,7
Laos	34,8	..	Tajikistan	96,6	92,5
Lesotho	41,9	42,9	Turkmenistan	81,3	78,9
Madagascar	83,1	95,0			
Mali	75,5	..			
Mauritania	54,5	49,8			
Mozambique	46,3	..			
New Caledonia	99,1	..			
North Korea	..	47,7			
Rwanda	52,7	56,8			
Sao Tome	100	61,5			
Somalia	100	58,8			
St.Vincent	34,7	..			
Togo	66,5	58,1			
Wallis et Futuna	100	100			

Source : Authors based on BIS data

Source: Authors based on BIS data

Table 3: France: Foreign Claims to countries on non-friendly terms with the US in 2004 and 2006 (% of the total received by emerging countries)

<b>Foreign Claims: France</b>		
<i>(% of total received by emerging countries)</i>		
	2004	2006
Afghanistan	29,4	..
Cambodia	33,3	..
Cuba	22,0	28,0
Iran	24,4	23,4
Iraq	13,3	17,2
North Korea	47,7	..
Somalia	58,8	100
Vietnam	15,4	25,8

Source: Authors based on BIS data

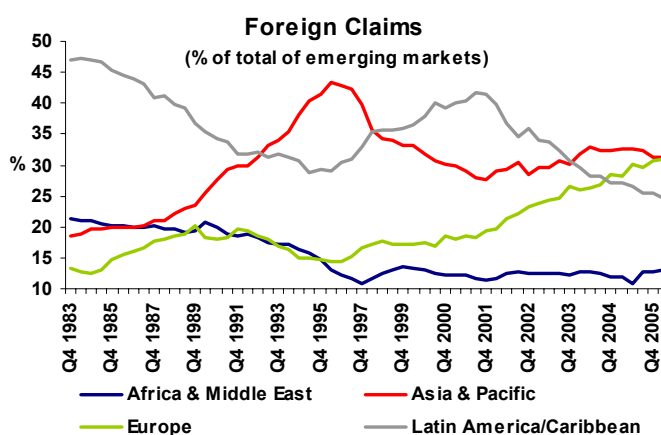
## **IV. A WORLD MAP OF INTERNATIONAL PRIVATE BANK LENDING DIVISION OF LABOUR**

Several conclusions may be drawn from a detailed study of the destination of bank loans to emerging countries. By region, Latin America and the Caribbean were the main recipients of private bank flows in the mid-1980s, a phenomenon that has since subsided somewhat. At the end of 1984, Latin America and the Caribbean were receiving 47 per cent of the flows to emerging countries, while Africa received about 21 per cent, Asia 20 per cent and Europe 12 per cent (See Table 1 of Appendix 1).

Of all regions Africa has lost out most over the period, as the growth in loans it has received has been below the rate of growth in loans to emerging markets as a whole. As a result, the percentage of flows to emerging markets received by Africa has fallen over time. There is a certain noticeable asymmetry over time between Asia and Latin America regarding the receipt of foreign loans. During periods when Latin America's share of financing has fallen, Asia's share has grown, and when Latin America has begun to recover, it has been Asia that has lost out. Emerging European countries have seen a steady increase in bank inflows, especially from 1996 onwards.

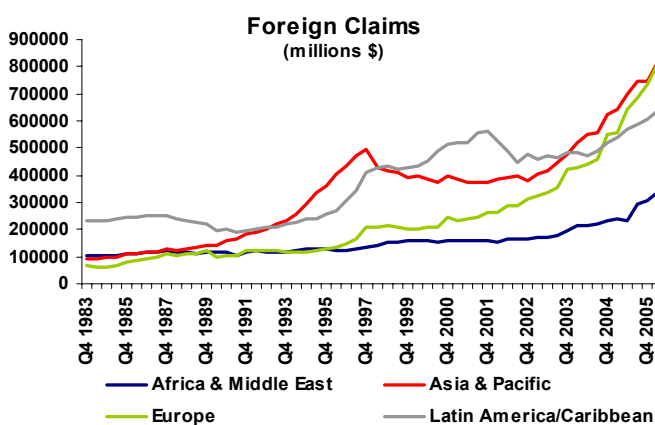
Up until the fourth quarter of 2003, Latin America was the biggest recipient of bank flows towards emerging economies. Since the beginning of 2004, Asia is the region receiving the biggest share of funding to emerging economies (31.4 per cent of the total in Q1 2006). In 2006, Emerging Europe was the second biggest destination for loans to emerging countries with 31.1 per cent of the total, followed by Latin America with 24.5 per cent, and Africa bringing up the rear with only 13 per cent.

Graph 2: Foreign Claims on Emerging Countries (% of total emerging markets)



Source: Authors, 2007; based on BIS data, 2006.

Graph 3: Foreign Claims on Emerging Countries (\$ million)



Source: Authors, 2007; based on BIS data, 2006.

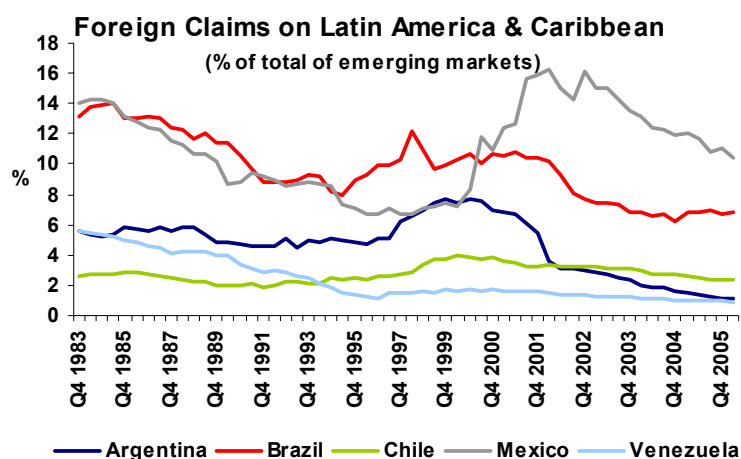
As seen above, Latin America has received the most bank inflows over the past 20 years<sup>32</sup>. This is due mainly to Mexico and Brazil, the two countries in the region that have received the biggest share of total loans to emerging markets. In addition, these countries are the individual emerging economies that have received the most finance over the past two decades, with flows exceeding those directed at Asian emerging economies, although Asia and Emerging Europe as regions have obtained more financing than Latin America. This is due to the greater

32. See for a detailed analysis of the determinants and impacts of this boom of foreign bank claims Martínez-Pería, Powell and Vladkova-Hollar, 2005. For a very stimulating critic of the pending challenges related to financial services in Latin America, see Rojas-Suarez, 2007.

concentration of banking flows to a select number of countries in Latin America, compared with the wider number of countries in Asia that have received external funding. Mexico and Brazil received similar amounts of financing until the second half of the 1990s when Brazil grew in importance as a destination for loans, while Mexico decreased. But from 2000 onwards, Mexico became the emerging country that received most loans, with 10.5 per cent of the total in 2005 (a percentage of total loans similar to that received by Africa and the Middle East in the same year). On the other hand, Brazil's importance for banking investment fell considerably after 2002, with its share of total emerging bank flows falling from 10.5 per cent at the end of 2001 to a mere 6.9 per cent in 2006.

