



Strategic Aspects of Activities Carried Out by the Eurasian Development Bank

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Abstract

The modern stage of global financial market development is marked by intensive innovation. One of its peculiarities is quick formation and improvement of activities carried out by international regional development banks.

The establishment of international regional development banks happened in the 1960s. During this period, development banks were founded in the countries and regions that got free from colonial dependency.

At present, concerted efforts are observed in the sector of international regional development banks.

During half a century of the activities, the mission, goals and operating principles of international regional development banks have changed conspicuously. Now their priorities are to finance long-term programs of regional infrastructure development, to invest in global projects and to lend socio-economic development programs.

Along with earlier established international regional development banks, new institutions are also created. The primary reason for the establishment of these financial institutions is a region's need to draw global investment.

One of the newly established regional development banks is the Eurasian Development Bank that substantially differs from banks in operation. The Bank's primary specific features are the parity compliance with the interests of the region's countries and the attainment of socio-economic tasks related to the region's development.

Keywords: International Regional Development Banks, The Eurasian Development Bank, Socio-Economic Projects, Investment, Development Strategy, Operating Principles, Conceptual Aspects.

1. Introduction

The development of international financial institutions in the 20th century was marked by the establishment of new institutional bodies (international regional development banks).

Initially, the prerequisite for the foundation of international regional development banks was the need to accumulate financial resources for the economies that gained colonial independence [1]. During this stage, the role of mother countries was defined as an initiator of measures to set up development banks and form financial and credit dependence of former colonies. This being the case, the economy in the countries freed from colonial dependence expanded and was financed in the interests of investor countries. The economic transformation of developing countries and the lack of funds to finance socio-economic projects led to deconstruction and much slower economic growth in these countries [2].

International regional development banks were established by analogy with the International Bank for Reconstruction and Development. For this reason, mechanisms used in accumulating financial resources, providing development and lending economic development projects were determined on the basis of quota subscriptions of member states. The biggest stakes in international regional development banks were held by economically developed countries (US, UK, Germany, France, Italy, etc.). A decision on credit lines depended on the interests of the international market and economies of leading countries among founding members of international regional development banks.

International regional development banks, which are established nowadays, are founded in absolutely different socio-economic conditions. Even developing countries stand to understand the goal and conceptual tasks of establishing and organizing the operation of a regional development bank. These goals above all are to solve problems and objectives related to socio-economic development of a region's countries, to develop infrastructure systems, to propose and execute development projects in priority areas of a region's economy, to remove hurdles to create a favorable climate, to provide employment and improve living standards of a region's populace.

One of the newly established international regional development banks is the Eurasian Development Bank (EDB) that stands out from historically established regional development banks by its mission and priority goals [3].

In the new economic conditions, primary strategic development goals pursued by EDB are:

1. To encourage new countries of the region to join EDB;
2. To study the region's economy in order to propose and provide resources for the regional economy's development projects;
3. To prioritize financial support of strategic infrastructure projects;
4. To draw foreign investment to the region to develop priority sectors of the economy;
5. To ensure that the national interests of EDB member states and all the region's countries are complied with.

Building EDB's operating strategy on the basis of these conceptual principles will make it possible to execute the mission and strategic development goals pursued by EDB. The drive to innovation in the course of EDB's development conditions the relevance of the topic under study.

2. Methods

When collecting and processing materials for the article, we used general scientific methods of research (generalization, aggregation, classification, comparison), and methods of economic processes forecasting.

3. Results

As defined by the United Nations Organization, development banks are financial institutions that provide long-term funding for projects that cannot be 100% financed by private businesses and are aimed at socio-economic development.

The main goal of projects executed by development banks is to solve social problems, develop, upgrade and diversify the economy of a region that unites several national economies.

Modern priority objectives pursued by international development banks are as follows (Figure 1):

1. to provide long-term credit for investment projects;
2. to create a favorable investment climate and draw foreign investment;
3. to eliminate consequences of global financial crises by giving credit to a region's economy;
4. to finance projects in the priority sectors of the economy.

International regional development banks play a big role in the regions of the world, accumulating long-term investment resources and providing financial support to socio-economic projects that are marked by capital intensity, low profitability and high risks.

International development banks are assessed by the results of their socio-economic effect, the stability of a region's development rather than by returns or profitability.

International development banks hold a special niche within the international credit market without being rivals of transnational banks or national commercial banks.

There is also a separate group of national development banks whose founding members are sovereign governments. The operation of these banks is governed by special national laws and they remain beyond regulation imposed on commercial banks.

Financial institutions in the form of national development banks operate in 36 countries of the world (Germany, Norway, Russia, Spain, Kazakhstan, Canada, etc.).

