The Managerial Elite of Development Banks

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Mapping out embedded autonomy

A rich recent literature highlights the importance of development banks for capitalist diversity in rich and developing countries alike (Ban 2013; Hochstetler and Montero 2013; Griffith-Jones and Ocampo 2018; Merstens and Thiemann 2019). This literature merges the structuralist tradition in development studies (Wade 1990; Woo-Cummings 1998; Chibber 2002; Wong 2004; Wylde 2016) and the political economy of development (Thurbon 2016; Kim and Thurbon 2015; Ban 2013; Hochstetler and Montero 2013; Lazzarini et al 2015; Mazzucato 2015; Griffith-Jones and Ocampo 2018) to look for analytical leverage outside the realm of conventional public financial institutions and a long-overlooked twin role of the banker state: investor in socially cohesive industrial competitiveness and provider of countercyclical finance (Trabacchi et al 2015; Mazzucato and Penna 2016; Gallagher and Yuan 2017; Brei and Schclarek 2017).

Indeed, it is a fact that the world's most powerful industrial exporters have development banks (government-sponsored financial institutions concerned primarily with the provision of long-term capital to industry) owning between a fourth and a third of the total liabilities of national financial systems (Griffith-Jones and Ocampo 2018). These banks' countercyclical lending also works as the quasi-fiscal arm of the bogie state by running off balance sheet stimulus programs in the form of increased lending volumes in times of recession (Griffith Jones et al 2008; and Cozzi 2016; Ocampo 2011; Ban 2013), when private banks typically tighten their purses. Along with regional monetary funds and regional multilateral development banks, national development banks are critical players in the global governance of economic cycles (Kring and Gallagher 2015).

Since Peter Evans (1995) foundational work, much of the existing research on development banks in East Asia and Latin America specifies how the embedded autonomy of these institutions into the market works, as well as the mindsets that support them (most recently Thurbon 2016). However, missing from this research is a systematic appraisal of the embedded autonomy of all significant development banks in the world. Are there revolving doors between the private sector and international bureaucracies such as the top management of national development banks? Are these elites predominantly national in terms of their professional background, or are they cosmopolitan?

By answering these simple descriptive questions, we hope to enable future scholarship to launch structured comparisons across cases and generate hypotheses about what explains variation across these cases. In terms of policy importance, the research note is of relevance for those exploring the organizational opportunities and constraints of the investment state through well-designed, large-scale and properly governed public investment regimes.

Case selection

A good proxy for what constitutes significance is the Long-Term Investors Group (LTIG), a network of the world's largest national development banks plus the European Investment Bank. Since the EIB was recently enhanced with the European Fund for Strategic Investments (EFSI), a countercyclical lending fund, we expanded the network to include this institution. Finally, in light of the emerging research on the European investment state (EIS), a network linking EIB and EFSI lending to the development banks of all the EU member states (Merstens and Thiemann 2017; 2018), we included all these national development banks in the analysis whether they were part of the LTIG or not.

We conceive of this institutional network as an international public investment regime (IPIR), that is the aggregate of macro-institutional networks and macroeconomic resources that bring together the LTIG and related institutions to provide patient lending and guarantees and countercyclical portfolio management, acting as a quasi-fiscal stimulus in times of recession. As a result of such IPIRs, more policy space is visible if one conceives of the international economy as an evolutionary system of financial opportunities and constraints that can be intervened upon by IPIRs.

Data is derived from public information released on the websites of these institutions, LinkedIn as well as from interviews with staff at different levels of the respective institutions during an "audit" conducted by Ban about their transparency and accountability procedures (see Ban and Seabrooke 2016). We have also collated profiles on the elites under investigation, providing a new case to ongoing work on the composition and characteristics of international expert networks in economic governance (Ban, Seabrooke, and Freitas 2016).

Methodology

For decades, journalists and researchers answered these questions using various forms of qualitative evidence whose claims to representativeness varied widely, depending on the extent to which researchers developed access to the institutions under analysis. Unsurprisingly, researchers faced hard questions about their standards of evidence, often with controversial outcomes.

We are in a much better place today regarding this kind of work. Over the past few years, in organizational studies we have improved our scientific capacity to examine corporate governance or professional hierarchies as they relate to professed ethical standards and considerations of the political power of the principals or the unequal distribution of professional resources.