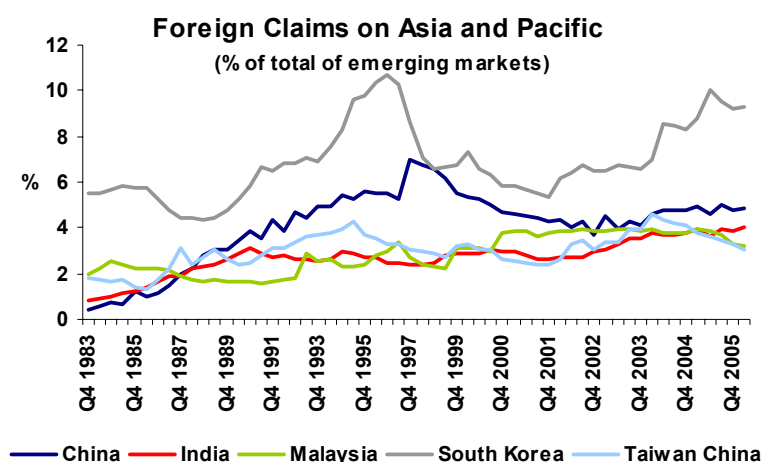
Other Latin American countries such as Argentina and Venezuela have experienced a considerable drop in the amount of financing received from foreign banks. The main winners in the wake of the loss of share of the Latin American countries since 2001 (including Mexico) have been emerging Asian economies and the Eastern European countries. One may highlight the increased importance over the past five years of Chinese Taipei, China, South Korea, India, the Czech Republic, Hungary and Poland (See Table 1 of Appendix 1 and Graphs 4, 5 and 6).

**Graph 4: Foreign Claims on Latin America & Caribbean (% of total of emerging countries)**



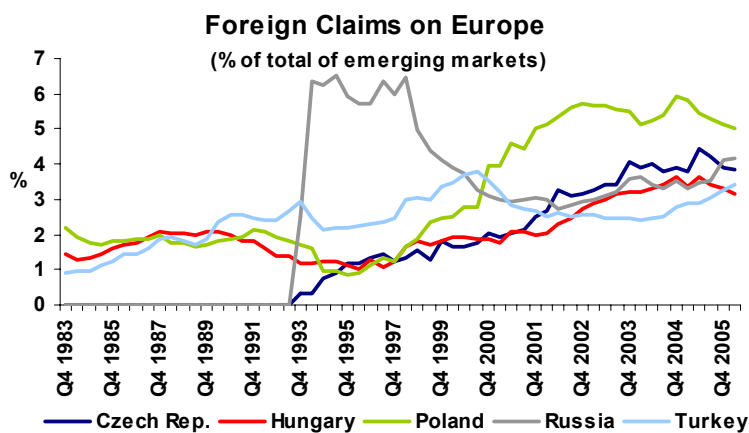
Source: Authors, 2007; based on BIS data, 2006.

Graph 5: Foreign Claims on Asia & Pacific (% of total of emerging countries)



Source: Authors, 2007; based on BIS data, 2006.

Graph 6: Foreign Claims on Emerging Europe (% of total of emerging countries)



Source: Authors, 2007; based on BIS data, 2006.

It is also important to observe emerging bank flows from the point of view of the issuing country. As noted above, Germany is the leading financing country globally, followed by other European economies and Japan, while the US is the biggest worldwide recipient of finance. When we observe private bank flows towards emerging countries, we can see that the leading financing country is the UK, followed by the US, Germany, Spain, France and the Netherlands. When we compare the relative importance of private bank financing at international level and private bank financing towards emerging countries, two countries stand out: the US and Spain. Both countries are characterised by the fact that they receive loans at an international level (mainly from Europe) and simultaneously are major source countries for emerging economies.

The US is the second major financier of emerging countries, being the second biggest in Asia and Latin America and the fourth largest in Africa. Spain is the fourth biggest lender to emerging economies, and is the leading one in Latin America, where it is even bigger than the US. However, there are a number of differences between the two. While the US is a big financier of emerging economies, it does not assign a high proportion of its total lending to these economies. Spain, however, is a major financing country for emerging markets and assigns more loans to these economies in relative terms. In addition, Spanish bank loans to emerging countries are heavily concentrated in Latin America (95.6 per cent of the total of Spanish bank loans to emerging markets) (for a comparison between US and Spanish international foreign claims and their determinants see García-Herrero and Martínez-Pería, 2007).

**Table 4: Main countries of origin of Foreign Claims on Emerging Countries in 2004 and 2006**

<b>Foreign claims by country of origin</b>			
(share of total foreign claims by destination)			
<b>2004</b>		<b>2006</b>	
<b>World</b>	<b>% of total*</b>		<b>% of total*</b>
Germany	16.4	Germany	13.4
U.K.	10.8	U.K.	11.7
Switzerland	10.3	Switzerland	9.1
France	9.0	France	8.5
Netherlands	7.9	Netherlands	7.9
Japan	7.4	Japan	7.0
<b>Emerging Countries</b>			
U.S.A.	15.6	U.K.	14.9
Germany	14.4	U.S.A.	13.7
U.K.	10.5	Germany	9.9
Spain	10.0	Spain	9.1
France	9.1	France	7.3
Netherlands	6.4	Netherlands	6.0
<b>Asia &amp; Pacific</b>			
U.K.	22.7	U.S.A.	21.3
U.S.A.	18.6	U.K.	15.7
Japan	9.7	Japan	10.4
Germany	7.7	Germany	10.2
Switzerland	7.0	France	8.4
France	6.3	Netherlands	7.7
<b>Emerging Europe</b>			
Austria	28.2	Germany	28.2
Germany	15.8	Italy	11.5
Italy	8.4	Belgium	9.9
Belgium	7.8	France	8.7
France	7.4	Netherlands	6.3
Switzerland	5.9	Austria	6.3
<b>Latin America &amp; Caribbean</b>			
Spain	35.5	Spain	34.3
U.S.A.	22.6	U.S.A.	22.3
U.K.	9.0	U.K.	8.0
Netherlands	8.3	Germany	6.4
Canada	5.1	Netherlands	6.4
Germany	4.3	Canada	5.5
<b>Africa &amp; Middle East</b>			
France	23.7	U.K.	34.9
U.K.	17.3	France	17.6
Germany	14.9	Germany	11.5
U.S.A.	7.2	U.S.A.	7.3
Switzerland	5.3	Switzerland	3.7
Japan	3.8	Japan	3.3

\* of total investment

Source: Authors, 2007; based on BIS data, 2006



The main financiers of the US are the banks of politically neutral Switzerland, granting 22.3 per cent of the total bank funds received. This amount (\$857 billion), which is higher than Spain's GDP, accounts for 48.8 per cent of Switzerland's total foreign claims. The US in turn is the second financier of Asia, although by country it focuses its financing on those that are closest to it. It is the main lender to almost all of Central America (Ecuador, El Salvador, Guatemala and Honduras), in addition to several islands in the Caribbean (Haiti, Jamaica) and to neighbouring Canada. Normally, it is the second or third biggest lender to the rest of the countries bordering or geographically close to it (Mexico, Nicaragua, Trinidad and Tobago). US banks are the main financiers of only one South American country: Uruguay. (See Table 2 of Appendix 1).

