Development Finance and Financial Intermediation in Developing Countries

Karel Holbik

I. Introduction

It is generally recognized that the achievement of the goals of economic development in general and of capital formation in particular depends on the activation and rising productivity of the developing countries' human and physical resources. Then, too, all countries in the process of development find it necessary to combine their domestic resources with foreign ones for which various institutional and policy arrangements are used. It is a fact that the aspirations of the developing countries and the modernization of their living conditions make international cooperation not only desirable, but also unavoidable and indispensable.

II. Capital Formation and Development Finance

The focus of this paper is on capital formation and on the importance of capital in both developmental processes and policies. This relationship between capital development policies is emphasized in the dominant economic theory of development which is, to be sure, the basis of most comprehensive development plans. The theory does, of course, take into account the role played in economic development by other forces. In addition to capital, there are indeed, many other important variables and ingredients of economic development, such as, for example, history, geographic location, education, political organization, and public administration—all of which loom large in the structural changes of the economies in question.

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Economic development calls for investment, i.e. an expenditure on material capital goods. This can take place only if the requisite finance capital is available. Inasmuch as real (physical) factors of production (i.e. capital) cannot be created or acquired without monetary capital, the amount of the available financial means may be crucial in determining whether a developmental process is initiated, and if begun, what its magnitude and impact on a developing country will be.

Despite some disagreement among students of economic history and development as to whether business enterprise has historically preceded or followed finance, nobody denies the observable interdependence between economic growth and the need for an appropriate financial organization, and that financial institutions have a strategic role to play in any country's economic progress. Developmental processes find expression not only in increments in the country's GNP; in greater use of money; and in an expansion of financial assets, (i.e. monetization), but also in the growth and diversification of the country's institutional financial infrastructure. The impact of monetary and financial forces has been in evidence especially in market-oriented economic systems where the monetary price-cost mechanism and monetary demand generally determine the employment level of both human and physical resources. In these economies, productive activity can be decisively influenced--stimulated as well as depressed--by monetary forces and motivation, and therefore by institutions handling money and credit. In such economic systems the availability and cost of financial capital (i.e. interest rates) are interlocked with the aggregate creation of goods and services and with their distribution.

There are many determinants of the demand for real--and therefore financial--capital, such as the absorptive capacity of the national economy and of some of its sectors; the country's rate of development; the scope of launched programmes; the size of undertaken projects; competitive demands within the economy (of consumption and foreign trade in particular); etc. To complicate the demand further, absorptive capacity is shaped by numerous other elements, including complementary natural resources, labour supply, technical and managerial skills, efficiency of public administration, planning systems, monetary conditions, taxation, etc.

The ultimate source (supply) of any country's financial capital and investible funds is saving, which may be of domestic or foreign origin. In the former case, saving is accumulated by households and business enterprises (both of which may voluntarily reduce their
consumption out of available incomes) or it results from government taxation (compulsory saving). Inflation, too, is a common form of domestic saving accumulation. On the other hand, foreign saving flows into a developing country through foreign private or governmental investments or through private or public assistance, grants and loans. This saving is, as a rule, intangible, although it may take the form of commodity imports as well. Generally, foreign capital inflows help to close the recipient country’s savings and foreign exchange gaps—in addition to providing it with advanced technology, know-how, etc.

In a certain sense, to determine the magnitude of the two gaps means to estimate the country’s capital requirement, i.e. to measure the amount of (“saved”) domestic resources to be transferred within the country from their present to future employment, given either the expected developmental programmes or projects, or the anticipated rate of economic growth. Estimates of capital requirements call also for calculations of importable foreign resources (capital inflow) if such are needed to supplement the domestic supply of savings. Thus the calculation of the aggregate capital requirement—with regard to the targeted rate of economic growth/development—is based on four projections, i.e. those for savings, investment, imports and exports—to which the economy’s absorptive capacity (i.e. its ability to utilize existing productive capacities may be added. In the face of eventual savings or foreign exchange constraints and/or in the face of the country’s inability to make effective use of imported resources, the objectives of capital formation may be, of course, very difficult to attain.

Except for a few affluent Western nations, the gap between the aggregate supply of savings on the one hand, and a relatively greater aggregate demand for investible capital on the other hand, characterizes most countries. To help close or minimize the gap is the basic purpose of developmental finance. As a long-term structural phenomenon, the savings-investment gap is the counterpart of the proverbial “vicious circle of poverty” which only economic development efforts can remove, albeit very gradually. Needless to emphasize, the task of economic development policies in different countries is not only commensurable with, but it is in fact determined by, the savings-investment discrepancies found there.

III. Savings and Investment

From among the three principal internal suppliers of savings,
i.e. households, business establishments, and governments, in practically all countries, households—the "surplus sector"—contribute to investible funds most in spite of the fact that relatively little is known about either the determinants or utilization of these savings. Undoubtedly, better knowledge and improvements in this respect depend on modernization of the respective countries’ financial institutions as well as on the introduction of financial instruments created by financial policies. In the latter group, interest rate policies are destined to play a significant part because interest rates exert considerable impact on savings accumulation and composition as well as on the distribution of financial assets.

Voluntary household savings accumulate as either residual, discretionary savings (such as bank deposits and government and corporate securities) or as long-term contractual savings (collected through insurance policies, pension funds or payments on mortgage loans). One must consider an important attribute of contractual savings that they require not only the saver’s long-term commitment and discipline, but that they also represent a relatively steady flow of funds. Because contractual savings are a symptom of the saver’s high total savings-income ratio, they lend themselves readily to institutionalization and financial intermediation on the one hand and to professional management on the other hand. Thus a developing country intending to mobilize internal savings may find it advantageous and advisable to promote this type of indirect saving through financial instruments, adjusted to the needs of the population, and through saver-oriented financial institutions rather than through investor-oriented organizations.

Households as "surplus" units are potentially capable of providing the community (national economy) with financial resources directly as well as indirectly. Indirectly they do so through financial intermediaries and in the form of financial assets. In financially developed countries it is through these channels that households supply private savings and raise (borrow) the financial means they require. Inasmuch as the historical development of the developing countries appears to aim in the same direction, acceleration of this process deserves official, governmental promotion. To fail to pursue national financial policies in order to speed up this development means not only to neglect to employ household savings productively, but also to deny potential borrowers the resources already in ex-

1 However voluntary most household and business savings are, they are influenced directly and indirectly by government fiscal and other policies, including subsidies, depreciation allowances, tax exemptions, etc.
istence, and ultimately to retard the desirable economic and financial cohesion of the country.

