Long-Term Finance
Long-Term Finance
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The third Global Financial Development Report contributes to the ongoing debate on the role of long-term finance in sustaining economic development and ensuring shared prosperity. It builds on the first and second reports, which respectively contributed to the debates on the role of the state in finance and on financial inclusion. Like these prior analyses, this report provides a nuanced, practical, and evidence-based approach to financial sector policy.

Its recommendations come at a crucial time, almost seven years after the global financial crisis spread rapidly and broadly across many advanced and developing countries. In recent years, international policy makers, in particular the Group of Twenty (G-20), have voiced growing concerns about the potential detrimental effects of a prolonged decline in the supply of long-term funding by the international banking system. At the same time, raising fixed investment, particularly in infrastructure, is increasingly seen as critical to sustaining the level of economic growth needed to achieve the broader objectives of the post-2015 Sustainable Development Goals. In this context, the G-20 has endorsed various policy initiatives involving international organizations (the Financial Stability Bureau, the International Monetary Fund, the Organisation for Economic Co-operation and Development, and the World Bank Group) in areas such as financial sector regulatory reforms, the development of local currency bond markets, and the role of institutional investors in financing long-term investments.

The Global Financial Development Report 2015/2016: Long-Term Finance offers new research and data that help fill gaps in the knowledge on long-term finance and that contribute to the policy discussion on this development issue. It provides stylized facts and examines both new and older evidence on the use and provision of long-term finance and its economic impact.

Extending the maturity structure of finance is often considered to be at the core of sustainable financial development. It would be a challenge to achieve high and sustainable rates of economic growth if countries fail to invest in schools, roads, power generation, electricity distribution, railways and other modes of transport, and communications. Private sector construction of plants and investment in machinery and equipment are also important. Without long-term financial instruments, households would face great hurdles to smoothing or raising income over their life
For many years, the World Bank Group has been engaged in activities related to delivering sustainable long-term finance to developing countries. Prior attempts at directly boosting the supply of long-term finance have not been free of controversy and have sometimes led to substantial costs to taxpayers. In response, the World Bank’s direct long-term lending was reduced in the 1990s and 2000s, and its other roles became more prominent.

The report provides a careful review and synthesis of recent and new research, identifying those policies that work to promote long-term finance and those that do not; it also notes where more research is needed. It argues that there is no magic bullet to promote long-term finance. Typically, direct interventions have not been successful where underlying problems remained. As a result, governments and international bodies must focus on reforms that help overcome market failures and institutional weaknesses. They must also improve risk and information sharing, and promote financial literacy and consumer protection.

We hope that this year’s *Global Financial Development Report* will prove useful to a wide range of stakeholders, including governments, international financial institutions, nongovernmental organizations, think tanks, academics, the private sector, donors, and the broader community.

Jim Yong Kim
President
The World Bank Group
Global Financial Development 2015/2016: Long-Term Finance reflects the efforts of a broad and diverse group of experts both inside and outside the World Bank Group. The report was produced by the World Bank Research Department in collaboration with the Finance and Markets Global Practice, the Financial Institutions Group in the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Moreover, it includes inputs from a wide range of units, including the Development Economics Vice Presidency, the Regional Vice Presidencies, the Macroeconomics and Fiscal Management Global Practice, the Treasury, and the Publishing and Knowledge Division of the External and Corporate Relations Vice Presidency.

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Kaufman Professor of Financial Institutions, Columbia Business School; Stijn Claessens, Senior Adviser, Federal Reserve Board; Olivier Jeanne, Professor of Economics, Johns Hopkins University and Senior Fellow at the Peterson Institute for International Economics; Ross Levine, Willis H. Booth Chair in Banking and Finance, Haas School of Business; and Vojislav Maksimovic, William A. Longbrake Chair in Finance, Robert H. Smith School of Business at the University of Maryland.

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Abbreviations and Glossary

BIS  Bank for International Settlements
G-20  Group of 20
GDP  gross domestic product
IMF  International Monetary Fund
OECD  Organisation for Economic Co-operation and Development
SME  small and medium enterprise
SWF  sovereign wealth fund

Note: All dollar amounts are U.S. dollars ($) unless otherwise indicated.

GLOSSARY

Country  A territorial entity for which statistical data are maintained and provided internationally on a separate and independent basis (not necessarily a state as understood by international law and practice).

Financial development  Conceptually, financial development is a process of reducing the costs of acquiring information, enforcing contracts, and making transactions. Empirically, measuring financial development directly is challenging. This report focuses on measuring four characteristics (depth, access, efficiency, and stability) for financial institutions and markets (“4x2 framework”).

Financial inclusion  The share of individuals and firms that uses financial services.

Financial system  The financial system in a country is defined to include financial institutions (banks, insurance companies, and other nonbank financial institutions) and financial markets (such as those in stocks, bonds, and financial derivatives). It also includes the financial infrastructure (which includes, for example, credit information–sharing systems and payments and settlement systems).
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<td><strong>Long-term finance</strong></td>
<td>Long-term finance comprises all types of financing (including loans, bonds, leasing, and public and private equity) with a maturity exceeding one year. Maturity refers to the length of time between origination of a financial claim (loan, bond, or other financial instrument) and the final payment date, at which point the remaining principal and interest are due to be paid. Equity, which has no final repayment date of a principal, can be seen as an instrument with nonfinite maturity.</td>
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<td><strong>Nonbank financial institutions</strong></td>
<td>Institutional investors and other nonbank financial intermediaries (such as leasing companies and investment banks).</td>
</tr>
</tbody>
</table>