International Scientific Conference

“Towards a Better Future: Peace, Justice, and Strong Institutions”

Conference Proceedings

Faculty of Law - Kicevo

Kicevo, 2024

CIP - Каталогизација во публикација
Национална и универзитетска библиотека "Св. Климент Охридски", Скопје

502.131.1:34(062)
332.146.2:34(062)

INTERNATIONAL scientific conference (2023 ; Bitola)
Towards a better future: peace, justice, and strong institutions : conference proceedings / International scientific conference, Bitola, 20.10.2023 ; [editors Goran Ilik, Svetlana Veljanovska, Angelina Stanojoska]. - Kicevo : University "St. Kliment Ohridski"- Bitola, Faculty of Law, 2024

Начин на пристапување (URL):
https://pfk.uklo.edu.mk/con_proc_tbf_peace_justice_and_strong_institutions/.
- Текст во ПДФ формат, содржи 352 стр., илустр. - Наслов преземен од екранот. - Опис на изворот на ден 11.01.2024. - Фусноти кон трудовите. - Библиографија кон трудовите

ISBN 978-608-4670-24-7

а) Одржлив развој -- Правни аспекти -- Собири

COBISS.MK-ID 62764805

International Scientific Conference

“Towards a Better Future: Peace, Justice, and Strong Institutions”

Bitola, 20.10.2023

Conference Proceedings

Publisher
University “St. Kliment Ohridski”- Bitola, Faculty of Law - Kicevo

For the Publisher
Prof. Dr.sc Svetlana Veljanovska, Dean of the Faculty of Law – Kicevo

Address of the Publisher
Rudnicka BB
6250 Kicevo, Republic of North Macedonia
+ 389 45 220 267
http://pfk.uklo.edu.mk

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ISBN
608-4670-24-5
978-608-4670-24-7
9786084670247

PREFACE

The world today is developing at a tremendous speed and globalization is a process that no country, no individual can ignore. Changes happen in politics, in the economy, in law, everywhere where man can impose his influence.

The United Nations Organization is trying to give its own direction in all those changes by funding the goals for sustainable development until 2030, with a recommendation that they be respected by the member states of the organization.

I believe that the idea of a global partnership is viable only if science gets the primacy of guidance in the states and if the ideas of peace, good governance, sustainable economic and social development are accepted by the authorities right now, so that we can see the effects in a few years.

The international scientific conference organized by the Faculty of Law with the title "Toward a better future" this year had the sixteenth goal of the UN as a light motive. This is our sixth conference and we believe that as an educational as well as a scientific institution, we should make our own contribution towards the achievement of the given goal, which is to live in a better and happier society.

This year, the framework of our thinking is the ideas of the UN to try to give our proposals and ideas as to peace, justice and strong institutions.

The authors who registered their papers at the conference deal with different scientific fields in the social sciences and offered us quality papers in the direction of the development of our societies towards inclusiveness and representation of everyone regardless of origin, race, religion or sexual orientation.

The rule of law, the protection of human rights and freedoms must be on the pedestal because without it we will not have the opportunity as humanity to get the best out of ourselves and contribute to social development.

I wish that the conclusions that will emerge from our papers at this international meeting will become part of the policies of the states that strive to achieve peace, justice and strong institutions.

Prof. Dr.sc. Svetlana Veljanovska
Dean of the Faculty of Law –Kicevo

Kicevo, 2023

Ladies and gentlemen,

Distinguished guests,

It is with great pleasure and honor that I stand before you today as we gather for the opening of the International Scientific Conference of the Law Faculty. Our conference carries the significant title of "Towards a Better Future: Peace, Justice, and Strong Institutions." This topic aligns perfectly with the global pursuit of sustainable development and underscores the crucial role of law in shaping a brighter future for all.

The Sustainable Development Goal 16, known as SDG16, encompasses the principles of peace, justice, and the establishment of strong institutions. These pillars are essential for the advancement of societies and the well-being of individuals worldwide. As we gather here today, we recognize the pressing need to address the challenges that hinder the realization of these fundamental values.