Then, too, when the savers, who are in principle capable of adding to aggregate loanable funds, do not find any appropriate outlets for their money, they may prefer to consume their savings or employ them in a manner which does not benefit the society in any constructive way.

Thus provision of financial institutions and instruments—including adaptation and modernization of existing financial arrangements—is of fundamental importance to savers, to the saving mobilization process and to the macroeconomic balance between savings and investment mentioned previously. A developing country should devise policies and make the necessary effort to foster household saving so as to encourage its growth and use in such a way that both of these are consistent with savers’ motives, preferences and expected returns.

In the contemporary modernizing and financializing economies, this issue has raised several important yet inconclusive questions regarding the level of interest rates and the interest rate structure as a whole. Do higher or lower interest rates stimulate private saving accumulation, boost investment, and accelerate economic growth? How do controls over interest rates (interest rate repression) on the one hand and partial or complete interest rate liberalization on the other hand affect savers’ decision regarding monetary and non-monetary forms of saving? Do high interest rates always inhibit investment? Under what conditions does a positive real interest rate policy shift financial resources toward those financial institutions which channel savings to economic sectors maximizing their usefulness? These are weighty questions to which, however, there is no conclusive answer.

One of the major economic tasks confronting the developing countries and their governments is to encourage and facilitate the economy’s monetization for the benefit of “productive” savings accumulation. Understandably, the purpose of these efforts is to discourage “unproductive” hoarding of physical goods such as real estate, livestock, precious metals, jewelry, etc. which have traditionally made up the bulk of saving in rural areas.

It is within the power of governmental authorities to initiate—gradually, to be sure—many institutional changes which lead to, and establish, monetary saving as an essential economic function. The requisite measures consist of, for example, improvements in bank-
ing and other financial services (including cooperative societies); raising public confidence in these organizations and in the investment policies which undertake; and inducements to savers to develop faith in financial assets other than cash.

IV. Financial Planning

Economic development policies are neither conceivable nor realizable without some planning which gives the respective government effort a degree of cohesion. Moreover, systematic pursuits of development objectives require a time horizon. As a rule, economic plans established for periods of between 3 to 6 years enable governments both to determine the economy's priorities, and to shape national policies toward explicit targets.

The desirability of, and the need for, a planning mechanism exists, albeit in different degrees, in developing countries regardless of whether they have or do not have the market system. A planned economy sets up agencies that prepare short-term (annual) investment plans through which changes in, and revisions of, long-term plans are implemented. Clearly, budgets, the most important instruments of organized economic plans, determine the feasibility of such changes and revisions.

Financial plans and programmes, concerned with specific capital movements, i.e. capital accumulation as well as use, constitute an integral part of macro-economic planning. Their purpose is not only to ensure that the total supply of financial resources. (e.g. government revenues, private domestic savings and foreign capital) meet the corresponding demand (of government, private and public investment plans, and of foreign debt repayments) but also to provide for the carrying out of the country's planned aggregate investment-without impairing overall financial stability. (This stability may be defined in terms of controllable price movements and a balance of payments free of destabilizing forces.) On the basis of the magnitude of anticipated private savings and other variables, financial programmes are normally expected to enable planning authorities to estimate the need for internal (bank and government) credit on the one hand and for foreign borrowing and assistance on the other hand. Another significant task of financial programming is to quantify the effects of various sets of investment policies.

V. Financial Intermediation

However numerous are the processes available for the balancing
of saving and investment, and however varied are the respective national institutional channels, one can separate them into two categories, namely, internal and external finance.

In the former, internal case, the investor (household, business unit or government) makes use of his own savings. Although the chief methods at his disposal are two, i.e. self-finance (in the case of households and business establishments) and taxation (in the case of governments), self-finance may also arise—-and a flow of savings may come about—-through inflation, changes in factor prices foreign exchange over-valuation.

Yet because internal sources of finance yield limited investible funds, investors draw, and frequently become dependent on, external sources. Under these conditions, investors who borrow make use of other people’s savings. Those supplying such savings may be within the borrower’s country or in other countries. In addition to other terms of borrowing, the investor’s options are, of course, heavily influenced by the cost of the needed loanable funds, i.e. by interest rates.

It is clear that most external financing consists of indirect techniques and,—in contrast to internal, direct financing,—gives rise to both complex financial structures and specialization between the suppliers of savings (i.e. lenders) on the one hand, and investors (i.e. borrowers) on the other hand. The manner in which these borrowing and lending transactions are organized is responsible for the country’s financial and credit market mechanism. It is furthermore obvious that external finance calls forth financial intermediation, the institutional forms of which have a tendency to adjust to, and thus to reflect the stage of any particular (developing) country’s economic development. In other words, there is a direct historical linkage between the saving-investment technology of a country and its overall level of economic and financial development.

When supplementing internal sources of finance by external ones, all developing countries establish development banks and similar “specialized” financial institutions. Their purpose is to mobilize the financial capital required by industries, agriculture as well as other productive sectors. The funds which these institutions need for medium-and long-term loans are obtained from subscribed capital, long-term security issues and—-very frequently—-through government appropriations.

2 The opportunity cost of external finance is, of course, that it enables outside influences to play some part in the borrower’s enterprise and decision-making.
Government participation is normally based on tax and/or non-tax revenues (from royalties received from foreign companies). Yet there are also other sources of funds such as government bond sales (especially in economies with capital markets) and many fiscal forms of revenues, such as tax exemptions and credits, tax relief on income, property, exports and imports investment allowances, and last but not least, write-offs on depreciable fixed assets. Many governments have schemes for industrial investment guarantees.

Financial intermediaries are relatively new economic organizations. Their introduction into national financial systems several decades ago took place in connexion with investment credit and the need for various forms of insurance. It stands to reason that the higher and more diversified economic activities of the "older" developed countries require—and facilitate—a higher level of financial intermediation than can be found in the "newer" developing. While it is fair to say that economic modernization of the new countries could proceed without the services of the intermediaries, it is even more certain that with the appropriate types of financial institutions, those economies are, and should be, able to develop more efficiently and speedily. All the channels of financial intermediation whether they specialize in the acquisition of savings, allocation of investible funds, insurance, securities, consumer finance, international trade, etc., make a fundamental and indispensable social contribution to their respective national economies when they transfer loanable funds from "surplus" economic units to the "deficit" ones.