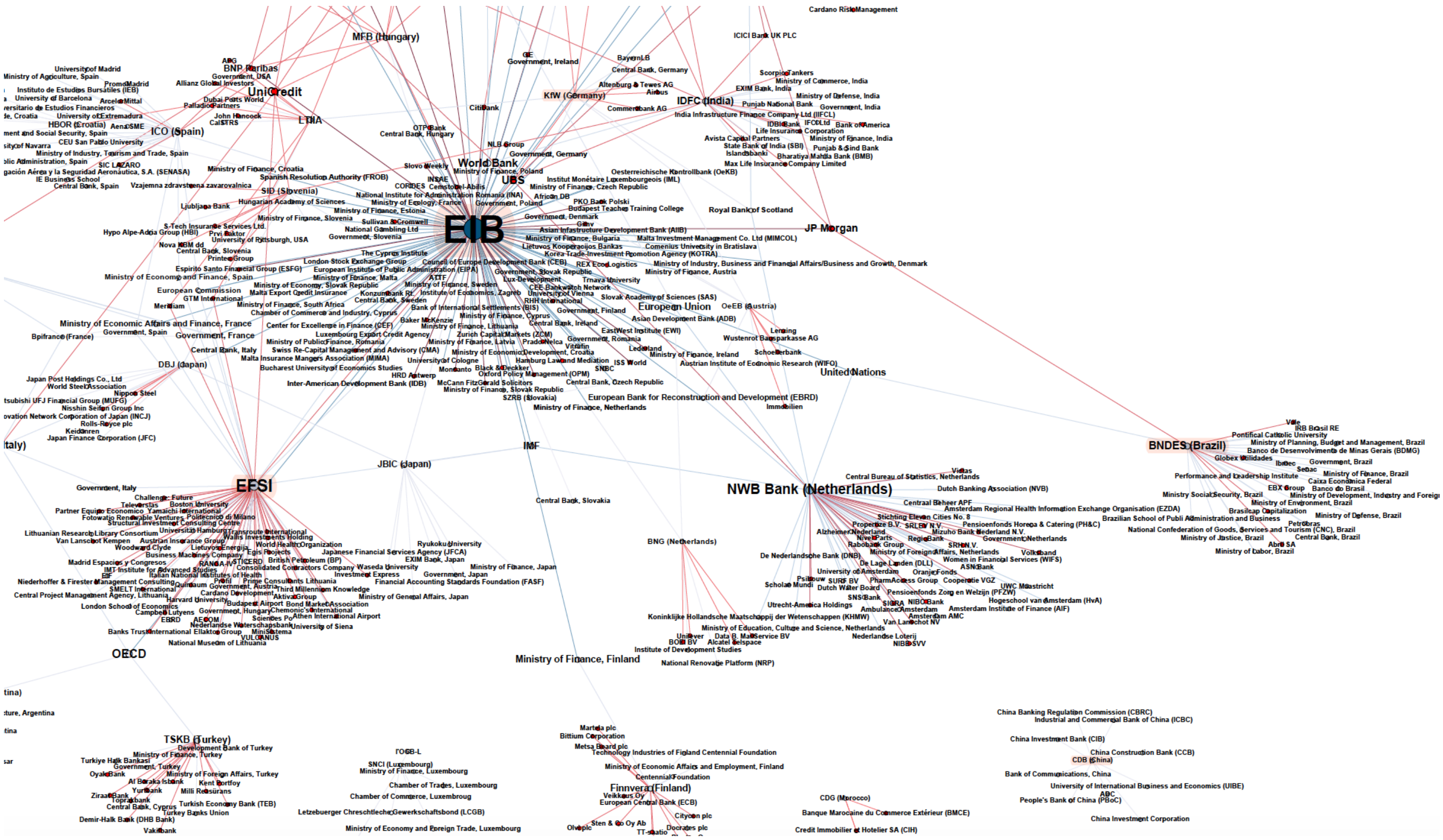
Specifically, the in-depth and systematic coding of professional CVs and the processing of the resulting data using different network analysis software packages (we used Gephi) provides a sounder basis for visualizing and analyzing these relationships than traditional approaches do. We looked at the CVs of all members of the board of directors, boards of governors and managing directors of the IPIR in 2017 and coded all professional experiences longer than three years, a threshold we assume to be sufficient for someone to build enduring ties with an institutional environment (Ban 2016). Longer professional experiences were assigned higher values, leading to a weighted distribution. The data is available in the online appendix.

