

## **“Role of Banks in Sustainable Economic Development”**

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Ladies and Gentlemen,

I am delighted to be with you in Beirut today to celebrate the 90 years anniversary of Fransabank, the oldest bank operating in Lebanon. It is a pleasure for me to address this distinguished audience and to reflect upon the role of banks in sustainable economic development.

1. If Fransabank has been able to operate for ninety years as a financial institution, it is because it has built trust and confidence. Trust is probably the most valuable asset for a bank. With trust, a bank can collect deposits and savings and transform them into long term investments, through the granting of loans: if trust is the most valuable asset for a bank, leverage is its *raison d'être*.

However, the ongoing financial and economic crisis has ignited a debate about the role of banks in global economy. What are the functions that banks should perform for the rest of the economy? What is the role of banks in our society?

The crisis was largely caused by the short-termist behaviour of financial markets and exotic financial innovation on the one hand, and by a disconnect between investment strategies and the needs of the real economy on the other. In this context and for those two reasons, confidence in banks has decreased: banks are expected to support growth, but in this case, they actually triggered one of the most severe economic crises since 1929.

I firmly believe that, looking beyond the recovery plans and regulatory reforms that have been deployed to address the immediate consequences of the crisis, banks must reaffirm their role as investors for the long-term. This is what really generate value for future generations and create economic stability in this post-crisis world. This is also what would help them to regain the trust and confidence they may have lost in the crisis.

What is more, investors committed to the long-term will prove important players as our societies strive to meet the challenges of urbanization, infrastructure financing or the shift to a low-carbon economy. And this would be a major contribution to sustainable economic development.

In Europe and for those reasons, the European Investment Bank and three other partners (the French Caisse des Dépôts, the Italian Cassa di Depositi and the German KfW Bankengruppe) created the Long-Term Investors Club (LTIC) in 2009. The Club aims to bring together major worldwide institutions including sovereign wealth funds, public sector retirement funds, private sector pension funds, economists, financial policy makers and regulators to open the way to greater cooperation and to deliver the message that fostering the right conditions for long-term investment will be an important element in promoting growth and economic stability.



In a context in which public administrations have become more and more constrained by the weight of their debts, innovative ways to structure long-term investment projects have also to be found. Some solutions exist, for example through public-private partnerships – and it is also the role of banks to help to deliver this efficiently.\

A public institution like the European Investment Bank focuses its financing activity on the delivery of global public goods. We are committed to strict standards in terms of sustainable economic development. For instance, tackling climate change has become one of our main priorities and is guiding our choice of projects: in 2011, we signed 18 billion euros of loans in the sectors of renewable energy, energy efficiency and sustainable transport; i.e. nearly 30% of our total lending of 61 billion euros.

2. In the Mediterranean region, the impact of the crisis is not the same – but the need for long-term, sustainable investments is probably at least as accurate as elsewhere.

In this region too, the European Investment Bank is supporting long-term projects. Through the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), the European Investment Bank has become a key player in the region – not only by financing projects, but also by providing a forum for political dialogue (through the FEMIP ministerial meetings) and for cooperation (through technical assistance and conferences).

Let me seize this opportunity to make mention of the two conferences we will organize in the coming months, as both will address very concrete issues for the region:

On 26th April, we will organise a one-day conference in Amman in Jordan on how to promote sustainable tourism in the Mediterranean; this conference will address sustainability issues in the tourism sector, presenting case studies and success stories from around the Mediterranean and beyond, at a time when it is crucial to safeguard the future of tourism in the region;

And in two weeks, on 8th March, we will be hosting a conference in Tunis on Mediterranean SMEs : we will then touch upon several sensitive issues, like access to finance, entrepreneurship education and competitiveness.

Speaking of SMEs, I also believe that they have a role to play in sustainable economic development; in the current environment, SMEs can be an important source of new jobs. Our support to SMEs takes several, different shapes. First and foremost, we bring them loans, through the intermediary of financial institutions like Fransabank. But we also try to better understand what they need. For instance,

in the context of a regional study, a visit of a team of EIB economists will take place in Lebanon next month (12th-14th March) in order to understand which constraints (if any) prevent a stronger role of the financial sector in intermediating resources towards the private sector and SMEs in particular.

3. As a banker for Europe and the Mediterranean, EIB is taking risks to deserve trust and to make the best use of its leverage for the real economy. But to play a role in economic sustainable development, a bank must also benefit from a consistent regulatory framework. Policy makers must define and encourage optimal conditions for banks to finance the real economy through long-term investments.

The American financial crisis should not lead European or Mediterranean authorities to stop investing in a common future. The global rank and position of Europe and of the Mediterranean depend on the confidence they have in themselves and on the support they wish to bring to the real economy and to sustainable growth.

Thank you for your kind attention.