Financial intermediation makes it possible for savers and investors to compare and match the financial assets they seek. Obviously, those types of assets which savers find attractive enhance the efficacy of financial policies. If savers prefer, for example, newly issued debt securities to cash balances, the savers' contribution to the aggregate of investible resources has increased, especially if the security acquisition has met somebody else's need for funds. The greater the proportion of savings held as financial assets, the greater the effectiveness of financial policies. For instance, persons with established banking habits who use checks to make payments, contribute significantly to their country's monetary systems; this contribution is denied to those purchasing by cash. In principle, the

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3 Intermediation can be measured by the proportion of financial assets of all kinds (currency, bank deposits, government securities, shares of stock) to GNP or by financial savings and the number of banking offices. This latter measure reflects the responsiveness of savings to the number & availability of financial institutions.
availability of several types of savings media strengthens saving habits and tends to increase the quality of aggregate saving.

Clearly, the greater the discrepancy between the spending and saving of households, business enterprises and governments, the greater the need for both financial intermediation and the instruments (evidences of transferred funds) implementing it. Again, it is comparative interest rates that generally determine, and are also determined by, the magnitude of the monetary and non-monetary (security) flows in question. The condition and functioning of financial intermediation are inseparable from such processes as production, capital formation, income generation and, indeed, from economic development and growth.

Table 1 illustrates, on the one hand, the role of financial savings in the gross capital accumulation of a new countries (of which two, USA and Japan are developed and industrialized), and on the other hand, some contrasts between two principal sources of savings, i.e.

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
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<tbody>
<tr>
<td></td>
<td>Household</td>
<td>Government</td>
<td></td>
</tr>
<tr>
<td>U.S.A.</td>
<td>47%</td>
<td>69%</td>
<td>7%</td>
</tr>
<tr>
<td>Japan</td>
<td>67%</td>
<td>63%</td>
<td>28%</td>
</tr>
<tr>
<td>Dahomey</td>
<td>55%</td>
<td>29%</td>
<td>33%</td>
</tr>
<tr>
<td>Cameroon</td>
<td>67%</td>
<td>8%</td>
<td>39%</td>
</tr>
<tr>
<td>Jamaica</td>
<td>47%</td>
<td>24%</td>
<td>52%</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>68%</td>
<td>24%</td>
<td>31%</td>
</tr>
<tr>
<td>India</td>
<td>64%</td>
<td>76%</td>
<td>12%</td>
</tr>
<tr>
<td>Korea</td>
<td>65%</td>
<td>48%</td>
<td>29%</td>
</tr>
<tr>
<td>Philippines</td>
<td>56%</td>
<td>57%</td>
<td>33%</td>
</tr>
</tbody>
</table>

4 One has to recognize, however, that the money and capital markets of developing countries are generally more imperfect than are those of the developed ones. Cartel-like interbank agreements are likely to be restrictive with regard to both the bank deposits and loans and investments-and ultimately with regard to the financial system.
households and governments.

The usefulness of Table II, on the following page, is in that it permits establishment of some relationships which characterize the financial systems of most developing countries. Again, two developed nations, the United States and Japan, are included for comparative purposes.

This table, based on IMF statistics, leaves no doubt that the liquidity of all the illustrated developing countries (with the qualified exceptions of Guatemala and Thailand) rests on the circulating monetary media (M₁) and to a much smaller extent on quasimoney, and time-and savings deposits. In the case of Tanzania, for instance, the 1975 total for money was 4404 million shillings, while quasi-money and time-savings deposits equalled 1384 million shillings (1297 plus 87 million shillings.) The conclusion to be drawn from this is that quasi-money and savings deposits are a considerably less important source of loanable funds than is the commercial bank source. This phenomenon may be interpreted as evidence both of insufficient saving mobilization and limited financial intermediation which leads in some developing countries to (1) excessive dependence on government--rather than private--credit and to (2) inflation underwritten by the central bank. The inability of such Third World countries to meet the cost of economic development by means of internal finance requires therefore a large measure of foreign borrowing with the resulting accumulation of external liabilities and the debt and balance of payments burdens which accompany such indebtedness.

Although exports bear a meaningful proportion to the GNP's of most developing countries, in effect, export proceeds are seldom a source of foreign purchasing power commensurate with developmental requirements. Thus neither the domestic nor the foreign sources of developing countries' financial requirements are adequate enough to reduce their continuous dependence on several forms of foreign saving (loans, grants, aid, assistance of international organizations, etc.). It has been a common experience that shortages of foreign funds have caused cuts in individual countries' developmental expenditures as well as planned programmes.

Although financial intermediation can be accomplished through numerous institutional arrangements, one can argue and muster enough evidence for the hypothesis that intermediary channels can be opened up (more widely) and utilized efficiently particularly in those economic systems that have retained a basically liberal market structure, and in which all economic decision-making is not govern-
# Table II