Peace, as we know, forms the bedrock upon which prosperous societies are built. It is the absence of conflict, the presence of harmony, and the pursuit of understanding among nations, communities, and individuals. Achieving lasting peace requires our collective efforts in resolving conflicts, promoting dialogue, and fostering a culture of tolerance and respect for diversity. Through our discussions and research during this conference, we aim to explore innovative legal approaches and strategies that can contribute to sustainable peace-building efforts.

Justice, too, is an indispensable component of a better future. It ensures the fair and equitable treatment of individuals, upholds the rule of law, and safeguards human rights. Yet, justice is often elusive for many, particularly the marginalized and vulnerable. It is our duty as legal scholars and practitioners to address these disparities, examine the existing legal frameworks, and propose reforms that promote equal access to justice for all. By doing so, we can pave the way towards a more inclusive and just society.

Strong institutions are the pillars that support the rule of law, good governance, and effective public administration. They provide the necessary framework for sustainable development and ensure that the benefits are shared by all members of society. Our conference serves as a platform to delve into the crucial role of legal institutions in promoting transparency, accountability, and the efficient delivery of justice. Together, we can identify

best practices, exchange knowledge, and shape the future of legal institutions that are robust, efficient, and responsive to the evolving needs of our societies.

Ladies and gentlemen,

The challenges before us are formidable, but so is our determination to overcome them. Through this conference, let us harness our collective expertise, ignite meaningful discussions, and foster collaborations that will contribute to the realization of SDG16 and a better future for all.

I encourage you to actively participate, share your insights, and engage in fruitful dialogue that will enrich our understanding and pave the way for impactful change.

I extend my heartfelt gratitude to the organizing committee, the participants, and our esteemed speakers who have contributed their time, knowledge, and dedication to make this conference a reality.

Together, let us embark on this intellectual journey, united in our commitment to peace, justice, and strong institutions.

Thank you, and I wish you all a productive and inspiring conference.

Prof. dr. sc Goran Ilik
Vice-Rector for Science of the University "St. Kliment Ohridski" – Bitola

Bitola, 20.10.2023

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Original Scientfic Article
UDK 336.71-043.86(100)
334.72.012.63/.64:336.71(100)
332.146.2:[334.72.012.63/.64:336.71(100)

INNOVATIVE AND EFFECTIVE DEVELOPMENT FINANCE INSTITUTIONS FOR SUSTAINABLE DEVELOPMENT[2]

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Abstract

With effective and strong policy guidance and sufficient resources, development finance institutions have the capacity to effectively and innovatively foster sustainable development. Development finance institutions have several objectives related to investing in private sector sustainable development projects, maximizing development impact, achieving long-term financial sustainability and mobilizing private finance. Private investments are crucial for sustainable development and development finance institutions are becoming increasingly important actors in the development finance landscape. The paper analyzes the concept of development finance institutions, reasons that influenced governments to establish them, as well as their involvement in the political scene. The subject of research is their role in private finance mobilization and financing development, eliminating the undercapitalization of small and medium enterprises, creating new job opportunities, increasing employment, as well as mitigating negative consequences of the crisis.

Key words: *development finance institutions, sustainable economic growth, private finance mobilization, investments, small and medium enterprises, employment, jobs opportunities*

INTRODUCTION

[2]The paper was written as part of the 2023 Research Program of the Institute of Social Sciences with the support of the Ministry of Science, Technological Development and Innovation of the Republic of Serbia.