The US directs 40.5 per cent of its total private bank emerging market loans towards Latin American countries. This level is below the 42.4 per cent that it assigns to Asia, but it is above the average of 28.9 per cent that it disburses to all the countries of the world. Its emerging market loans are focused on Mexico, which receives 22.7 per cent of the total (See Table 3 of Appendix 1). In terms of foreign claims, for example, US banks are also particularly active in Mexico with the ratio of US claims to total foreign claims reaching 97 per cent in 2003. Cross-border claims by US banks have also been replaced over the past years by claims from US banks, branches and subsidiaries located in Latin American countries themselves (Goldberg, 2006).

Spain is the major financing country of ten of the thirty Latin American countries that appear in BIS statistics. The most important recipients are Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru and Venezuela. In addition, it is the second biggest lender to Cuba and Uruguay. Together, the US and Spain are the leading private bankers of 17 of the 30 countries in Latin America.

With regards to the remaining thirteen countries in Latin America, Panama's importance as the main financier of Costa Rica and Nicaragua merits mention. France is the main lender to Cuba and Switzerland is the main banker of Belize and St. Vincent, whilst Germany is the main banker of Trinidad and Tobago and the Netherlands is the main lender to Suriname. The UK and Italy are not the main financing countries of any country in Latin America despite being among the leading financiers of the region.

Spain, as has already been indicated, directs 95.6 per cent of its loans towards Latin American emerging markets, as underlined by Table 5. It is the highest concentration of bank flows in Latin America after Mexico and Panama, with 98.5 per cent and 99.8 per cent, respectively. Spanish loans are heavily biased towards Mexico where it grants 48.25 per cent of its total loans.

Table 5: Main countries of origin of Foreign Claims on Emerging Countries in 2004 and 2006

<b>Destinations for Foreign Claims</b>			
(share of country of origin total)			
<b>2004</b>		<b>2006</b>	
<b>EM Countries*</b>	<b>% of total</b>		<b>% of total</b>
Greece	51.2	Panama	43.3
Austria	46.4	Spain	39.1
Panama	46.3	Chile	36.6
Chile	30.8	Austria	32.9
U.S.A.	28.9	Greece	31.1
World average	11.0	World average	9.8
<b>Latin America &amp; Caribbean*</b>			
Panama	46.3	Panama	43.3
Spain	25.6	Spain	37.9
Chile	23.9	Chile	34.9
U.S.A.	11.7	U.S.A.	10.9
Canada	6.2	Canada	7.1
World average	2.7	World average	2.8
<b>Asia &amp; Pacific**</b>			
Australia	86.2	Australia	81.1
Taiwan	70.1	Japan	71.6
Japan	69.3	Taiwan	70.2
Switzerland	51.4	U.K.	48.9
U.K.	47.6	U.S.A.	44.9
World average	31.4	World average	32.8
<b>Emerging Europe**</b>			
Austria	92.7	Sweden	87.3
Greece	89.6	Greece	83.7
Sweden	88.2	Ireland	80.1
Italy	88.0	Austria	79.1
Finland	87.4	Belgium	78.2
World average	31.1	World average	26.3
<b>Latin America &amp; Caribbean**</b>			
Panama	99.8	Mexico	100.0
Mexico	98.5	Panama	99.9
Spain	95.6	Spain	96.8
Brazil	83.6	Chile	95.4
Chile	77.5	Brazil	90.8
World average	24.5	World average	28.2
<b>Africa &amp; Middle East**</b>			
Norway	39.2	Portugal	51.9
France	31.3	Norway	39.2
U.K.	30.4	France	33.1
Portugal	22.7	Taiwan	22.6
Germany	15.2	U.K.	20.9
World average	13.0	World average	12.7

\* % of country of origin total

\*\* % of country of origin total to emerging markets

Source: Authors, 2007; based on BIS data, 2006

A common feature of all financing economies is that an important part of their financing goes to economies that are geographically close, share the same language or are former colonies. Spain lends mainly to Latin America (ex-colonies and the same language), and to Portugal and Andorra (proximity). The US concentrates on nearby and bordering countries in Central America, the Caribbean and Canada. The UK is the main lender to Ireland (proximity), Kenya, Zimbabwe and India (ex-colonies), and Australia (language) among others. It is the main lender to Africa and Asia, and the third to Latin America. In addition, it is almost the leading financier of the member countries of the Commonwealth, being the main lender of 50 per cent of the nations that make up the bloc.

Like Spain and the UK, the countries where France occupies the leading position reflect its current international ties, derived to a large extent from its past history. In a similar fashion to the Commonwealth, the *Francophonie* groups together its ex-colonies (and a few other countries). It is significant that of the 41 countries where France is the leading lender no fewer than 28 are members of this organisation (2004). France is the second biggest lender to Africa and the Middle East, where it accounts for 17.6 per cent of the international financing received by these regions.

Similarly, Austria and Japan are the top lenders to many of the countries that are geographically close to them. Austria is the leader in the European emerging countries (Eastern Europe) and the UK in Africa and the Middle East and Asia and Pacific countries. Japan is the lead lender of several countries in South and East Asia. Italian banks, because of the recent takeovers of German and Austrian entities, are also becoming major players in European emerging economies. An interesting exception is Germany, which is a major lender to Eastern European countries but also ranks relatively high in terms of lending activity in Asia, Africa and Latin America (on foreign direct investment activities by German banks, see Buch and Lipponer, 2007).

## V. SUSTAINABLE BANKING IN DEVELOPING COUNTRIES

As banks have been increasing their exposure to developing countries, both through lending activities and foreign direct acquisitions, so have issues of sustainable development increasingly come to the fore. For international development banks, this concern has been at the core of their activities for many years. It is, however, only more recently that private, both commercial and investment, banks around the world are taking on board sustainable development issues, particularly in their lending practices.