**MONETARY SYSTEMS OF SELECTED COUNTRIES (1975)**

<table>
<thead>
<tr>
<th></th>
<th>USA billions of dollars</th>
<th>JAPAN trillions of yen</th>
<th>BRAZIL billions of cruzados</th>
<th>COLOMBIA billions of pesos</th>
<th>GUATEMALA millions of quintales</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP</td>
<td>1577</td>
<td>150.5</td>
<td>859.9</td>
<td>411.6</td>
<td>9580</td>
</tr>
<tr>
<td>EXPORTS</td>
<td>135</td>
<td>20.5 (1973)</td>
<td>40.0</td>
<td>62.3</td>
<td>801</td>
</tr>
<tr>
<td>GROSS FIXED</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAPITAL FORMATION</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MONEY</td>
<td>302</td>
<td>49.9</td>
<td>183.2</td>
<td>58.9</td>
<td>574</td>
</tr>
<tr>
<td>QUASI MONEY</td>
<td>457</td>
<td>75.4</td>
<td>25.4</td>
<td>19.6</td>
<td>455</td>
</tr>
<tr>
<td>TIME AND SAVINGS DEPOSITS</td>
<td>429</td>
<td>40.6</td>
<td>n.a.</td>
<td>n.a.</td>
<td>28</td>
</tr>
<tr>
<td>DOMESTIC CREDIT</td>
<td>831</td>
<td>148.8</td>
<td>301.8</td>
<td>403.2</td>
<td>618</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(GOVERNMENT BORROWING)</td>
<td>(211)</td>
<td>(13.3)</td>
<td>(-9.3)</td>
<td>(10.7)</td>
<td>(-130)</td>
</tr>
<tr>
<td>(PRIVATE BORROWING)</td>
<td>(317)</td>
<td>(13.5)</td>
<td>(299.3)</td>
<td>(89.3)</td>
<td>(-233)</td>
</tr>
<tr>
<td>EXTERNAL LIABILITIES</td>
<td>127</td>
<td>8.1</td>
<td>US$1755 mill.</td>
<td>US$670 mill.</td>
<td>24</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>INDONESIA billions of rupiahs</th>
<th>THAILAND billions of Baht</th>
<th>SYRIA millions of S. pounds</th>
<th>EGYPT millions of E. pounds</th>
<th>TANZANIA millions of T. shillings</th>
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</thead>
<tbody>
<tr>
<td>GNP</td>
<td>12150</td>
<td>291.9</td>
<td>(74)</td>
<td>14478</td>
<td>(74) 3956</td>
</tr>
<tr>
<td>EXPORTS</td>
<td>2822</td>
<td>60.6</td>
<td>(74)</td>
<td>4162</td>
<td>(74) 932</td>
</tr>
<tr>
<td>GROSS FIXED</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAPITAL FORMATION</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>MONEY</td>
<td>1274</td>
<td>34.9</td>
<td>6963</td>
<td>1853</td>
<td>4404</td>
</tr>
<tr>
<td>QUASI MONEY</td>
<td>765</td>
<td>68.5</td>
<td>619</td>
<td>703</td>
<td>1297</td>
</tr>
<tr>
<td>TIME AND SAVINGS DEPOSITS</td>
<td>5</td>
<td>12.7</td>
<td>n.a.</td>
<td>n.a.</td>
<td>87</td>
</tr>
<tr>
<td>DOMESTIC CREDIT</td>
<td>2873</td>
<td>98.3</td>
<td>8340</td>
<td>3939</td>
<td>5750</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(GOVERNMENT BORROWING)</td>
<td>(51)</td>
<td>(17.8)</td>
<td>(2804)</td>
<td>(2847)</td>
<td>(2857)</td>
</tr>
<tr>
<td>(PRIVATE BORROWING)</td>
<td>(2675)</td>
<td>(80.5)</td>
<td>(4675)</td>
<td>(881)</td>
<td>(1613)</td>
</tr>
<tr>
<td>EXTERNAL LIABILITIES</td>
<td>794</td>
<td>13.3</td>
<td>US$329 mill.</td>
<td>US$464H mill.</td>
<td>948</td>
</tr>
</tbody>
</table>
mentally controlled. In other words, in those countries where bank credit to the *private* sector (to whose demand for financial resources banks respond and which is in the position of creating suitable credit instruments) is larger than bank credit to the *public* sector, there may well be greater opportunity and incentive to introduce financial innovations and new instrumentalities.

In Table III, group A countries are those in which bank credit to the *private* sector is a multiple of the bank credit extended to the *public* sector. In group B countries, the opposite holds true, i.e. *public* demand for credit exceeds the *private* demand.

Table III

<table>
<thead>
<tr>
<th>Country</th>
<th>Bank Credit to Public Sector</th>
<th>Bank Credit to Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>1,496 (1972) 11,744 (1973)</td>
<td>54,431 (1972) 79,225 (1973)</td>
</tr>
<tr>
<td>Jordan</td>
<td>31.2 (1973) 47.9 (1974)</td>
<td>52.2 (1973) 70.8 (1974)</td>
</tr>
<tr>
<td>Korea</td>
<td>121.3 (1974) 413.5 (1975)</td>
<td>2,862.5 (1974) 3,520.9 (1973)</td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,637 (1975) 1,752 (1976)</td>
<td>1,353 (1975) 1,690 (1976)</td>
</tr>
</tbody>
</table>

*Note:* All the above quantities represent amounts in the respective national monetary units. While the Table III is focused only on the relative magnitudes of the two types of bank credit in the same time period, it also shows changes in these credits between two successive years.

VI. Financial Intermediation and Development Banks

It is an established fact that development finance has played and is destined to play not only an important but frequently also a strategic role in the progress of the developing countries. This is because of the versatility and generally predictable influence of financial methods and techniques which have become an indispens-
able instrument of economic development promotion, whether it embraces the entire economy or is limited to certain productive sectors. Both acquisition and utilization of all economic resources have financial aspects. Among the financial intermediaries which, on the one hand, facilitate mobilization of resources and, on the other hand, magnify the latter's social value, development banks (sometimes referred to also as development corporations or development finance companies) stand out. Most of the so-called "specialized" financial institutions are in essence development banks. These banks are a creation of this century, but remind economic historians of the contribution (only in kind) which investment banking made to economic progress in the 19th century.

Since World War II, these banks have played an increasingly important part in the capital formation of many developing countries. Yet, though the number of these institutions has risen conspicuously in the last two decades, as specialized agencies they have existed since the 1920's. The first institutions to supply development credits were established in the Philippines in 1919 (the National Development Co.) and in Spain in 1920 (Banco de Crédito Industrial). The 300-plus development banks that have been organized since 1947 throughout the world account for almost 80% of all such banks in existence. About one-fifth of the existing development banks have since 1950 been associated with and assisted by the World Bank Group.

It is in the Latin American and Carribean countries that almost a half of the total can be found. Although the typical number of banks in operation in individual developing countries is between 2-4, about 10% of these countries (especially in Africa) have but one development bank. The nations with the largest number of development banks are Brazil, Colombia, India, Mexico, the Philippines and Spain. In terms of the value of their assets, many more development banks are small than large. Among the very limited number of large banks (mostly public to be sure) the financiers of Mexico, the ICIC of India, the Pakistan Industrial Credit and Investment Corporation (PICIC) and the Industrial and Mining Development Bank of Iran loom largest, and these are all private. The bulk of all the existing development banks, i.e. about seven-eights, are concerned with industrial and manufacturing production; the remainder are active in financing agriculture.

Development banks are both public (government-controlled or managed) and private, while a few are controlled by central banks. Public banks predominate and benefit from an indisputable
leverage based on their access to central government credit, external public credit, and foreign private capital—all of which supplement the banks’ own resources. Partly as a result of these financial sources, public development banks can venture into new fields of economic activity on a greater scale than private banks do. In a practical sense, the relationship between public development banks and government budgets tends to solidify the interdependence between government economic policies and development finance.