The network gives us a sense of which institutions are nationally focused in their top brass, which are cosmopolitan, how much the private sector matters relative to the public sector and what are the pivotal providers of top level staff to a multiplicity of NDBs in the entire IPIR. The institutions acting as professional brokers are actors that supply senior staff to at least two of the three institutions under analysis. Being a network broker puts one in a position of power relative to single suppliers (Burt 2010). No other approach can carry out multiple tasks so effectively.

Where do IPIR's high-level technocrats come from?

Overall, the evidence shows that the EIB is staffed by the civil servants whose past is what it is supposed to be: people with professional experiences steeped in public sector institutions, with some private sector expertise accumulated where the profile of the institution demands it. Indeed, the EIB conforms to the stereotype that it is an "old school" developmental finance institution controlled by people coming from national bureaucracies with most of its staff originating in national economic ministries, planning bodies, public pension funds, development agencies and general government, with a handful of academic institutions in their trail.

Figure 1 (slightly shrunk for better resolution) shows what institutions and firms provided the IPIR staff. In green are the largest members of the IPIR: the EIB, the EFSI, the KfW (Germany), the CDB (China) and the BNDES (Brazil), in this order. The network shows that there is no correlation between bank size and the breadth of the international careers of the staff before appointment. Indeed, cosmopolitan careers characterize only the management of the EU institutions (the EIB and the EFSI, both multilateral institutions of a European Union of 28 member states) and the Brazilian development bank, an institution known for its strategy of credibility signaling via the hires of staff with prestigious international backgrounds (Sierra 2015). In contrast, the management of the German and Chinese development banks are so narrowly national in their profiles that the KfW and the CDB can barely be seen in the network, dwarfed by the cosmopolitan staff of NDBs of very small players such as Estonia, Cyprus and Malta.The global banks (Santander, UniCredit, HSBC, J.P. Morgan) and consultancies (McKinsey, KPMG) are the most visible brokers supplying professional experiences to at least three institutions in the IPIR network.



To get a more granular picture of what kind of previous careers constituted the history of the largest members of the IPIR staff, we zoomed into the component networks of the EIB, EFSI, KfW, CDB and BNDES.

Figure 2 shows that the EIB appears as a developmental finance institution controlled by people coming from national bureaucracies. Indeed, most of its staff originates in national economic ministries, planning bodies, public pension funds, development agencies and general government. The management bodies of the newer EFSI are extremely cosmopolitan and overwhelmingly steeped in the public sector. Indeed, a broad coterie of consultants, private sector bankers, academic and non-financial sector management sits on its boards. For a bank that is “market-based but not state-led,” (Merstens and Thiemann 2018) this is surprising. Perhaps more surprisingly, the EFSI, an institution subject to the high politics of the EIB, the staff is heavily exposed to socialization experiences in the Japanese private and public sector.

