the following working papers have been cancelled:

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TOWARD PROFESSIONALISM IN DEVELOPMENT BANKING

J. D. Nyhart

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TOWARD PROFESSIONALISM IN DEVELOPMENT BANKING

J. D. Nyhart

The attainment of professional competence in more than one hundred industrial development banks around the world will - when it happens - bring comfort and satisfaction to many.1/ National government sponsors; international financial institutions; metropolitan banks in New York, London and Europe; private investors whether insurance companies or peasants; economic planners; private business borrowers and many more all have a stake in the success of these intriguing financial institutions.2/

Yet the day of widespread professional competency is at least a decade away.

1. "The term 'development bank' refers to institutions public or private which have as one of their principal functions the making of medium - or long - term investments in industrial projects." Shirley Boskey, Problems and Practices of Development Banks (Baltimore: Johns Hopkins Press, 1959) p.ix. There are an estimated 125 such institutions in the less developed countries. One listing compiled in 1961 indicates 125 development banks, although after excluding a number which were primarily or exclusively agricultural or small business lending institutions, the compiler estimates "the actual number to be between 70 and 90." Robert W. Adler, A Study of Twenty-Eight Industrial Development Banks in the Less-Developed Countries, Department of Economics, University of Oregon (Eugene: Mimeograph 1963), p. 2-3 and Appendix B. A recent statement by the International Finance Corporation states: "No definitive list has been compiled of the institutions that call themselves, or may be called, 'development bank': but that number certainly exceeds 125." I.F.C., "Private Development Finance Companies", (Washington: January, 1964) (Mimeograph), p. 1. The most widely available comprehensive list is that given in Appendix A of Mrs. Boskey's book, supra.

In this paper, the term "bank" includes some institutions heavily committed to equity investments and management or control of projects they foster. The U. N. has differentiated between such entities, terming them "development corporations" rather than "development banks", William Diamond, Development Banks (Baltimore: Johns Hopkins Press, 1957) p. 2. In practice this distinction is blurred hence bank is used for both here.

The reasons are readily identifiable and are in part beyond the control of those who created the banks or those now running them. First, development banks share with all institutions in the less developed lands a general problem: a shortage of managers and staff. "Managerial capacity is probably the biggest single obstacle to development."\(^3\) The scarcity of skilled men is not at all confined to management; the problem of finding, training and keeping qualified staff places personnel problems at the top of the worries facing development bank managers. Second, development banks are new in the less developed countries. They are a post World War II phenomenon, and the majority have in fact been established within the past ten years. As a consequence their functions, standards and policies have neither been sorted out nor proven. More significantly, present development bank managers have not had time to acquire a lifetime of training in their field. They have come into development banking from central banking, commercial banking, \(^4\) private business or

3. Jay B. Westcott, "Governmental Organization and Methods in Developing Countries," Development Administration Concepts and Problems, ed. Irving Swardlow (Syracuse: Syracuse University Press, 1963), p. 45; "With competent management a bank may be successful notwithstanding inadequacies in the original concept of the institution or shortcomings of its charter. But no bank, however well conceived, can overcome the handicap of poor management." Boskey, p. 19.

4. The image of the commercial bankers that exist in many development bankers' minds is quite naturally based on local commercial bank practice, which differs considerably from much modern banking in the U.S. As a result, commercial banks are regarded as poor sources of development bank manpower. One development bank chairman reported that men with commercial banking experience are holding the more routine clerical positions in his bank. The short term character of commercial bank lending provides a poor background for the term lending that predominates in their field, say many development bankers. A commercial banker's interest is more centered on the short run security offered by the goods being financed, rather than the long run profit potential of the client, which by contrast is the development banker's primary security. More research is needed to determine the extent to which commercial banking patterns are changing, e.g., whether overdrafts or accommodations are being regularly renewed and so effectively providing medium term finance; whether credit is increasingly reaching smaller and newer entrepreneurs, whether the pattern of recent growth in U.S. commercial bank term lending is on the horizon in the less developed countries.
government. At the staff level, civil servants with good general backgrounds but little specialized training have staffed many of the new development banks since most have been sponsored and owned by national governments.