On the other hand, those who prefer and advocate the establishment of national private development banks, are frequently impressed by the efficiency with which such institutes have been managed, especially considering their ability to tap foreign sources of capital.

Both public and private development banks as a rule, but not always, found appropriate modi vivendi with the traditional (commercial and savings) financial structure which the development institutions not only complement but with which they are also frequently interlocked (through ownership).

All financial organizations, including development banks, are an integral part of the developing countries’ financial infrastructures and are thus inseparable from the interdependence binding the level of a nation’s financial development to its economic growth and to the role played by financial capital in the activation and distribution of resources in general and of investment in particular. Clearly, development banks are a cog in the wheel of the financial system which has the power to help expand production and consumption, just as it may restrict them if the system malfunctions.

In somewhat different terms, development banks are a distinct component within the system of a country’s financial institutions that serve as intermediary channels of the economy’s financial sector. The latter is in essence a complex of markets for financial assets and services. Whatever forces permeate one of its segments usually exert a perceivable influence on other segments. In this manner, interaction takes place among and between the institutions, policies and prices (especially interest rates) of the financial markets. Inasmuch as national and international financial flows and policies affect—in a general and indirect way—the mobilizing and allocative function of development finance, the flows and policies can be expected to stimulate—or conversely, depress—the levels and kinds of investment activities undertaken by development banks. No doubt, these banks share the more plentiful and diversified financial opportunities which come along with, and result from, capital deepening,
national, regional as well as global. As a non-monetary (i.e. non-money-creating) financial intermediary, the banks represent an institutional arrangement capable of supporting and receiving many forms of international financial cooperation.

With regard to development banking, the function of central banks is more promotional than regulatory. In many developing countries, central banks see as one of their chief purposes the promotion of such specialized financial institutions as the development banks. The central bank lends to them, in addition to buying and/or guaranteeing their securities. In their turn, the development banks recognize that central banks are "the central arch of the monetary-banking structure" of a country, without which the broadening and deepening of the institutional framework of development finance would hardly be possible.

VII. Basic Purposes and Functions of Developing Banks

There is no international model or prototype of development banks, and there is no formula on how they should be set up and managed. Neither is there uniformity among the responsibilities which development banks assume in fostering economic progress in various countries. To attempt to create a prototype would be an impossible task anyway, considering that every country is faced and copes with its own individual economic conditions and financial idiosyncracies—all of which are more or less reflected in the country's financial needs.

To be useful and effective, national development banks (along with other financial institutions) have to respond to such needs. And therein lies their potential and catalytic function as instruments and channels of the changes called for by economic development and modernization of the "new nations." (They may be useful in the implementation of some goals of the New International Economic Order.) In their evaluation of the ultimate impact of the operations and policies of successful development banks, some observers are prepared to credit them with the role of the fourth branch of national governments. Doubtless most of these institutions have gradually been "internalizing" the national developmental process through avoidance of external stimuli.

The one common fundamental characteristic which all development banks share—and which underlies the acknowledged need for them—is that they fill certain developmental gaps. From among these the financially most relevant one consists in the absence of
medium-and long-term credit or equity financing of new enterprises. Thus the anticipated principal contribution of development banks is to improve and expand the developing countries' institutional structure of finance. Development banks perform a socially useful role when they facilitate withdrawal of resources from less vital employments than those to which the banks put them; when they attract new resources from savings-accumulating institutions-especially through application of innovative financial techniques-and when they encourage viable projects in the production of goods and services. It seems that future internal and international organizational improvements will not fail to accelerate or rationalize the process entrusted to these financial institutions.

Among the other gaps which development banks are expected to help close are those related to such drawbacks as inadequate supply of entrepreneurship and insufficient educational and training facilities.

Another need of the developing countries which development banks are capable of meeting and for which, in fact, they assume some responsibility, is the provision of those technical services without which potential borrowers from the development as well as other banks cannot identify investible projects. The assistance which development banks are capable of rendering in this respect frequently turn them in some countries into suppliers of both managerial skills and occupational qualifications to individuals as well as groups. When this aspect of economic development becomes the major thrust of a development bank, the bank begins to function as both an investment bank and a credit institution, and its operation acquires also a business-promotional quality.

As financial institutions, development banks have in several instances contributed to developing countries' efforts to create a capital/securities market thus imparting to the latter the role of an important factor in the mobilization of both internal savings and foreign investible capital. It is important to note that the availability of investment credit is raised not only by expanded local and/or external loanable funds, attracted by the development bank itself but also by those funds which investors commit to projects supported financially and otherwise by the bank. Needless to emphasize, the operations of development banks can furnish worthy opportunities to sources of foreign financing just as these operations can stimulate new investment. Occasionally, a development bank will assume an exceptional function as did, for example, the Nigerian Development Bank when it began helping the Nigerians to buy foreign-
owned enterprises available for sale under the indigenization decree.

There are several other needs which development banks may be called upon to meet and which determine, therefore, some of their additional functions. Noteworthy in this respect are the differences between industrial and agricultural financing. Few development banks combine these two distinct operations and types of financial management under one roof. As a result, banks specializing in industrial financing do not, as a rule, engage in agricultural financing and vice versa. Similarly, many countries have entrusted the financial problems of mining and housing to separate specialized institutions.

Last, but not least, the influence exerted by development banks on economic activity in their respective countries enables them to contribute to both (1) the generally-needed progress in business organization (broadly-defined) and (2) the legal framework applicable to business enterprise.

It is understandable that the necessity imposed on development banks to respond to varying needs of the developing countries presents the management of these institutions with numerous challenges and entrusts them with complex responsibilities—all of which are reflected in the banks’ performance. Clearly the functions of these financial institutions are not fixed by any means; in fact, they undergo changes as the socio-economic realities change, as economic-development strategies are revised, and as new or additional projects are called for. Then, too, different stages of economic development require different banking organizations, and development banks appear to influence, as well as be influenced by, these and other social institutions.

VIII. Some Issues of Development Bank Management

Even in the absence of a standard model for any and all development banks, there do exist a few criteria and distinguishing characteristics which can be applied to both established and future development financial institutions.