After the United Nations Conference on Environment and Development held in Rio de Janeiro in 1992, and then the Third International Conference on Financing for Development held in 2015 which enabled adoption of The Addis Ababa Action Agenda, countries express their political commitment to the development of a green economy in the context of sustainable development. This includes the achievement of numerous objectives such as the eradication of poverty and hunger, equality in education, inclusive green economic growth, full employment, strong institutions that promote the rule of law, reduced economic, social, environmental inequalities, adaptation to climate change and mitigation of its negative effects consequence, sustainable production and consumption, rational use of natural resources, reduction of the carbon footprint, etc. The green transition is crucial to reconcile and make these social economic and environmental dimensions of sustainable development achievable. Institutions that were founded with the aim of investing in sustainable development projects and thereby encouraging the aforementioned green transition process are development finance institutions. To analyze their development potential, it is important to define their roles, operations and effectiveness. In the following, the concept of development finance institutions will be explained, as well as the reasons for their establishment. Their political activity, role and mandates will also be the subject of analysis. Finally, the influence of development finance institutions on the acceleration of sustainable economic growth through the mobilization of private finance will be discussed. The importance of development finance institutions' investments in the sector of small and medium-sized enterprises for the growth of job opportunities and employment will be pointed out.

THE EMERGENCE OF DEVELOPMENT FINANCE INSTITUTIONS

Development finance institutions were originally established with the aim of providing financial support to underdeveloped regions of the world. The role of the Multilateral Development Banks (MDBs), which were established to deal with market failure in long-term capital flows to post-conflict Europe, was particularly prominent after the Second World War. Their activities for more than five decades have been based on combining financial assistance and technical know-how in post-conflict reconstruction, promoting growth, reducing poverty and accelerating the process of industrialization. (Center for Global Development 2016). That was the initial role of development finance institutions. As sustainable development became a generally accepted concept of development and as its goals corresponded to the development finance institutions' objectives, their position also changed and became very important among institutions that provide development finance (Ostojić 2022).
Development finance institutions are public financial institutions launched by governments in order to achieve public policy goals. Fernández-Arias, Hausmann and Panizza (2020) define development banks "as government-owned financial institutions that have the objective of fostering economic or social development by financing activities with high social returns". As potentially useful policy instruments for fixing market failures, the authors suggest that development banks should target market failures identified by policymakers and provide adequate financial support, but without distorting the market by unfair competition with

efficient private banks.

Gutierrez et al., (2011) explore the arguments that justify state interventions in the financial system through state financial institutions and development banks. If there are defined market failures, the financial resources of development banks are the best option and the most efficient way to solve that problem. In addition, the inclusion of a development bank does not necessarily lead to crowding out the private sector, as well as to competition between the government and commercial banks, which can discourage new investments and, therefore, economic development. Also, one of the arguments is certainly the financial sustainability of the development banks, their operations on a sound economic basis and the provision of sufficient financial resources without burdening the state.

Development finance institutions are specialized development organizations that invest in private sector projects in underdeveloped countries creating new jobs, promoting sustainable economic growth, as well as environmental and social responsibility. Xu and Marodon (2021) concludes that development finance institutions are "mandated to fill financial gaps where private capital markets and commercial banks are unwilling or unable to offer financial support". The main business orientation of commercial banks is profit maximization. On the other hand, according to Jones (2021), one of the notable roles of development finance institutions is filling the financial gap between public assistance and private investments, so a comparison between development finance institutions and aid agencies should be made. What they both have in common is their orientation towards sustainable development. However, unlike aid agencies, development finance institutions support profitable investments because they operate in accordance with market rules and are profitable for donor countries.

Ferraz (2023) characterizes this type of institution as a legally independent multi-purpose institution, most of which are publicly owned or have a relatively stable funding base that is supported by governments and operate with a medium and long-term perspective, using numerous financial instruments - grants, direct loans, guarantees, loans through commercial banks, equity through investment funds, direct shares in public or private companies.

Garmendia and Olszewski (2014) in their research consider the roles of development finance institutions in the international impact investment ecosystem. As a market catalyst, they play a pioneering role in opening up the market for other investors as well.

Certain geographic and market segments do not have capacities to attract investments with the potential for high social impact. As institution builders, development finance institutions focus on building missing capacities, thereby solving the aforementioned problem. As the main investors, they indicate to other investors the propulsive development markets, mitigate risks, exchange experiences and accumulated knowledge, thereby generating investments that have a significant social impact. As deal generators, development finance institutions find and create investment opportunities, bear and reduce the transaction costs of certain deals, which is important for potential investors.