The fulfillment of the potential of these institutions is ultimately dependent upon the attainment of professional standards of qualities, conduct and aims by development bankers. Among other things, this means:

1. The possession of special technical capabilities suited to the predominantly term-lending character of the field.

2. The willingness and ability to make lending or investing decisions based on the facts of a loan or investment situation.

3. The avoidance - whenever humanly possible - of decisions influenced by external pressure, whether official or private in origin.

4. The development of a fairly consistent philosophy as to the role of the particular bank in its given environment.

5. The development of imagination and resourcefulness in meeting the financial needs of that environment.

These are some of the attributes of professionalism as the term is used here.

5. "The appointment of civil servants to top managerial positions in public enterprises has not always been an unqualified success. Some have made admirable records. But many senior civil servants have encountered great difficulty in readjusting to an entrepreneurial outlook and mastering...unfamiliar problems..." Swerdlow, p.17.

6. Other considerations besides the background of staff also contributed heavily to non-professionalism in development banking. The Korean War raised cotton, palm oil, jute and other commodity and mineral prices providing many less developed countries or territories with funds, which temporarily were comparatively plentiful. New development banks mushroomed. All but about 15 of these are owned or controlled by government, and as national political parties assumed power in newly independent states, some banks have become important instruments for dispensing patronage, but at the cost of professional standards.
Seven years ago William Diamond noted that "it is the operating procedures and decision-making process, much more than its capital structure and its organization chart, that provides the clues to why a development bank is or is not doing its job." Yet the growing commentary on the field has largely ignored these management areas.

The hypothesis of this paper - based on recent discussions I had with the management and staff members of twenty diverse development banks spread over Ghana, Nigeria, Cameroun, South Africa, Pakistan, India, Iran, Cyprus, Turkey and Greece - is that the policies bank managers choose regarding internal procedures and structure can be a potent agency in hastening an existing, but gradual evolution toward professionalism in development banking.

Part II identifies several forces favoring the advance of professionalism. Parts III & IV review major phases in lending procedures and structural patterns. Part V analyzes critical choices in their use in achieving the goals set out above, while the final section provides a summary.

8. For example: "Basic to all these questions of internal organization, staff, operating criteria and procedures is the question of operating management. It will be in the interest of all the parties... to obtain for the bank the best professional management possible." Louis J. Walinsky, The Planning and Execution of Economic Development. (New York: McGraw-Hill, 1963) p. 143. Walinsky then recommends that technical assistance be sought from the International Finance Corporation.
II.

Six forces are currently favorably influencing standards in development banking.

1. The international sources which finance many development banks are increasingly fostering improved methods and standards of operations in banks in which they have a financial interest.7 The International Bank for Reconstruction and Development (IBRD); its affiliates International Development Association (IDA), International

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As commodity prices fell or at best remained stable, as "independence gifts" from the U.K. or France were expended when development plans were created and funds committed, the ability of national governments to provide fresh funds for development banks diminished. Concurrently, the international sources were increasingly regarding national development banks as useful intermediaries for disbursing funds for projects too small to be economically dealt with individually in Washington, Paris or London. Approximately U.S. $1,357 million has been loaned or invested in national development banks by these international sources, as follows:

<table>
<thead>
<tr>
<th>Number of Loans</th>
<th>No. of Development Banks</th>
<th>Total Amount (Millions)</th>
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</thead>
<tbody>
<tr>
<td>IBRD</td>
<td>21</td>
<td>10</td>
</tr>
<tr>
<td>IDA</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>IFC</td>
<td>10 (equity invest.)</td>
<td>11</td>
</tr>
<tr>
<td>IADB</td>
<td>38 loans</td>
<td>32</td>
</tr>
<tr>
<td>AID1,2</td>
<td>69 loans &amp; grants</td>
<td>54</td>
</tr>
<tr>
<td>CDC</td>
<td>(6 investments)</td>
<td>6</td>
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<tr>
<td></td>
<td>(2 loans)</td>
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<td>CCCE3</td>
<td>13 credits</td>
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<td><strong>Total</strong></td>
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Notes:

1. In addition, AID has given loans and grants totalling U.S. $187 million plus $119 million equivalent in local currency to housing and agricultural banks.