This in turn has led to a much greater awareness of social and environmental issues among the companies asking for project finance. Broadly speaking, this has meant more concern for protecting environmental goods such as water, air and soil, human rights and social issues. Reputation considerations, amid mounting evidence that seeking sustainable lending makes sound commercial sense, have been driving this increasing interest (for corporations operating in developing countries, see Colonos and Santiso, 2005). The activism of NGOs and also important international actors such as the IFC, the subsidiary and private sector lending arm of the World Bank, has played a leading role in increasing the profile of these issues. Activist investors have also pressured banks to move away from reputational risks<sup>33</sup>. The growth of socially responsible investment funds has also added pressure on banks to account for aspects beyond standard financial variables. Bank Sarasin, a private Swiss bank, for example, set up a sustainable division in the early 1990s that now manages €2 billion in funds dedicated to sustainable investments, targeting banks amongst other corporations. Dexia Asset Management, the fund manager arm of Dexia Group, also became increasingly active in the emerging segment of socially responsible funds.

Yes Bank, which is 20 per cent owned by Rabobank of the Netherlands, actively evaluates the social and environmental risks when considering lending operations. While it is a rare exception in the Asian banking landscape, Yes Bank also points to a trend of sustainable banking in developing countries. Following the trends of their Western peers, Asian banks are increasingly making public statements underlining the sustainable development aspect of their lending practices. Like their Japanese counterparts, such as Mizuho Corporate Bank, financial institutions like South Korea's Kookmin Bank, Woori Bank and Export Import Bank are joining initiatives like the United Nations Environmental Program Financial Initiative.

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33. See for example, the study *Developer by Foreign & Colonial Asset Management*, one of the major fund managers in emerging markets, F&C Asset Management, *Banking on human rights: confronting human rights in the financial sector*, London, F&C Asset Management, 2004.

In India, private sector players are also actively involved in socially responsible investments. Recently Dutch ABN Amro's Indian asset management arm opened its Sustainable Development Fund, a three-year closed-end scheme. The fund will invest in companies that rank high on a number of attributes, such as environment compliance and compliance to corporate governance rules etc., indicating a high level of social responsibility. Ratings major, CRISIL, will establish the ranking based on a set of parameters and review the list annually. Thereafter, ABN Amro's fund team will carry out financial analysis of the companies that make the cut for final investment decision. Globally those types of funds categorised as socially responsible investment (SRI) held over \$2.3 trillion in assets in 2006 in the US alone, according to the Social Investment Forum<sup>34</sup>, which represented an increase of 260 per cent since 1995, and nearly €1 trillion in 2006 in Europe, according to Eurosif<sup>35</sup> (for more analysis on SRI developments see Santiso, 2005). ABN Amro manages about \$2 billion in about 24 SRI funds. The interest for socially responsible investments within and towards emerging markets is increasing as suggested by the boom of studies dedicated to this asset class of investments (see, for example, Eiris, 2006).

Asset management arms, either of banks or specialised institutions, through their increasing interest for socially responsible investments, are other potential partners for aid donors and/or NGOs willing to boost their impacts in developing countries and on development issues. The same applies for pension funds, particularly the public funds and those managing the assets of employees working in administrations. In California, Calpers<sup>36</sup>, an active \$230 billion fund manager providing retirement and health benefits for 1.5 million public sector employees, deployed over the past decades a remarkable socially responsible strategy, applied not only to investments made in developed countries but also in developing countries since the years 2000s.

In Europe another public pension fund active in socially responsibility is the Dutch ABP Investments, a firm with more than €200 billion of assets under management<sup>37</sup>. Other important European public pension funds at the forefront of these issues are AP2 from Sweden or Metallrente from Germany. In France the *Fonds de Réserve des Retraites* also adopted in 2005 socially responsible investment strategies for part of its €31 billion of assets under management, following Calpers' pioneering strategy<sup>38</sup>. Early in 2007, the Spanish public pension system also operated a move in the same direction, although limiting its socially responsible investment screening to developed countries only.

Another promising area is private banking, with certain wealthy individuals now pressuring their private bankers not only to provide ethical investment products but also advice for investments with "social performance" (on private banking see UNEP Finance Initiative, 2007). Topics at the core of the development agenda, whether poverty reduction, water or climate change, has also moved up the agenda of private bankers, investors or insurers (see for example

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34. See [http://www.socialinvest.org/areas/research/trends/sri\\_trends\\_report\\_2005.pdf](http://www.socialinvest.org/areas/research/trends/sri_trends_report_2005.pdf). It represents nearly 9 per cent of the total of assets under management in the US investment funds industry.

35. See [http://www.socialinvest.org/areas/research/trends/sri\\_trends\\_report\\_2005.pdf](http://www.socialinvest.org/areas/research/trends/sri_trends_report_2005.pdf)

36. See <http://www.calpers.ca.gov/>

37. See [http://www.abp.nl/abp/abp/vermogensbeheer\\_en/](http://www.abp.nl/abp/abp/vermogensbeheer_en/)

38. See <http://www.fondsdereserve.fr/>

Allianz's report on climate change, Allianz and WWF, 2005; Royal Bank of Scotland, 2007; Citibank, 2007; Lehman Brothers, 2007), along with the increasing awareness of their clients or NGOs closed monitoring (see for example the case of French banks and their climate change policies, Les Amis de la Terre, 2007; Ethical Corporation, 2006).

Private equity and specialised investment companies operating in developing countries also hold potential as partners for development. We have seen that some European Development Finance Institutions (EDFI), such as UK based CDC or Dutch based FMO, have already developed effective partnerships while others are planning to team up with other public or private institutions. Recently former Secretary of State, Madeleine Albright, created an emerging markets fund. In 2007, Albright Capital Management and PGGM have come together to create a long-term, multi asset class emerging markets fund<sup>39</sup>. PGGM is a Dutch pension fund that serves the healthcare and social work sectors, and will serve as Albright Capital's strategic investor with \$329 million.

This initiative follows those of other recent US officials, like Nicholas Brady, the former US Treasury Secretary who helped to address the debt crisis of the 1980s by creating the Brady Bonds markets for emerging countries in the 1990s. In 1994, after his public career and position as Chairman of the investment bank Dillon Read & Co, he established a private equity, fixed income and mezzanine finance investment company, Darby Overseas, specialising in developing country projects. Nearly ten years later, in October 2003, the company was acquired by Franklin Templeton Investments, one of the largest global investment management organisations. The company manages nearly \$1 billion through different investment vehicles and partnerships<sup>40</sup>. One year later, another US political senior official, Al Gore, also helped to create an investment company (Generation Investment Management) dedicated to long-term sustainable investments, with former employees of Goldman Sachs Asset Management and Sustainable Asset Management.