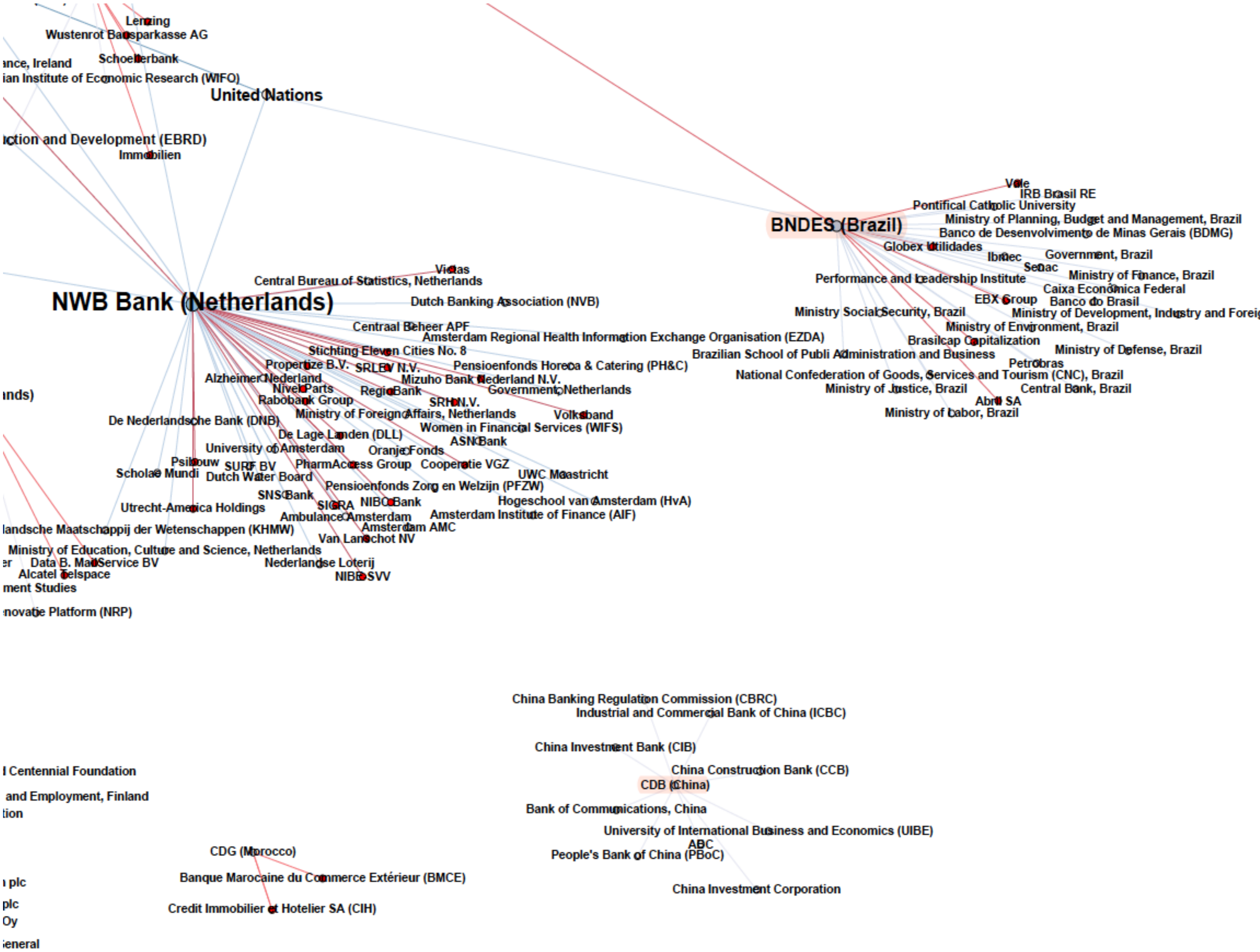
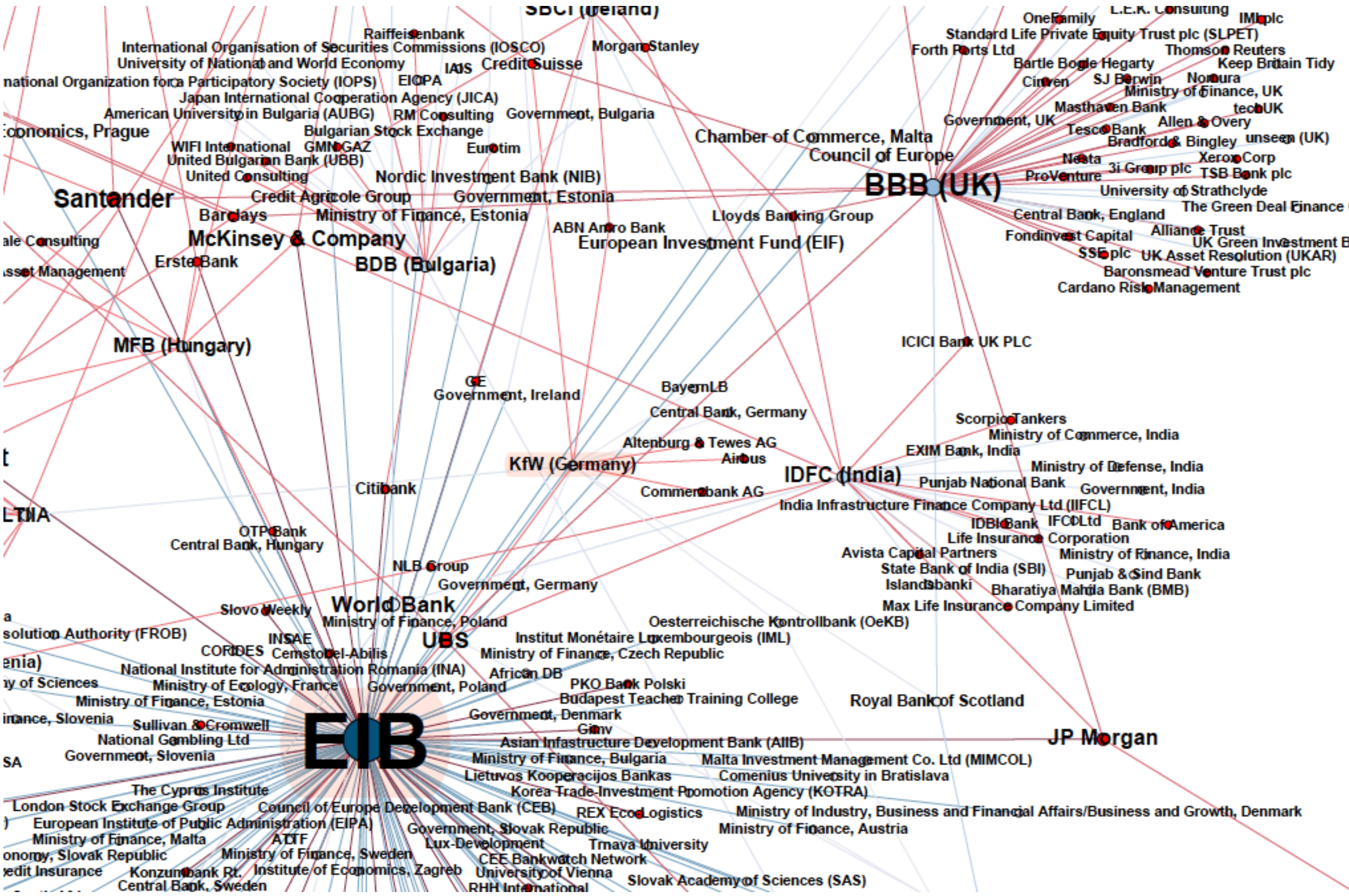