One important aspect of these banks, crucial from the point of view of their ability to make independent financial and investment decisions, has to do with whether a bank is private or government-controlled. Some observers have considered private banks more efficient, flexible and stable. The attribute of "stability" is based on the fact that private managers are free(r) of political pressures whose
strong influence is sometimes taken for granted in government-controlled, i.e. public, development banks. In other words, private development banks have been regarded as more "autonomous" than public development banks.

Another noteworthy issue revolves around the magnitude of financial resources at the disposal of private and public development banks. Public banks have been found to possess greater potential for the amassing of capital than private institutions. In fact, in some developing countries with scarce investible funds (and deficient entrepreneurship) national governments have not been able to avoid the responsibility for the provision of initial capital to new enterprises; in many instances, it has been necessary for governments to initiate new industrial projects so as to start or reinvigorate industrial development. Government intervention may prove to be beneficial also when it prevents private or mixed development banks (i.e. those to whose capital the government has contributed but which are privately owned)\textsuperscript{5} from becoming subservient to special private financial interests. On the other hand, where governments have dominated the supply of medium-and long-term capital (in some African countries, for instance), capital markets are likely to develop very slowly.

A third common issue in evidence with practically all development banks is predicated on the relations which they maintain internal e.g. institutions and agencies, especially those in foreign capital market. Clearly, if such relations are satisfactory and support the basic objectives of development banks, the latter's financial and investment targets may be easier to achieve.

A fourth common issue, tantamount to a customary problem of development banking, concerns the financial viability of new banks which, like most business enterprises, do not reach their operational breakeven points during the first years of operation. This makes some of them dependent on subsidies, including tax exemptions and long-term low-interest loans. Such institutions are likely to compromise their development-related activities by profit maximization, i.e. by loans and investments entailing less risk and lower costs.

A fifth issue is related to the extent of the developing country's monetary development. Banks established in areas of a higher stage of such development have available to them more numerous domestic as well as international methods of resources mobilization.

\textsuperscript{5} An alternative definition of mixed development banks refers to them as institutions combining commercial banking (i.e. short-term finance) with long-term finance.
Countries which face bottlenecklike gaps in their financial structure are at a distinct disadvantage vis-à-vis countries with advanced financial infrastructures.

A sixth issue, which many development banks cope with, concerns their management, especially from the point of view of resource utilization and identification of promising projects. While the availability of trained personnel no longer appears to be a fundamental problem with most development banks, allocation of investible capital among enterprises and industries of different priorities leaves much to be desired.

A seventh issue is connected with the integration of the banks’ financial and organization (entrepreneurial) functions. Though this is highly desirable, few development banks have succeeded in bringing it about. Many banks have been inhibited in the pursuit of their anticipated objectives by high degrees of inflation which—under any circumstances—distorts economic decision-making.

An eighth issue encountered in some countries is related to the blurred differentiation between the traditionally commercial criteria and the needed developmental criteria of bank management. To the extent that commercial objectives and profitability govern development banks’ policies to that extent the banks may fall short of meeting the needs and objectives of economic development.

A ninth issue is based on the bias and apparent inconsistency of interest rate policies which are framed so as to benefit the users rather than suppliers of loanable funds and development finance.

IX. Development Bank Loans and Investments

The most significant of the several differences between development and commercial banking is related to the fact that the former financial banking is related to the fact that the former financial institutions neither “create” money nor generally accept deposits as the latter institutions do. Thus, in a sense, development banks are transfer agents distributing funds received from the public (government) and private sectors as well as from international lenders, among domestic users of these funds, i.e. among industrial and other enterprises. It is also necessary to bear in mind that there is a fundamental difference between the loans extended by development and commercial banks: the former lend venture capital, the latter grant, in principle, self-liquidating credit. Exceptionally, development banks may provide loans of working capital where commercial
credit and banking are not fully developed.

As regards the sources of development banks' capital (supplementing paid-in capital) in the group of public sources, budgetary appropriations and central bank advances loom largest. The private sector lends to development banks (by buying their debt securities) and invest in their equity capital. The international sector supplies the banks with capital originating in international and regional organizations, foreign aid programmes of aid-donors, and private (debt and equity) capital markets. Clearly, development banks which have access to such international lenders as the World Bank group, the U.S. Export-Import Bank, the Asian Development Bank, the African Development Bank or the West German Kreditanstalt fuer Wiederaufbau have a distinct advantage over other financial institutions. Considering the growing financial needs of development banks in particular, it should be the task of both national authorities in the different countries and of international organized efforts (1) to help mobilize idle savings wherever available, and (2) to innovate either by introducing new/modified financial and legal instruments or by tapping such pools of international credit as the Eurocurrency market and the reserves of the oil-exporting countries.

Development banks use either internal or external sources of financial capital, but customarily they combine them. With a view to (1) the large foreign capital requirement of the developing countries in general and (2) the nature of the undertaken industrial projects in particular, foreign exchange constitutes an indispensable component of the development banks' investible funds.

This situation gives rise to several issues and may be responsible for some challenging problems whose nature and eventual solution are inseparable from the question of whether foreign capital is (should be) acquired in the form of loans or equity investment. After the mix between equity and debt capital is determined—different as it is bound to be in different development banks—it is necessary to consider especially the balance-of-payments and foreign-exchange implications of any contracted international credit. Development banks have made or will have to make provisions for both any exchange risks (associated with foreign exchange rate changes) and (additional) reserves which their foreign indebtedness may call for. The banks will take into account that these and similar provisions will impart a higher degree of security to their bond issues and will favorably affect domestic as well as foreign investors' confidence in the bank management. However indeterminable is the conventional
ratio between debt and equity-capital as applied to development banks, ultimately it will be governed by the latters’ loan and investment policies and by the assets securing the loans of these banks.

All the present sources of loanable and investible capital have been used by the development banks to acquire debt and equity securities from the industrial sector; to underwrite (less frequently) new issues of its obligations; to refinance loans extended by other agencies; and—among several other uses—to guarantee deferred payments on foreign loans. Most development banks provide loans in foreign currencies as well.

While financial assistance disbursed by different development banks is difficult to measure, the ascertainable relationship between total development bank disbursements (preferably over a longer period of time) and the value added by manufacturing is not only more meaningful but it also shows that, in some countries, development bank assistance may equal as much as half of the added value. This makes, of course, the impact of development bank involvement impressively obvious.