Development banks have been a major feature of the development finance architecture for many years (UNCTAD 2018). After the Second World War and from

the very beginning of its work and establishment, the World Bank and regional development banks played a fundamental role in the long-term financing of developing countries. The most significant growth in the number of multinational development finance institutions was in the 1970s, while the largest growth of national development finance institutions was recorded in the early 1990s after the collapse of the Soviet Union (Xu, Ren and Wu 2019). However, their development potential was not fully utilized during the twentieth century. Most underdeveloped countries had a centrally planned economies. After the 1980s and 1990s crises, countries liberalized their economies and opened markets, introducing more efficient market-oriented institutions and policies. With an emphasis on the development of the private sector, development finance institutions became more important and began to develop progressively.

THE POLITICAL ROLE OF DEVELOPMENT FINANCE INSTITUTIONS

As policy-based financial institutions, development finance institutions have roles and mandates that are directly related to the national development goals of the country, which confirms the establishment of some development finance institutions with specific purposes to promote the development of precisely defined sectors such as export expansion, reduction of financial inclusion, strengthening of the micro, small and medium enterprises through microfinance, building production capacities, etc. Development finance institutions with their project activities help companies to become competitive, achieve expansive growth and secure their market position. They invest in high-risk projects in which other investors lose interest. Giving credibility to the investments, they positively influence other investors to follow their example by transferring their knowledge and experience achieving catalytic effects and investing in projects that, in addition to financial ones, also have significant development potential. They adopt environmental and social standards for their investments and play a key role as intermediaries between stakeholders from the public and private sectors for large-scale investments, enabling their connection and long-term cooperation.

The relationship between development finance institutions and the state and other institutions is based on a political dialogue that defines their mission, vision, strategy, development policy, financial instruments, risk appetite, underdeveloped regions for investment and priority sectors. This information is contained in the founding statute. On the other hand, development finance institutions are established by governments, and therefore their freedom of decision-making is to a certain extent limited by compliance with prescribed laws and policies (Laplane, Herder and Schmidt 2020). The final decision on whether a specific project will be supported by these institutions is not made by the shareholders, i.e. aid agencies or some of the policymakers, but by apolitical bodies such as the Board of Investment Committee or the Board of Directors (Savoy, Carter and Lemma 2016).

Development finance institutions are faced with pressures from various spheres of interest such as shareholders, non-governmental organizations and policymakers. Shareholders believe that these institutions should support more investments that have direct implications for global development goals, as well as riskier investments in order to achieve development results in frontier markets. On

the other hand, non-governmental organizations and policymakers believe that development finance institutions should be more similar to aid agencies with greater political responsibility in the investment decision-making process. Also, the application of stricter tax standards as well as more socially responsible corporate behavior is suggested (Paiva-Silva, 2021).

Development finance institutions through their investments achieve specific goals of foreign policy and international security. During the war between Georgia and Russia in 2008, after the bombing of Georgia by Russia, the USA, through its development finance institution and a powerful force in mobilizing private capital for investments in developing markets - Overseas Private Investment Corporation (OPIC), supported Georgia and provided it with the financial assistance of 176 million dollars. The war against Georgia led to the suspension of domestic borrowing, while the mortgage market suffered the most severe consequences. Total US aid to Georgia was one billion dollars, while funds through the financial development institution OPIC were used to support the local mortgage market (Nichol 2009). OPIC also had a policy response to the Arab Spring and civil wars that led to greater economic and political freedoms and the overthrow of entrenched authoritarian regimes in 2011, providing $2 billion in aid to the Middle East and North Africa for private investment that will contribute to economic recovery and growth. Financial assistance was directed towards investments in consumer goods sectors, manufacturing, financial services, as well as financial guarantees for investments in infrastructure and small and medium enterprises in Egypt and Jordan (OPIC 2011).