Figure 3 compellingly shows that both the German development bank (KfW) and its Chinese (CDB) and Brazilian (BNDES) counterparts like to stay close to home at the top. KfW has several experiences with international private careers in Europe (UBS, Credit Suisse, ABM Amro), with the rest of the staff coming from the German government, central bank and nonfinancial corporations like Airbus, with Commerzbank being the only supplier of KfW professional experiences that is a financial institution. With the exception of its managing director, a former J.P. Morgan executive, the BNDES staff is culled from strictly Brazilian public and private sector (both financial and non-financial) backgrounds. The CDB's top brass is even more nationally oriented than the KfW and BNDES. Its network is completely cut off, and no one has affiliations that are common with the affiliations of staff from LTIG, with Chinese banks and government providing the sole professional experiences.

FIGURE 3: THE PREVIOUS CAREERS OF KFW, CDB AND BNDES STAFF



To get a broader sense of what constitutes the network and the institutions that tend to supply the staff of different development banks we ordered the banks from the greatest to the lowest percentage of IPIR members from different sectors (Table 1). The table confirms our finding that the members of the German development bank (KfW) as well as the Chinese (CDB) and Brazilian (BNDES) banks have primarily national backgrounds. While KfW has some financial private sector affiliation, its staff comes primarily from the central bank. CDB ranks near the bottom for both financial and non-financial private sector affiliations, with most of its members coming from a variety of government agencies. Surprisingly, few members come from the central bank or ministry of finance. Similar to KfW, BNDES is supplied primarily by the central bank and other government agencies but also has some private sector affiliation. It surprisingly has a large percentage of members from academic institutions. The table also confirms what the network illustrates about the EIB, showing that it is controlled in large part by people coming from national ministries of finance.