In developing countries, former senior officials have also been playing an active role in setting up private equity firms and investment companies. In Brazil, for example, Arminio Fraga, a former Central Bank Governor, created one of the most successful investment firms, *Gavea Investimentos*<sup>41</sup>, following the example of Gustavo Franco, also a former Central Bank Governor who created Rio Bravo<sup>42</sup>, another investment firm. Some of the private equity firms have already reached a critical size in terms of asset under management like, for example, *GP Investments*<sup>43</sup>. Also interesting, Brazilian pension funds, like Previ and Petros among others, have been active in the socially responsible investment area, and are supporters of poverty reduction programs like the one led by Lula's government *Fome Zero*<sup>44</sup>. This is also the case of Brazilian private banks like

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39. See <http://www.albrightcapital.com/>

40. See <http://www.darbyoverseas.com/>

41. See <http://www.gaveainvest.com.br/>

42. See <http://www.riobravo.com.br/ingles/index.asp>

43. See [http://www.gp.com.br/gp/index\\_pt.htm](http://www.gp.com.br/gp/index_pt.htm)

44. See <http://www.previ.com.br/> ; <https://www.petros.com.br/petrossite/>

Unibanco, Itaú or Bradesco, who, along with public banks or development banks like BNDES<sup>45</sup>, are involved in development finance projects all around the country<sup>46</sup>. In Mexico, Pedro Aspe, a former Minister of Finance, also created a successful investment and consulting firm, Protego, specialising in medium size companies<sup>47</sup>.

Probably one of the most successful institutions is Fundación Chile, a privately owned, non profit institution created in 1976 by the Chilean government and the US multinational ITT (in 2005 the mining company BHP Billiton also became a co-founding member and boosted the endowment of the institution). This institution pursues innovation, with special emphasis on areas like agribusiness, marine resources, forestry, fruit biotechnology, quality management, food technologies, etc. The development of the salmon industry is among one of the successes of the Foundation. When it targeted that area, salmon exports from Chile barely existed. Now Chile is, along with Norway, one of the top exporters of salmon in the world.

Private equity and investment firms operating in developing countries are common. It is not rare for them to be created by former public officials or former senior officials of leading international organisations involved in development<sup>48</sup>. They provide another set of potential partners for aid donors willing to catalyse private investment in niche markets where the usual bankers and investment firms are not looking. In 2006, private equity firms operating in developing countries raised a record of more than \$33 billion in capital commitments, a more than five-fold increase over the \$6 billion raised in 2004<sup>49</sup>. A firm like the Washington-based *Emerging Markets Partners*, created in the mid-nineties by former World Bank officers, is one of largest private equity firms investing in emerging markets with seven funds holding around \$6 billion in cumulative capital commitments and investment operations spanning the globe from Korea to South Africa to Argentina<sup>50</sup>. In Africa, Emerging Capital Partners (ECP) has been the first private equity group to raise more than \$1 billion for investment in companies across the continent<sup>51</sup>. Major hedge funds and investment companies like Amber Capital, a New York-based firm, also created in 2007 private equity instruments to invest in developing countries like

45. See <http://www.bndes.gov.br/>

46. Unibanco developed, for example, a social arm, Instituto Unibanco: <http://www.unibanco.com.br/int/qsn/index.asp>. Most of the banks developed important social activities (education, health, poverty reduction, etc.) through their foundations like Bradesco, Itaú, or Banco do Brasil for example. See <http://www.fb.org.br/institucional> ; <http://www.fundacaoitaisocial.org.br/home/index.htm> ; <http://www.fbb.org.br/>

47. See <http://protego.com.mx/>

48. Interesting examples are EMP Global, a private equity firm investing in emerging markets created by former World Bank senior officials, or Emerging Markets Management, an investment firm created by Antoine van Agtmael, a former IFC senior official. In 2007, the firm is a leading investor in emerging economies, with more than \$21 billion under management. See <http://www.empglobal.com/>; and <http://www.emi-emm.com/>

49. See Emerging Markets Private Equity Association, *Emerging Markets Private Equity 2006 Fundraising Review*, Washington, DC, EMPEA, March 2007. See <http://www.empea.net/>

50. See <http://www.empglobal.com/>

51. See <http://www.ecpinvestments.com/>

Latin America<sup>52</sup>. Former UK investment bankers from Schroders and Goldman Sachs also founded institutions like New Philanthropy Capital in order to advise wealthy individuals and charities in their donations operations, including in developing countries<sup>53</sup>.

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52. See <http://www.ambercapital.com/>

53. See their report New Philanthropy Capital, *Going global - a review of international development funding by UK Trusts and Foundations*, London, New Philanthropy Capital, June 2007. [http://www.philanthropycapital.org/docs/going\\_global.pdf](http://www.philanthropycapital.org/docs/going_global.pdf)



## VI. CONCLUSIONS AND POLICY RECOMMENDATIONS

Throughout history bankers and lenders in particular have been depicted as greedy and callous. In Dante's *Divine Comedy* usurers are consigned within the seventh circle of hell, peopled with vengeful Shylocks. Today's bankers and money lenders seem to be working in a very different world. Examples abound of the increasing interest in sustainable banking over the past years (see for example on Africa AICC Centre for Sustainability Investing, 2004). As documented in a related working paper (Javier Rodríguez and Javier Santiso, 2007), private banks play a pivotal role in economic development and – more surprisingly – can also lend a helping hand in democratic consolidation, with cross border private banking flows tending to increase in the years following a democratic transition<sup>54</sup>.

As underlined in this paper, private banks are actively involved in developing countries, both through their lending activities from headquarters, and now increasingly from emerging countries themselves, since they have been heavily investing in their economies, generating employment, introducing best practices and many other positive outputs.

Banks manage their own performance and sustainability but they are also in a position to influence socio-economic and environmental performances in client organisations. Banks' lending activities also have an important impact (see *Accountability – Institute of Social and Ethical Accountability*, 2004). This paper stresses a major challenge, going well beyond aid coordination: the increasing proliferation of actors, directly or indirectly involved in development issues in low or middle income countries.

In order to tackle this issue, a deeper dialogue is required between aid donors and these private actors. Banks, private equity and asset management firms are part of a much broader set of private actors ranging from foundations to corporations. Mapping and coordinating this “non

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54. For a review, based on good practices and case studies, of how financial services are affected by and manage the challenges associated with human rights, see also the study of European asset manager F&C Asset Management and KPMG, *Banking on Human Rights: Confronting Human Rights in the Financial Sector*, London, September 2004 and the F&C (Isis Asset Management) reports available online: <http://www.isisam.com/aboutus.asp?pageid=2.8.3.7#banking>. All in all, a total of 8 private banks voluntarily developed internal human rights policies, standards, guidelines or statements: ABN AMRO, Barclays, HBOS, ING, Rabobank, Société Générale, Standard Chartered and Westpac. Signatories to the UN Global Compact also pledge to avoid complicity in human rights violations. As of March 2007, the Global Compact website indicates that 323 banking and insurance institutions are members. For a systematic mapping of human rights treaties and norms that could be applied to corporations and enforced by States, see the United Nations commissioned report written by the United Nations Secretary General's Special Representative on Human Rights & Business John Ruggie, 2007.

system” of development finance is as challenging as it is important for those seeking to improve the lot of less-developed parts of the world (see Mavrotas and Reisen, 2007; and, on the fragmentation of aid and private foreign investment, see Harms and Lutz, 2006).