In support of the mentioned political influence, there is an example of the initiative of the development finance institution from Great Britain CDC Group, one of the oldest founded in 1948, and Standard Chartered Bank to increase lending to small and medium enterprises in Sierra Leone. After a year of fighting against ebola, the implementation of the economic recovery plan began with financial support of 50 million dollars. The pandemic has led to interruptions in supply chains and a lack of basic products, a reduction in production in the mining sector, which also affected the reduction of the gross domestic product growth rate from the planned 11% to only 4% (CDC, 2020). When the situation in the country stabilized, the problem of small and medium-sized enterprises starting investment activities in a country that is on the road to economic recovery arose, which created capital pressures on domestic banks. Standard Chartered Bank has reduced this pressure by increasing the number of approved credit lines to Sierra Leonean companies, while the CDC Group has committed to share with it the default risk of newly approved loans worth $50 million. In this way, despite the crisis, companies were able to continue their operations, maintain daily liquidity and achieve growth. The development finance institution CDC Group indirectly affects the suppression of the crisis caused by the ebola pandemic (CDC 2020).

It can be clearly seen that the role of development finance institutions is particularly important in countries affected by war and political conflict and internal unrest. These are mostly extremely poor countries that lack capital access and need a sustainable economic recovery led by a strong private sector. Investments by development finance institutions can play a key role in creating jobs and providing

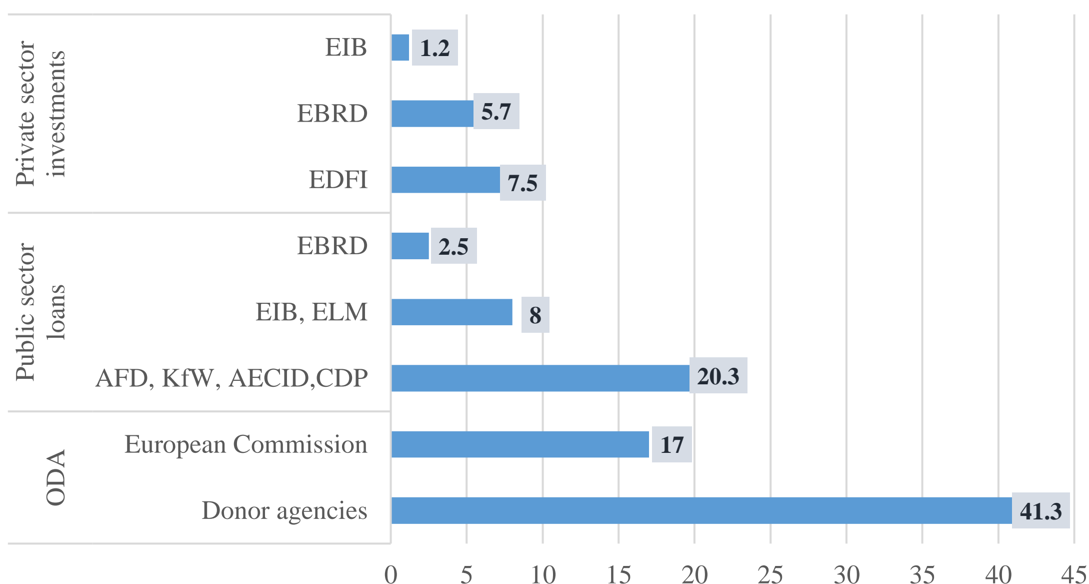
infrastructure that will enable economic progress and mitigate the negative effects of political instability. However, this is difficult to realize, because doing business in countries with conflicts is very risky and makes it impossible to attract private investments, which consequently cannot contribute to economic growth, and therefore do not affect poverty reduction (IDFC, 2020). Development finance institutions alone cannot solve this problem, but without their investments, the economic recovery of the affected countries would be much slower.

Development finance institutions have been investing in underdeveloped and developing countries for years, supporting development projects related to renewable energy sources. The reason for the development institutions' interest in renewable energy sources is certainly a response to political pressure to adapt to climate change and mitigate its negative consequences, but only partially. Even without political suggestions and interventions, these institutions recognized the true importance and financial potential of the commercialization of projects in the field of renewable energy sources. It is the only area where there is complete alignment between the business models of development finance institutions and political principles (Savoy, Carter and Lemma 2016).