Private Financial Sector	Non-Financial Private Sector	International Organization	Central Bank	Ministry of Finance	Other Government Agency	Academic Institution
BNG (Netherlands)	Almi (Sweden)	EIB	KfW (Germany)	EIB	AWS (Austria)	BNDES (Brazil)
BBB (UK)	AWS (Austria)	AWS (Austria)	NWB Bank (Netherlands)	ICO (Spain)	Bancomext (Mexico)	ICO (Spain)
NWB Bank (Netherlands)	SBCI (Ireland)	NWB Bank (Netherlands)	SID (Slovenia)	IDFC (India)	CDB (China)	Almi (Sweden)
IDFC (India)	KredEX (Estonia)	SBCI (Ireland)	VEB (Russia)	BDB (Bulgaria)	Bpifrance (France)	OMERS (Canada)
SID (Slovenia)	BBB (UK)	BICE (Argentina)	MFB (Hungary)	BNG (Netherlands)	ICO (Spain)	EIB
BGK (Poland)	OMERS (Canada)	IDFC (India)	BNDES (Brazil)	CDC (France)	SNCI (Luxembourg)	NWB Bank (Netherlands)
CDP (Italy)	CDPQ (Canada)	ICO (Spain)	EIB	CDP (Italy)	CDC (France)	BDB (Bulgaria)
KfW (Germany)	Malta Enterprise (Malta)	BDB (Bulgaria)	Arengufond (Estonia)	SZRB (Slovakia)	HBOR (Croatia)	SID (Slovenia)
VEB (Russia)	BGK (Poland)	OeEB (Austria)	Malta Enterprise (Malta)	HBOR (Croatia)	NWB Bank (Netherlands)	Bancomext (Mexico)
Almi (Sweden)	NWB Bank (Netherlands)	SID (Slovenia)	ICO (Spain)	SNCI (Luxembourg)	BBB (UK)	CDB (China)
SBCI (Ireland)	VEB (Russia)	Finnvera (Finland)	BBB (UK)	KredEX (Estonia)	EIB	CDP (Italy)
MFB (Hungary)	CDC (France)	CDP (Italy)	CDPQ (Canada)	SID (Slovenia)	BDB (Bulgaria)	JBIC (Japan)
KredEX (Estonia)	BDB (Bulgaria)	BNDES (Brazil)	AWS (Austria)	BICE (Argentina)	BNDES (Brazil)	SBCI (Ireland)
BNDES (Brazil)	Finnvera (Finland)	JBIC (Japan)	SBCI (Ireland)	OeEB (Austria)	CDG (Morocco)	VEB (Russia)
EIB	KfW (Germany)	Malta Enterprise (Malta)	BICE (Argentina)	Finnvera (Finland)	TSKB (Turkey)	Malta Enterprise (Malta)
BDB (Bulgaria)	ALTUM (Latvia)	CDPQ (Canada)	IDFC (India)	Bancomext (Mexico)	VEB (Russia)	CDC (France)
BICE (Argentina)	CDP (Italy)	Almi (Sweden)	BDB (Bulgaria)	BNDES (Brazil)	KredEX (Estonia)	BBB (UK)
CDPQ (Canada)	BNDES (Brazil)	KredEX (Estonia)	OeEB (Austria)	JBIC (Japan)	CDP (Italy)	CMZRB (Czech Republic)
Malta Enterprise (Malta)	EIB	BBB (UK)	Finnvera (Finland)	VEB (Russia)	JBIC (Japan)	AWS (Austria)
OMERS (Canada)	ICO (Spain)	OMERS (Canada)	CDP (Italy)	BBB (UK)	IDFC (India)	Bpifrance (France)