Public aid donors who are willing to innovate in order to deepen impacts will find interested counterparties and partners. As documented, some of these actors tend to operate by specific region. UK and French banks, for example, would seem to be good potential partners for aid donors in Africa while Spanish banks or US counterparts might be more relevant for Latin America, and German, Swiss<sup>55</sup> and Italian banks for Eastern Europe. Beyond international banks, local private banks in India, South Africa, Morocco and other developing countries are also potential partners, these banks also being increasingly aware and sensitive to economic, social and environmental impacts.

In areas like remittances or microfinance, for example, banks operating in both recipient countries like Latin America, and also in the sending countries, such as US and Spanish banks could have an important role to play in public and private partnerships. In North Africa, French players, along with local banks are also key potential partners. In infrastructure finance, whether water, health or transport, public aid donors could play a pivotal role as a catalyst for deeper involvement by private bankers, equity firms or asset managers in these sectors in developing countries.

The partnerships can obviously go well beyond solely the banking sector, as underlined by the recent initiative of Danone, a French multinational, and the French banking group Crédit Agricole, who, in 2007, jointly created a novel mutual to invest in microfinance projects in the world’s poorest countries. The first test will be in Bangladesh where Danone have already created a joint venture with the Grameen Group of Nobel Prize winner Mohammad Yunus, who has pioneered microfinance lending to the very poor<sup>56</sup>. Former executives are also creating innovative ways to pull financing into microfinance institutions, like Pierre Omidyar, the eBay founder, that created Omidyar Network<sup>57</sup>.

In the future, it could be interesting to repeat the current exercise and to map cross-border banking operations, either trade finance, bank lending or investment flows, from emerging countries to other developing economies. According to The World Bank, development finance is experiencing a major transformation as emerging market based banks, companies and governments are becoming global heavyweights in international development finance. In 1995, low-income country borrowers received a mere 3 per cent of their cross-border syndicated lending flows from other emerging market banks. Ten years later that figure jumped to 17 per cent. In 2005, a record of 27 per cent of all foreign banks in developing countries were owned by

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55. See for example in the field of remittances in the Balkans the analysis conducted by the Swiss State Secretariat for Economic Affairs (SECO, 2007).

56. See <http://www.grameen-info.org/>. More generally, on alliances and partnerships between a public aid donor agency and private partners, see US Aid initiatives labeled The Global Development Alliance: [http://www.usaid.gov/our\\_work/global\\_partnerships/gda/report2006.html](http://www.usaid.gov/our_work/global_partnerships/gda/report2006.html)

57. See <http://www.omidyar.net/>

banks from other emerging economies. These numbers are particularly important in low income countries where 47 per cent of foreign banks in terms of numbers and 27 per cent in terms of assets are owned by other foreign banks from developing countries (IMF, 2007).

With emerging countries becoming emerging donors, identifying banks operating overseas could be a positive dialogue in which to engage, both with “emerged” donors and international banks. International NGOs such as the Netherlands based BankTrack<sup>58</sup>, involved in tracking sustainable bank lending, has already started to address the growing role of emerging markets based banks, new power players in development finance. In this regard, more systematic analysis could complete BIS efforts to track lending operations from major emerging countries’ banks, particularly those based in countries like Brazil, South Africa, Russia, India and China.

Another important issue, related to bank lending in developing countries, are related to Basel II rules obliging foreign banks to use risk sensitive models to determine the amount of capital to be allocated for different types of borrowers. Many studies have underlined the potential negative impacts of such new rules on development finance, private bank lending from OECD developed countries to developing countries and private bank lending within the developing countries themselves. For these countries, Basel II can raise the costs of and reduce access to external financing, inducing more expensive and rationed credit to borrowers perceived as higher risk, such as low income countries or small and medium size enterprises. Importantly, Basel II may also exacerbate fluctuations in the availability of external financing, an unfortunate outcome, given that developing countries already suffer from volatile capital flows<sup>59</sup>. Stepping up collaboration with private banks might be a way of alleviating the impact of these new banking rules for asset allocation, in particular in the lower income countries.

It is also important to stress this issue regarding the increasing presence in developing countries not only of OECD foreign banks but also of foreign banks from other developing countries. According to one estimate, using a large dataset on banking sector foreign direct investment in developing countries (Van Horen, 2007; and for the determinants of locations and competitive advantages see Claessens and Van Horen, 2007), 27 per cent of all foreign banks in developing countries are owned by a bank from another developing country. This presence is particularly striking in low income countries: in sub-Saharan Africa it is above all South Asian and other sub-Saharan African banks that are present. This is a potential segment of bank lending and bank activity within a developing country that could be considered when aid donors are looking for public private partnerships in development finance.

One might envisage the creation of a Prize in Development Finance that would reward best practices of public and private partnerships in the field. The OECD Global Forum on Development could host such a prize, as it intends to strengthen the dialogue between aid donors and private actors working on development issues and investing in developing countries. The objective of the OECD Development Finance Prize would be to underline already existing

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58. See <http://www.banktrack.org/>

59. Gottschalk and Griffith-Jones, 2006; Powell, 2004; Claessens et al, 2003; Reisen, 2001; and for a discussion Liebeg et al, 2007; Caruana, 2006; García-Herrero and Gavilá, 2006

best practices and, through a worldwide media campaign (like the one developed by the IFC and the Financial Times), to stimulate and emulate projects between public aid donors and private banks, asset managers and equity firms. Two categories could be created: one for OECD institutions and a second for non OECD institutions, thus taking into account the strength of the emerging donors and private banks, asset managers or equity firms from developing countries, important and welcome newcomers to development finance.

## APPENDIX 1: FOREIGN CLAIMS ON EMERGING COUNTRIES STATISTICS

Table 1: Time Evolution of Foreign Claims on Emerging Countries (% of total received by emerging countries)