THE IMPACT OF DEVELOPMENT FINANCE INSTITUTIONS ON ACCELERATING SUSTAINABLE ECONOMIC GROWTH THROUGH PRIVATE FINANCE MOBILIZATION

One research indicates that an increase in the gross domestic product of 1% leads to an increase in energy consumption of 0.48% and that the modernization and "greening" of the energy sector with a focus on environmentally acceptable energy sources is necessary (Petrović 2022). It has also been confirmed that the growth of population, gross domestic product per capita and energy intensity lead to an increase in CO_2 emissions (Petrović, Nikolić and Ostojić 2018). The new path of development is based on inclusive green economic growth, which enables the achievement of environmental, security, health and social benefits in addition to economic ones and development finance institutions are certainly the initiators of this new concept of development and transition to a greener economy.

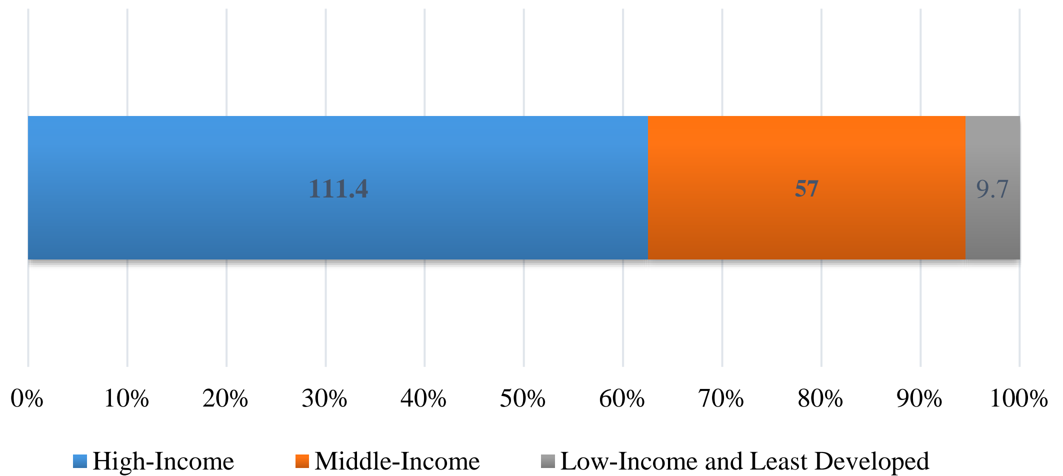
Development finance institutions are important not only for economic growth but also in the context of the theory of tripartite green economy and reform of the economic system that also includes the social component of development and active action against environmental and social degradation, inequality, and poverty (Ostojić, Jovanović and Matijević 2022). Although most development finance institutions have developed their own environmental and social risk management frameworks, a comparison of them shows that they are similar to each other due to the fact that they originally derive from the IFC Performance Standards (Laplane, Herder and Schmidt 2020).



Graph 1: European development finance landscape, by instrument and institution, 2020, EUR billion