Those development banks which have made investments in equity securities of private enterprises, have at times helped the expansion of national security markets (e.g. in South Korea and the Philippines). Further, when underwriting new issues of securities, some development banks have cooperated with other financial institutions (such as commercial banks, insurance companies and pension funds) to give an implicit additional boost and encouragement to the growth of domestic stock exchanges.

The building up and expansion of capital markets has been viewed in many developing countries as an indispensable prerequisite for both internal capital accumulation and international financial cooperation. Without doubt, development banks may play a constructive role in both these two processes. In several instances they have, in fact, succeeded in providing new facilities for foreign loan capital thus attracting the latter to some industrial ventures of the developing world and helping to develop security markets at the same time. The pretty common phenomenon that internationally reputable foreign companies (and their securities) have often had greater appeal to investors than have new local enterprises, explains why new issues of several foreign companies have been oversubscribed. Further institutional progress along these lines may help the developing countries (1) to benefit from the experience of the developed security markets on the one hand, and (2) to encourage investment participation by the public on the other hand. The scope
of the capital market is also likely to increase as a result of, for example, new incentive to be given to savings in financial forms, appropriate fiscal treatments of both dividends and interest on debt securities, and such other fiscal measures as tax exemptions and tax reliefs.

To the extent that a stimulation of local demand for securities in some developing countries is considered desirable, it may be necessary for the development of security markets that the general rate of return on financial assets be competitive with yields on physical assets (real estate, commodities, etc.) which have traditionally attracted the saved surplus funds of the developing areas.

The selection, participation in and supervision of the industrial projects for which development banks provide financial and non-financial services reflect adequately the several specific characteristics of these banks and reveal at the same time the basic differences between them and other intermediaries, particularly commercial and savings banks.

The purpose of development finance is to promote economic activity, which is accomplished in part by development banks acquiring financial assets, i.e. loans and investments (bonds and shares of stock), as the counterpart of the banks’ accommodating financial operations. Chiefly, because of the long maturities, greater risks and other attributes—including a high degree of illiquidity—these loans and investments are beyond the interest and capacity of most commercial banks and other financial institutions that are concerned primarily with short-term credit and working capital requirements.

As a general rule, an effective development bank will meet the demand of productive units (especially new ones). The demand is, however, a function of the flow of viable ("bankable") investible projects, namely, investments (1) with a potential development impact and (2) capable of generating an income which permits not only the servicing of outstanding borrowings but also the earning of normal profits. Needless to say, a project which is viable in country A while a certain set of economic policies is being pursued by its national authorities need not be viable in countries B where economic conditions and employed policies are different. In country B, A's project may be not only free of development impact, but it may, in fact, call for government subsidization or other forms of government protection. Yet, contrary to expectations, government monetary policies (regarding interest rates, capital and money markets, etc.) and/or fiscal policies need not be favorable to the objectives of
development banks. Under such circumstances, the tasks of development banks in terms of resources mobilization and projects financing may be complicated, if not frustrated. The success of development banking is partly assured if these financial institutions are not obstructed in their domestic as well as international borrowing.

Although the lending and investing performance of development banks may be appraised from several points of view, one of these latter relates to the economic return yielded by most economic pursuits. However, financial returns, while easier to determine than economic ones, are not sufficiently conclusive indicators of the contribution which development banks make to developmental processes.

There are several criteria of economic returns based on the financial project's effect on, for example, government development programmes, employment, foreign exchange saved (through imports) or earned (through exports), etc. If the banks' developmental effectiveness and impact are evaluated from the point of view of these institutions' broad catalytic functions, then their contribution--and that of the projects the banks support--include the influence which they exert on the domestic, regional and even international economy.

The fact that development banks tend to minimize monetary returns to capital may turn out to be damaging to their effort to attract funds from private investors since these are generally expected to seek maximum or at least competitive earnings on their capital. If the yield in development banks is relatively low, private investible funds may be placed elsewhere.

Development banks appear to be trapped in a dilemma which entire countries--and their monetary managements--are also up against, namely, how to balance interest rates, "the most paradoxical of all economic quantities," so that their levels and structures help national development efforts as instruments of (incentives for) savings accumulation, and serve also at the same time as instruments of an efficient allocation of capital (credit) among alternative uses.

In the developing countries there is indeed a polarization of opinion and some skepticism--about whether the strategy of high or low interest rates is rational and preferable. There is a general consensus though that unrealistic interest rates may have (and have already had) detrimental effects not only on the monetary systems of some countries but also on the developmental process as a whole. It is, of
course, a well-known fact that in most developing countries neither the levels nor the structures of interest rates reflect the true economic cost of capital. One recognizes, too, that any attempt to identify objective criteria for the determination of those interest rates which would equilibrate the supply of savings with the demand for investment would be both impractical and futile.

Thus both the developing countries and the development banks have available to them only crude interest rates to guide their lending and investing policies. As a result, national governments as well as development bank managements use what has been appropriately called “judicious empiricism” as bases for those monetary and financial policies which involve financial assets and liabilities.

Once one accepts the reality that most developing countries have neither the money and capital markets nor the economic and financial sensitivities with regard to which interest rate changes would be very meaningful, it is also easy to accept the fact that in most developing countries even minor interest rate movements, upward or downward, are without significant consequences for conceivable financial transfers. Further, it stands to reason that such conditions do not and cannot establish those desirable spreads between interest payments made and received which would facilitate satisfactory flows of credit and the terms thereof. Development banks are as handicapped by shadow interest rates as are other financial institutions which are prevented by the imperfection of financial markets in the developing countries from arriving at realistic estimates of many magnitudes relevant to optimal investment and other decisions germane to the functions of financial intermediation. In fact, it appears to be common that in such an environment development banks become, and accept the role of, captives of government policies to which they become subservient.

X. Conclusion

For the attainment of economic development objectives, financial means and policies, i.e. development finance, are as a rule as important as are the skills of labour, the quality of business management, economic organization, and other ingredients of economic advancement. Just as the need for development finance is predicated on the demand for capital, the financial requirement of economic growth is determined chiefly by the magnitude of the existing savings-investment and foreign exchange gaps. The more efficient the financial organization of a country, the greater the coun-
try's economic growth. In fact, there is a meaningful functional and historical relationship between a nation's financial development and its saving-investment technology. (Those who question this axiom point out—for example—that financial asset formation is not a true image of real asset formation; that financial intermediaries by facilitating savings merely help raise a nation's savings ratio; and that a given growth of output can be consistent with different levels of financial development.)