	1984	1986	1988	1990	1992	1994	1996	1998	2000	2002	2004	2006
<b>Developing Countries</b>	100	100	100	100	100	100	100	100	100	100	100	100
<b>i) Africa &amp; Middle East</b>	<b>21.0</b>	<b>20.0</b>	<b>19.7</b>	<b>20.0</b>	<b>18.2</b>	<b>16.3</b>	<b>12.2</b>	<b>12.4</b>	<b>12.2</b>	<b>12.5</b>	<b>12.1</b>	<b>13.0</b>
Algeria	1.6	2.2	2.4	2.6	2.3	1.9	1.1	0.6	0.4	0.3	0.3	0.2
Egypt	1.2	1.1	1.0	1.0	0.6	0.5	0.4	0.5	0.8	0.9	0.6	0.8
Iran	0.2	0.2	0.2	0.6	1.4	1.3	1.1	0.7	0.8	0.8	1.2	1.0
Iraq	0.7	1.3	1.4	1.6	0.8	0.7	0.5	0.4	0.1	0.1	0.1	0.1
Israel	1.1	0.9	0.7	0.6	0.5	0.5	0.5	0.6	0.6	0.8	0.6	0.6
Kuwait	1.2	1.0	0.8	1.0	1.3	1.1	0.5	0.5	0.4	0.5	0.4	0.4
Liberia	1.4	1.2	1.3	1.5	1.6	1.5	1.2	1.2	1.2	1.1	1.0	0.7
Morocco	0.8	0.9	0.8	0.8	0.8	0.7	0.5	0.6	0.8	0.9	0.7	0.6
Saudi Arabia	1.2	0.9	1.0	0.8	1.5	1.4	0.8	1.3	1.3	1.1	0.9	0.8
South Africa	3.8	2.8	2.5	2.5	2.1	1.8	1.9	1.9	1.7	1.6	1.6	3.5
United Arab Emirates	1.4	1.0	1.0	0.7	0.6	0.9	0.8	1.0	1.1	1.2	1.7	1.9
<b>ii) Asia &amp; Pacific</b>	<b>19.6</b>	<b>19.9</b>	<b>22.0</b>	<b>27.7</b>	<b>31.1</b>	<b>38.2</b>	<b>42.9</b>	<b>34.3</b>	<b>30.1</b>	<b>28.5</b>	<b>32.4</b>	<b>31.4</b>
China	0.7	1.2	2.8	3.8	4.7	5.4	5.5	6.6	4.7	3.7	4.7	4.8
India	1.0	1.6	2.3	3.1	2.6	3.0	2.5	2.5	3.0	2.9	3.8	4.0
Indonesia	2.7	2.9	3.1	4.5	4.6	4.9	5.9	4.1	3.4	2.5	2.0	1.9
Malaysia	2.5	2.2	1.7	1.6	1.8	2.3	3.0	2.3	3.8	3.8	3.8	3.2
Philippines	2.6	2.5	2.1	1.7	1.2	1.1	1.6	1.6	1.7	1.6	1.3	1.1
South Korea	5.7	5.3	4.3	5.8	6.8	8.3	10.7	6.5	5.8	6.5	8.3	9.3
Taiwan China	1.7	1.7	2.7	2.5	3.4	4.0	3.3	2.9	2.6	3.1	4.1	3.0
Thailand	1.5	1.3	1.6	2.8	4.0	6.4	7.7	4.8	3.3	2.6	2.1	1.9
<b>iii) Europe</b>	<b>12.4</b>	<b>16.1</b>	<b>18.5</b>	<b>18.1</b>	<b>18.6</b>	<b>14.9</b>	<b>14.5</b>	<b>17.6</b>	<b>18.5</b>	<b>23.1</b>	<b>28.6</b>	<b>31.1</b>
Croatia	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.3	0.6	1.4	1.6	1.9
Czech Republic	0.0	0.0	0.0	0.0	0.0	0.7	1.3	1.5	2.0	3.2	3.9	3.8
Hungary	1.4	1.8	2.0	2.0	1.4	1.2	1.3	1.8	1.9	2.7	3.6	3.2
Poland	1.7	1.9	1.7	1.9	1.9	1.0	1.1	1.9	3.9	5.7	5.9	5.0
Russia	0.0	0.0	0.0	0.0	0.0	6.2	5.7	5.0	3.1	2.9	3.5	4.2
Slovakia	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.5	0.4	1.0	1.3	1.8
Soviet Union	3.2	5.0	6.1	7.1	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Turkey	0.9	1.5	1.8	2.6	2.4	2.1	2.3	3.1	3.5	2.5	2.8	3.4
<b>iv) Latin America/Caribbean</b>	<b>47.0</b>	<b>43.9</b>	<b>39.7</b>	<b>34.2</b>	<b>32.1</b>	<b>30.6</b>	<b>30.4</b>	<b>35.7</b>	<b>39.2</b>	<b>35.9</b>	<b>27.0</b>	<b>24.5</b>
Argentina	5.2	5.6	5.9	4.8	5.1	5.1	5.0	6.9	7.0	3.0	1.6	1.1
Brazil	13.9	13.2	11.7	10.6	8.9	8.2	9.9	10.9	10.6	7.7	6.2	6.9
Chile	2.8	2.8	2.3	2.0	2.2	2.5	2.7	3.3	3.8	3.2	2.7	2.4
Colombia	1.3	1.2	1.1	1.1	1.1	1.4	1.8	1.9	1.3	1.0	0.8	0.7
Ecuador	1.0	1.0	0.8	0.6	0.5	0.4	0.3	0.3	0.1	0.1	0.1	0.1
El Salvador	0.1	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.2	0.2	0.1	0.1
Mexico	14.2	12.4	10.7	8.8	8.6	8.6	6.7	7.1	11.0	16.1	12.0	10.5
Peru	1.0	0.8	0.6	0.5	0.4	0.4	0.9	1.0	1.2	1.0	0.7	0.4
Uruguay	0.4	0.4	0.4	0.5	0.5	0.5	0.4	0.6	0.5	0.3	0.2	0.2
Venezuela	5.4	4.6	4.2	3.3	2.8	1.8	1.1	1.6	1.8	1.4	1.0	0.9

Source: Authors based on BIS data

Table 2: Main countries of origin of Foreign Claims on Latin America in 2006  
(% of total received by emerging countries)