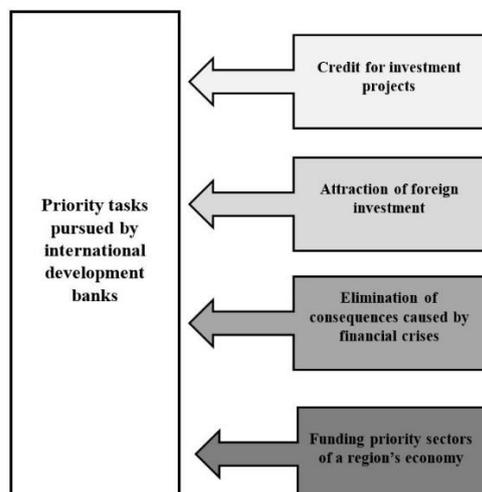


Fig. 1: Priority objectives pursued by international regional development banks

While carrying out their activities, development banks conduct research that allows them to assess risks, define competitive advantages and find out peculiarities of strategic development of a region's infrastructure. In this connection, they actively provide credit to financial institutions and manufacturers.

In many regions, development banks are the only institutions that provide long-term credit and investment.

Resources that provide financial stability to development banks are various forms of government funds:

- granting of state guarantees;
- issue of long-term government credit;
- provision of the right to issue government bonds;
- state capitalization of the authorized capital of banks.

EDB became an Innovation Development Bank. The Bank's equity capital stands at RUB 95.2 billion and it increased by 201% in 2017 alone. The bank actively introduces innovative products and services.

EDB's establishment was driven by the intergovernmental agreement on the Eurasian Economic Union (EEU) (May 29, 2014). EEU member states are Russia, Kazakhstan and Belarus. Kyrgyzstan and Armenia joined EEU in 2015. The establishment of a single economic space promoted the formation of the market that implies freedom of cargo shipment, freedom of services exchange, freedom of labor force migration and freedom of capital movement.

Upon research of the Bank's declarative documents, its auditor reports and statements, primary economic reports, as well as consideration of the current economic conditions in the region and in the world, strategic conceptual provisions for the Bank's operating development have been elaborated.

Conceptual strategic principles for EDB's operating development will allow EDB to gain international recognition and become an authoritative institution in the international financial market, to become financially stable and proactive, to efficiently solve socio-economic problems faced by the region, and execute programs for economic and infrastructure development.

The following areas are highlighted among EDB's conceptual strategic development tasks:

1. *To encourage new countries from the region to become EDB member states.*

EDB development has been determined by changes among its member states. Here is the chronology of EDB's development.

Russia and Kazakhstan joined EDB in 2006, Armenia and Tajikistan followed suit in 2009, Belarus joined in 2010, and Kyrgyzstan became an EDB member state in 2011.

It is not an easy task to increase the number of EDB member states, this requires concerted efforts to improve EDB's business reputation and to accelerate execution of regional infrastructure projects.

2. *To study the region's economy to create and provide resources for development projects in the regional economy.*

The implementation of this aspect of EDB's strategic development implies measures to forge an advanced research base and to hire the best scientists and experts.

3. *To prioritize funding of strategic infrastructure projects.*

The solution of problems related to the development of the region's infrastructure (the construction of advanced highways and railroads, development of electricity, gas supply and telecommunications systems) will make it possible to increase accessibility of the region's remote areas and to create conditions for modern interstate relations.

4. *To draw foreign investment to the region to develop priority sectors of the economy.*

The creation of a favorable investment climate in the region based on the efficient management of investment and credit processes and the provision of guarantees will allow EDB to make its investment portfolio deficit-free.

5. *To ensure that the national interests of EDB member states are complied with.*

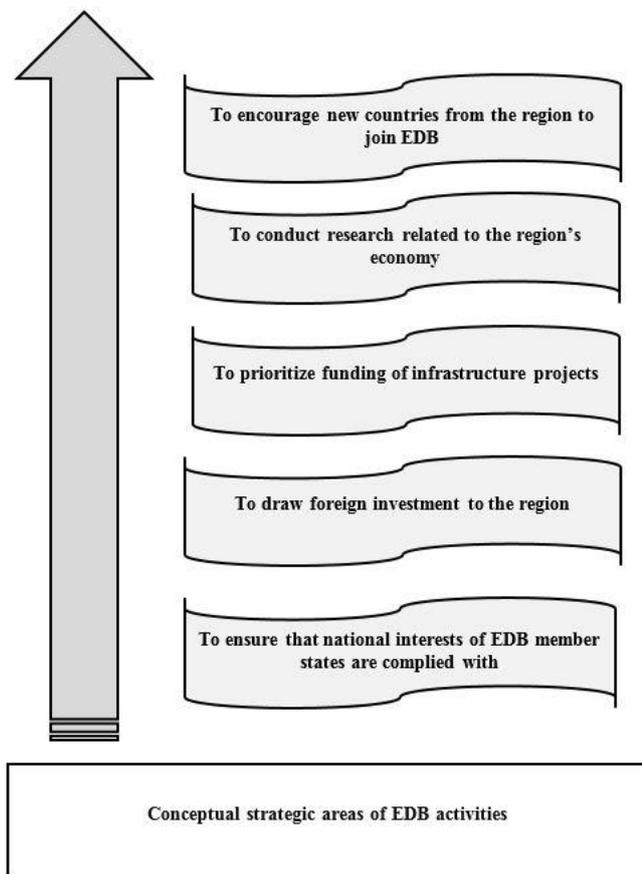


Fig. 2: Strategic aspects of EDB activities [4, 5]

4. Conclusions

The implementation of elaborated conceptual principles of EDB's strategic development will make it possible to maintain EDB's sustainable development and competitiveness in the global financial market.

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