While all financial institutions can be, and frequently are, instrumental in closing the two aforementioned gaps, development banks (broadly defined) have generally been most directly involved in strengthening the financial infrastructure of developing countries. As either private or public financial intermediaries, these banks have access to, and can avail themselves of, many of the methods and approaches generally used in mobilizing domestic and international capital, sometimes with and at other times without the assistance of national governments and their organs, including central banks.

Despite many institutional differences between development finance organizations operating in various national economic systems, these organizations have much in common. Major contrasts emerge, for example, between (1) oil-exporting and oil-importing countries; (2) states with comprehensive economic planning in which governments determine the pulse of economic development and the state shapes the required institutional arrangements—and those nations which adhere to the free enterprise or mixed system and do not therefore interfere with international cooperation in the field of banking; and (3) countries which pursue independent development policies and those (few) other countries which are members of regional integration schemes, such as the Central American Common Market and the Economic Community of West African States or benefit from their ties with the European Economic Community. Additional differences in developmental policies and progress may be traced to varying degrees of government subsidization, financialization, interest rate policies, the extent of economic dualism, and the degree of monetization, etc.

Development banks as institutions entrusted with the mobilization of domestic savings and the acquisition of external investible funds evidence also certain common fundamental denominators as well as numerous formal differences. Among the former, the extension of primarily medium- and long-term loans is dominant; among the latter, one finds a large number of names under which develop-
ment banks operate but which belie their common economic functions—except in the case of some specialized (e.g. housing, mortgage, export) institutions. The one basic differentiation among the various "banks," "institutions," "institutes," "funds," "corporations" and "financieras" that is consistently and properly adhered to is that which keeps only two bank categories apart, namely, the industrial and agricultural organizations.

The important role which development banks play in countries where the banking and financial systems are not fully developed must be differentiated from the influence exercised by financial institutions in fairly well-developed monetary and financial systems in which the respective national authorities can rely not only on effective bank legislation but also on the effectiveness of the indirect actions of stimulation or restraint which they may take. Clearly, in the former group of countries, development banks are as a rule more deeply involved in the mobilization of savings and investible resources than they are in the latter group. And this raises several issues such as the public's confidence in the banks' efficiency and trustworthiness, management skills, financial expertise, and last, yet certainly not least, the desirability of smaller or greater government-mental assistance, especially as a source of incentives for private investment.

The above-mentioned similarities and dissimilarities in development finance systems in general and between the existing types of development banks in particular are of considerable importance in themselves. Yet beyond and above this they have indispensable significance for comparative analysis and evaluations of different developmental policies. It is quite possible for such analyses to become a source of information about both the macro and micro-economic aspects of the financial requirements of development plans and programmes under comparable economic—as well as social and political conditions. In this way, comparative analyses may help establish meaningful theoretical and practical linkages between the provision and utilization of available savings, fiscal revenues and expenditures, exports and imports, as well as other magnitudes relevant to economic growth and the processes on which these latter are based.

Furthermore, comparative studies of financial systems and institutions facilitate comparisons of development strategies of various countries thus enabling policy-makers to identify the strengths and weaknesses of the related economic policies, and eventually to appraise, on an empirical basis, different developmental patterns on
the one hand, and the corresponding monetary and fiscal methods, investment incentives, international commercial and payments policies, etc. on the other hand.

The issues and problems of development banking touched upon in this paper indicate that these institutions tend to carry out their lending and investing activities in a conservative, financially unaggressive manner, seldom heeding the activist spirit which the development and modernization of their countries calls for. This can be witnessed especially in those cases where development bank managements strive harder for short-term accounting profits than for long-term economic profits, and where they prefer to get involved in risk-free rather than risky projects. In such instances these financial institutions open themselves to the criticism that, in terms of their potentialities, they fail to contribute adequately to the achievement of their chief purpose, namely, the promotion of long-term development changes of socio-economic nature.

If this rather common criticism is to be countered in a positive and constructive manner, it means that development banks should not consider financial success and viability as the primary, but rather as a secondary criterion of their performance, to be eventually substituted by their ability to cooperate with other private and public financial institutions so that (1) national developmental objectives are reached in harmony with national standards, criteria and plans, and (2) available/accessible financial resources are used with optimal efficiency. To quote V.V. Bhatt on this issue: “A development bank cannot act like a normal commercial bank; it has no raison d'être for its existence unless it seeks to promote industrial development that is consistent with the country's development objectives. Hence it cannot judge the soundness of a project merely on the basis of its ability to service its debt to the development bank.”

Should be framework for an inter-institutional investment coordination be brought about through the efforts suggested in the preceding paragraph development banks may feel compelled to seek out and/or participate in the financing of ventures and projects which they would not have considered before, particularly not the riskier ones. It is not only conceivable but also probable that under these conditions, development banks (and other agencies concerned with infrastructural investments) will examine and improve the scope and quality of the managerial, technical and other forms of assistance which they are capable of altering. This may entail either assumption by the banks of new responsibilities or withdrawal from previous commitments or an exchange of projects with other institu-
tions on the basis of ascertainable comparative advantages.

Both the methods and problems of development bank management are closely related to the organization and objectives of these banks—and differ for the same reason from the principal ingredients of decision-making in other types of financial institutions and business establishments. In the decision-making of development banks the factor is dominant that they are concerned with allocation of one of the developing countries' scarcest resources, i.e. domestic savings and foreign funds, and that this allocation generally involves (only) one or two projects at a particular time.

Nevertheless, it is reasonable to expect development banks to commit their resources only to sound loans and investments, and to ventures with predictable developmental impact. Minimal compromise should be allowed with this expectation despite the fact that managements of development banks do not as a rule have the opportunity of comparing the costs, revenues, rates of return, etc. of a range of projects with several more or less well-known (similar) economic, technical, environmental and other attributes. The public, including national authorities, are justified in their trust that development banks will be successful in establishing financial as well as other criteria so that their resources are employed in worthy projects.

Doubtless, in the developing countries the importance and the difficulty of meeting this expectation are--from the managerial point of view--magnified by, for example, the existing informational (statistical) deficiencies/imperfections; by prevailing relatively simple technologies of production which lack uniformity; and by governmental policies which are sometimes supportive and sometimes restrictive. It is conceivable, too, that the tasks of development banks would be eased if international transmission and sharing of developmental experience at both the operational and policy-levels were fostered.

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