	<u>Spain</u>	<u>EEUU</u>	<u>UK</u>	<u>Germany</u>	<u>Netherlands</u>	<u>Canada</u>	<u>France</u>	<u>Switzerland</u>	<u>Italy</u>	<u>Japan</u>	<u>Panama</u>
Latin America/Caribbean	<b>35.54</b>	22.62	9.01	4.32	8.33	5.06	3.09	2.42	0.65	1.77	0.74
Argentina	<b>31.48</b>	21.95	6.83	10.89	4.28	0.00	8.49	4.54	0.86	1.55	0.27
Belize	1.22	0.32	2.98	0.21	6.23	0.00	9.32	<b>13.42</b>	1.60	0.00	1.12
Bolivia	<b>56.67</b>	5.07	1.30	3.91	2.61	0.00	2.32	2.75	0.00	0.14	0.72
Brazil	<b>23.00</b>	15.97	12.60	4.21	21.44	0.99	4.00	3.85	0.97	2.73	0.33
Chile	<b>53.13</b>	19.20	3.29	4.85	4.53	0.00	3.26	0.67	0.68	1.79	0.48
Colombia	<b>44.21</b>	22.26	2.62	5.21	4.43	0.00	2.70	0.91	0.33	1.93	2.99
Costa Rica	4.00	17.33	1.66	6.64	0.35	0.00	2.12	2.45	0.16	0.92	<b>26.85</b>
Cuba	13.79	0.00	1.40	9.14	9.41	0.00	<b>22.03</b>	0.05	2.89	3.66	1.04
Dominica	1.15	0.00	0.00	0.00	0.57	0.00	9.20	1.72	0.00	0.00	0.00
Dominican Republic	11.12	<b>23.47</b>	2.69	7.11	6.59	0.00	5.13	2.09	0.66	0.00	8.57
Ecuador	9.25	<b>25.13</b>	16.39	14.79	2.85	0.00	0.98	4.84	0.35	5.31	5.89
El Salvador	0.73	<b>25.84</b>	0.79	8.32	1.24	0.00	3.42	2.15	0.00	0.00	7.35
Falkland Islands	<b>42.59</b>	0.00	35.19	0.00	0.00	0.00	11.11	0.00	0.00	0.00	0.00
Grenada	0.00	0.00	1.96	0.65	4.58	0.00	2.61	9.15	0.00	0.00	0.00
Guatemala	1.22	<b>36.30</b>	3.75	6.69	0.37	0.00	2.00	2.53	0.00	0.00	15.29
Guyana	0.00	0.49	0.00	0.00	<b>12.68</b>	0.00	0.49	0.00	0.00	0.00	0.00
Haiti	2.11	<b>41.58</b>	3.68	0.00	0.53	0.00	29.47	1.58	0.00	0.00	0.00
Honduras	3.93	<b>39.10</b>	0.79	3.37	2.70	0.00	4.72	0.90	0.00	0.00	22.81
Jamaica	0.16	16.82	1.73	6.07	0.41	0.00	0.92	0.81	0.00	0.81	2.00
Mexico	<b>42.03</b>	29.75	10.02	2.23	2.65	0.00	1.43	1.47	0.26	1.21	0.11
Nicaragua	2.56	15.38	1.28	1.28	0.77	0.00	7.95	0.26	0.00	0.00	<b>52.82</b>
Paraguay	<b>20.25</b>	8.38	18.12	4.38	15.47	0.00	0.64	1.87	0.00	0.00	0.00
Peru	<b>52.04</b>	17.04	2.59	5.93	0.21	1.28	1.90	2.51	2.43	2.31	2.02
St. Lucia	0.00	0.00	4.86	0.46	0.00	0.00	5.32	4.40	0.00	0.00	0.00
St. Vincent	0.00	0.00	5.04	9.87	1.05	0.00	25.42	<b>32.14</b>	0.00	0.00	0.00
Suriname	14.29	3.57	0.00	0.00	<b>60.71</b>	0.00	0.00	0.00	0.00	0.00	0.00
Trinidad and Tobago	0.48	17.07	6.40	<b>22.57</b>	1.87	0.00	3.09	9.49	0.00	2.44	1.66
Turks and Caicos	0.12	0.00	4.37	<b>38.45</b>	0.12	0.00	0.00	13.86	0.00	0.00	0.75
Uruguay	17.14	<b>22.74</b>	6.69	6.16	17.41	0.00	2.16	6.24	4.93	1.71	0.23
Venezuela	<b>53.21</b>	7.90	4.44	11.56	3.18	0.61	7.62	2.56	1.43	2.12	0.18

Source: Authors based on BIS data

Table 3: Main countries of origin of Foreign Claims on Latin America in 2006  
(% of country of origin total on emerging countries)

	<u>Mexico</u>	<u>Panama</u>	<u>Spain</u>	<u>Chile</u>	<u>Brazil</u>	<u>Canada</u>	<u>EEUU</u>	<u>World</u>	<u>Netherlands</u>	<u>Portugal</u>	<u>UK</u>
Latin America/Caribbean	<b>98.46</b>	<b>99.83</b>	<b>95.60</b>	<b>77.50</b>	<b>83.56</b>	<b>76.91</b>	<b>40.47</b>	24.54	<b>33.93</b>	<b>30.23</b>	<b>14.81</b>
Argentina	0.00	1.58	3.75	6.31	<b>37.92</b>	0.00	1.74	1.09	0.77	0.33	0.50
Belize	1.28	0.44	0.01	0.00	0.00	0.00	0.00	0.07	0.07	2.99	0.01
Bolivia	0.00	0.11	0.17	0.00	5.76	0.00	0.01	0.03	0.01	0.01	0.00
Brazil	7.18	12.42	17.37	<b>49.17</b>	0.00	<b>4.24</b>	8.02	6.89	<b>24.50</b>	<b>19.61</b>	<b>5.81</b>
Chile	0.00	6.35	13.93	0.00	9.96	0.00	3.35	2.39	1.80	0.30	0.53
Colombia	0.00	11.22	3.32	1.43	0.06	0.00	1.11	0.69	0.50	0.21	0.12
Costa Rica	0.00	<b>20.82</b>	0.06	0.00	0.00	0.00	0.18	0.14	0.01	0.09	0.02
Cuba	<b>72.82</b>	0.49	0.13	1.55	0.11	0.00	0.00	0.09	0.13	0.03	0.01
Dominica	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00
Dominican Republic	0.00	6.31	0.16	0.00	0.00	0.00	0.23	0.13	0.15	0.03	0.02
Ecuador	0.00	3.18	0.10	0.12	0.11	0.00	0.18	0.10	0.05	0.00	0.11
El Salvador	0.00	5.13	0.01	0.00	0.73	0.00	0.24	0.13	0.03	0.01	0.01
Falkland Islands	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.03	0.00
Grenada	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00
Guatemala	0.00	7.91	0.01	0.00	0.00	0.00	0.25	0.09	0.01	0.00	0.02
Guyana	14.10	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.02	0.00	0.00
Haiti	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.01	0.00	0.00	0.00
Honduras	1.79	4.28	0.01	0.00	0.00	0.00	0.10	0.03	0.02	0.00	0.00
Jamaica	0.00	1.56	0.00	0.00	0.00	0.00	0.17	0.14	0.01	0.01	0.02
Mexico	0.00	6.14	<b>48.25</b>	6.55	1.40	0.00	<b>22.71</b>	10.47	4.61	1.08	7.03
Nicaragua	0.00	4.35	0.00	0.00	0.00	0.00	0.02	0.02	0.00	0.00	0.00
Paraguay	0.00	0.00	0.13	0.36	23.88	0.00	0.04	0.06	0.15	0.00	0.07
Peru	0.51	4.75	2.44	3.69	0.00	0.34	0.53	0.43	0.01	0.16	0.07
St. Lucia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.01
St. Vincent	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.01
Suriname	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.00
Trinidad and Tobago	0.00	1.52	0.01	0.00	0.00	0.00	0.21	0.17	0.05	0.00	0.07
Turks and Caicos	0.00	0.13	0.00	0.00	0.00	0.00	0.00	0.03	0.00	0.01	0.01
Uruguay	0.00	0.23	0.34	1.67	3.02	0.00	0.30	0.18	0.53	0.10	0.08
Venezuela	0.51	0.93	5.38	6.67	0.62	0.35	0.53	0.92	0.49	0.41	0.27

Source: Authors based on BIS data

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