Bancomext (Mexico)	MFB (Hungary)	BGK (Poland)	JBIC (Japan)	OMERS (Canada)	SID (Slovenia)	SNCI (Luxembourg)
ICO (Spain)	OeEB (Austria)	VEB (Russia)	Almi (Sweden)	KfW (Germany)	BICE (Argentina)	HBOR (Croatia)
CDC (France)	SID (Slovenia)	CDC (France)	KredEX (Estonia)	NWB Bank (Netherlands)	CMZRB (Czech Republic)	CDG (Morocco)
TSKB (Turkey)	IDFC (India)	KfW (Germany)	OMERS (Canada)	MFB (Hungary)	OMERS (Canada)	TSKB (Turkey)
SZRB (Slovakia)	Arengufond (Estonia)	ALTUM (Latvia)	BGK (Poland)	Arengufond (Estonia)	SBCI (Ireland)	KredEX (Estonia)
ALTUM (Latvia)	DBJ (Japan)	MFB (Hungary)	CDC (France)	Malta Enterprise (Malta)	Arengufond (Estonia)	IDFC (India)
OeEB (Austria)	CMZRB (Czech Republic)	Arengufond (Estonia)	ALTUM (Latvia)	CDPQ (Canada)	Almi (Sweden)	BICE (Argentina)
CMZRB (Czech Republic)	BNG (Netherlands)	DBJ (Japan)	DBJ (Japan)	AWS (Austria)	OeEB (Austria)	Arengufond (Estonia)
Finnvera (Finland)	BICE (Argentina)	CMZRB (Czech Republic)	CMZRB (Czech Republic)	SBCI (Ireland)	Finnvera (Finland)	OeEB (Austria)
Arengufond (Estonia)	Bancomext (Mexico)	BNG (Netherlands)	BNG (Netherlands)	Almi (Sweden)	CDPQ (Canada)	Finnvera (Finland)
DBJ (Japan)	TSKB (Turkey)	Bancomext (Mexico)	Bancomext (Mexico)	BGK (Poland)	Malta Enterprise (Malta)	CDPQ (Canada)
HBOR (Croatia)	SZRB (Slovakia)	TSKB (Turkey)	TSKB (Turkey)	ALTUM (Latvia)	BNG (Netherlands)	BNG (Netherlands)
CDB (China)	HBOR (Croatia)	SZRB (Slovakia)	SZRB (Slovakia)	DBJ (Japan)	SZRB (Slovakia)	SZRB (Slovakia)
SNCI (Luxembourg)	CDB (China)	HBOR (Croatia)	HBOR (Croatia)	CMZRB (Czech Republic)	KfW (Germany)	KfW (Germany)
Bpifrance (France)	SNCI (Luxembourg)	CDB (China)	CDB (China)	TSKB (Turkey)	MFB (Hungary)	MFB (Hungary)
JBIC (Japan)	Bpifrance (France)	SNCI (Luxembourg)	SNCI (Luxembourg)	CDB (China)	BGK (Poland)	BGK (Poland)
AWS (Austria)	JBIC (Japan)	Bpifrance (France)	Bpifrance (France)	Bpifrance (France)	ALTUM (Latvia)	ALTUM (Latvia)

Conclusions

This research note set out to provide a systematic appraisal of the embedded autonomy of the world's most significant development banks. We built an institutional network of the world's largest national development banks plus the EIB, EFSI and EIS to determine if there are revolving doors between the private sector and international bureaucracies and if elites at these institutions are predominantly national or cosmopolitan in terms of their professional background. Contrary to what we might have expected, we find that elites at large, influential NDBs have primarily national, public sector backgrounds while NDBs in smaller countries are more cosmopolitan in nature.

The network highlights which institutions are nationally focused, which are cosmopolitan, how much the private sector matters relative to the public sector and what the pivotal providers of top level staff to the NDBs in the IPIR are. Overall, the evidence shows that there is no correlation between the size of a bank and the extent to which its elites come from international careers. Surprisingly, the largest development banks in the IPIR, the German development bank (KfW), Chinese development bank (CDB) and the Brazilian development bank (BNDES), have elites that are primarily national in their profiles.

While KfW has a few experiences in international private careers within Europe, the majority of its high-level staff come from the German government, central bank and national nonfinancial corporations. Similarly, the management of BNDES comes primarily from the Brazilian public and private sector. The CDB's top staff are even more nationally oriented than the KfW and BNDES with Chinese banks and government providing the sole professional experiences.

It appears that cosmopolitan careers characterize primarily the management of the EU institutions. The network illustrates that the EIB is staffed by civil servants coming primarily from public sector institutions, with most of its staff originating in a variety of national economic ministries, planning bodies, public pension funds, development agencies and general government. Similarly, the EFSI appears to be extremely cosmopolitan and steeped in the public sector. Contrary to what we might have expected, the top-level staff of the NDBs of small countries such as Estonia, Cyprus and Malta are significantly more cosmopolitan in terms of the professional background than most of the large development banks.

Overall, while the major global banks and consultancies such as Santander, UniCredit, HSBC, J.P. Morgan, McKinsey, KPMG supply the elite staff of several NDBs, the management of the largest NDBs come predominantly from national public sector institutions. Furthermore, while we would have expected that the elite staff at the largest, most influential NDBs would have both international experience as well as experience at private financial institutions, we find that they are instead primarily national in terms of their professional backgrounds. These findings encourage a closer evaluation and comparison of these interesting cases to understand what explains variation in the professional backgrounds of elites at different financial institutions.

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