Source: Gavas and Perez 2022

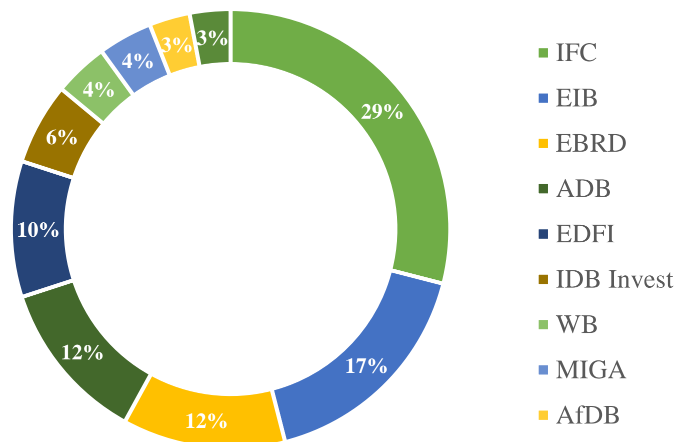
To achieve ambitiously set development goals on a global level, it is necessary to mobilize finance from all sources, and the emphasis is on the private sector. For this reason, development finance institutions are increasingly important actors in the development finance landscape. The European Union is the world's biggest donor of development assistance. The EU Instrument for Neighbourhood, Development and International Cooperation – Global Europe provides a strategic framework for increasing investments for the realization of the sustainable development goals, prosperity, peace and stability with the support of a budget of 79.5 billion euros until 2027. The promotion of investments is carried out through European Fund for Sustainable Development Plus (EFSD+) (Eoropean Commission 2021). At the European level, the main providers of development aid are the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the European Commission, while at the national level the German development finance institution (KfW) and the French development finance institution (AFD) stand out. The Association of Bilateral European Development Finance Institutions (EDFIs) consists of 15 national development finance institutions focused on private sector investments. These institutions provide different types of financing options that include: official development assistance (ODA), public sector loans as well as private sector investments (Gavas and Perez 2022).



Graph 2: Total private mobilization, high income, middle income, low income and last developed countries, US$, billions, 2019

Source: Group of Multilateral Development Banks 2021

Development finance institutions have several objectives related to investing in private sector sustainable development projects, maximizing development impact, achieving long-term financial sustainability and mobilizing private finance. Private investment is crucial for sustainable development. The amount of private investment mobilized by multilateral development banks and other development finance institutions in lower-income countries increased by 21% from 2018, and for least developed countries by 35%, while the amount of private investment mobilized in middle-income countries decreased by 11% (Group of Multilateral Development Banks 2021). The greater mobilization is consistent with a greater reduction of poverty and living standard improvement. According to the latest available data, multilateral development banks and other development finance institutions accumulated $178 billion in development funds from private investors through their indirect or direct actions. The largest share was achieved in developed countries ($111.4 billion), followed by middle-income countries ($57 billion) and the smallest share in low-income and last developed countries ($9.7 billion). The largest share in total private mobilization is recorded by International Finance Corporation (almost one-third), followed by European Investment Bank (17%) and European Bank for Reconstruction and Development (12%).



Graph 3: Mobilization of private finance by development finance institution type, middle-income countries and lower-income countries, 2019

Source: Group of Multilateral Development Banks 2021

Full employment is possible only if there are competitive companies that contribute to strengthening employee performance (Maksimović and Zvezdanović Lobanova 2022). Development finance institutions mobilize funds for small and medium-sized enterprises, promoting their growth and development, which is reflected in the generation of new jobs and the employment of labor, the construction and addition of new production capacities, the purchase of raw materials for the fulfillment of international and regional contracts, enabling local companies to manage currency and payment risk in cross-border transactions, as well as their full inclusion in international supply chains. Development finance institutions influence the increase in employment, which is supported by numerous studies. The direct impact on the increase in employment can be measured by the number of new jobs created in companies financially supported by these institutions. However, indirect effects are also the number of newly created jobs at other participants in the supply chain-manufacturers, distributors, suppliers, marketing, transport, construction companies, etc. In addition to direct and indirect effects, there are also induced effects that arise when employees spend their income buying products and services that influence the increase in the producer's income (IFC 2013).

One of the IFC studies presents the results of research whose objectives were to determine how the IFC investment of one million dollars in different economic sectors of Sri Lanka affects the generation of added value and employment. Taking the business services sector as an example, an investment of one million dollars leads to the creation of additional value in the entire economy of $5.3 million and to the creation of 436 new jobs (direct and indirect effects). If the induced effects resulting from the re-spending of the wages associated with the investment are also included in the analysis, the total employment effect of investing $1 million in business services would be 839 (Kapstein, Kim and Eggeling 2012).

Further analysis confirms that the largest number of generated jobs are in the agriculture (2057) and construction (1230) sectors, while the most unfavorable employment results are in the capital-intensive mining sector (less than 100). This is justified by the fact that the agriculture and construction sectors with relatively less capital, achieve higher efficiency and productivity, which is accompanied by higher added value (Kapstein, Kim and Eggeling 2012). Also, another study examines the relation between investment by development finance institutions and employment growth in developing countries, in which six multilateral and bilateral development finance institutions – European Investment Bank, CDC (British International Investment), International Finance Corporation, PROPARCO (French Development Finance Institution), DEG (German Development Finance Institution) and European Bank for Reconstruction and Development are the subject of analysis. Research confirmed that the aforementioned institutions generated 2.6 million direct and indirect jobs in 70 developing countries in 2006 through their activities (Jouanjean, Massa and te Velde 2013).

Micro, small and medium enterprises are especially important for entrepreneurship development, stimulation of economic growth and sustainable development, creation of new job opportunities and employment growth, tax revenues increase, as well as driving impact in emerging markets. Development finance institutions directly contribute to micro, small and medium enterprises to access finance and solve one of the main problems that inhibit development through providing financial funds, using innovative financial products, institution-building, advisory services as well as raising capital on international markets and indirectly by influencing policies and laws (Gyimah and Agyeman, 2019). The contribution of development finance institutions to the improvement of the business performance of small and medium-sized enterprises is evidenced by the activities of the European Investment Bank during the financial crisis. Namely, during the financial crisis from 2007 to 2009, the European Investment Bank increased loan disbursement by 57% and increased loans to small and medium-sized enterprises by 128%. The share of EIB loans to small and medium enterprises in total EIB loans increased significantly from 14.6% in 2008 to 19.1% in 2009. This increase in lending to small and medium-sized enterprises is a consequence of the well-capitalized European Investment Bank and the significant increase in capital in the years before the crisis, which provided the opportunity for credit expansion in crises. Also, in the observed period, there was no capital limit for increasing lending by the European Investment Bank. This explains why during the crisis, governments increase support for development banks in order to fulfill their countercyclical role. Namely, pro-cyclical lending by actors from the private sector represents a significant problem. Commercial banks increase their credit activity in periods of economic growth, while in periods of recession, they reduce their lending, which does not stimulate macroeconomic stability and economic growth. This has created positive changes and more European banks had credit lines for small and medium enterprises from the European Investment Bank. In 2007, banks in 16 out of 27 European countries had credit lines for small and medium enterprises with the European Investment Bank, and in 2009 their number increased to 24 (Griffith-Jones, Tyson and Calice 2011).

CONCLUSION

Development finance institutions are gaining importance over time and policymakers recognize their development potential. Their focus is on the promotion of sustainable growth and on strategies, instruments and mechanisms that can contribute to increasing investment activities and improving the business environment in underdeveloped regions. Development finance institutions aim to implement as many successful projects as possible, which will increase financial funds that can be reused for new investments. They direct investments to those sectors that represent the priorities of public policies of developing countries. These sectors are targeted as important in industrial policy strategies, infrastructure plans, etc. In particular, the investment-stimulating role of development finance institutions was recognized in crises that did not reduce their investment activities, but on the contrary, accelerated them to mitigate the negative consequences. Taking into account the achieved results in underdeveloped countries, which increasingly represent destinations for capital inflows, inclusion of development finance institutions in political flows is a logical sequence. It is necessary to mobilize finances from all sources in order to achieve global development goals. Private finance mobilization through development finance institutions as important actors in the development finance landscape is a strategic objective even though investing in developing countries entails certain risks, low levels of returns on investment portfolios, lack of profitable and large investment opportunities, as well as lack of financial innovations. In achieving its goal of social and economic development by investing in the private sector, development finance institutions through various project activities increase employment and reduce poverty. Their investment leads to the creation of additional value in the entire economy, but also to the creation of new jobs, both direct and indirect as well as induced. Realized investments in the sector of micro, small and medium enterprises leave them the opportunity for a more significant role in the creation of private sector development policy.

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