2. Including $518 million equivalent in local currency - loans and grants; $38 million in dollar grants, and $199.5 million in dollar loans. (Cont'd.)
Finance Corporation (IFC),10 the U.S. Agency for International Development (AID), England's Colonial Development Corporation (CDC), the Caisse Centrale de Cooperation Economique (C.C.C.E.) of France, and the Inter-American Development Bank (IADB) wield varying degrees of beneficial influence over a growing number of banks.

The IFC and IBRD exercise a particularly useful force by insisting on careful, thorough and dispassionate appraisal of projects prior to commitment of funds by the sixteen development banks in which they have invested. Through field work, on the job training in Washington; and project evaluation courses at the Economic Development Institute, its training aim, the IBRD instills respect for the benefits of economic, technical and financial investigation.

2. The self-identification of development bankers as pioneers in a new field nurtures professionalism. An observer readily senses the excitement and pride expressed by development bankers in being part of a fresh entity, a new kind of institution important to their country's development.

Although this self-identification is not readily articulated, it is there. One can speculate that the entity evolving is to be more closely analogous to a modern U.S. commercial banker and investment banker combined than either present commercial bankers in the less developed countries or members of specialized financial institutions, or gap-fillers, of the U.S. Since the development bank is often the sole source in a country of term finance, the gap exceeds the substance. Development bankers are central rather than peripheral.

9. Cont'd.

3. Credits amounted to 100,772 million CFA. Conversion to dollars: 1 CFA = .0014 U.S. Dollars.
Sources: IFC - "Private Development Finance Companies", (mimeographed).
AID - Information Memorandum of August 1, 1963.
10. "Since the beginning of 1962, IFC has taken the lead for the World Bank Group...in considering proposals for the establishment of new industrial development finance companies predominantly private in character or for financial and technical assistance to such companies." I.F.C. annual report, 1962.
3. Several series of regional conferences for development bankers over the past decade have provided forums for the exchange of experience and discussion of mutual problems. Beginning in 1954 with a meeting at Rangoon sponsored by the U.N. Economic Council for Asia and the Far East, these conferences have fostered a new sense of identity and have improved bank management through the exchange of experience.\textsuperscript{11} 

4. The recent initiation of technical assistance from one development bank to another reinforces the trend toward professionalism. Both the Pakistan Industrial Credit and Investment Corporation (PICIC) and the Industrial Credit and Investment Corporation of India (ICICI) have provided assistance in some form to countries considering the establishment of a development bank or to new banks themselves. Assistance has taken the form of advice by senior personnel on problems of establishing a new bank, making available procedure manuals, accepting staff from other banks for training, or in some cases secondment of personnel to serve short periods in other banks.

5. Development banks are increasingly being staffed by professionally trained engineers, economists (or marketing specialists), and accountants or others with financial training. The growing appreciation of project appraisal has brought a requirement for men with special competence to examine the economic and engineering as well as financial aspects of projects. Increasingly these capabilities are being supplied by members of the bank's own staff.\textsuperscript{12} 

\textsuperscript{11} These conferences have included: 1) a meeting in May, 1958 of 12 banks sponsored by the IBRD in Washington. 2) Three regional conferences of development banks in Asia: the first in 1961; the second from March 29-31, 1962 at Bombay (sponsored by Industrial Credit and Investment Corporation of India)(ICICI); and the third from November 19-21, 1963 at Teheran (sponsored by the Industrial and Mining Development Bank of Iran.) 3) Two CENTO conferences on Industrial Development Banking: June 19-23, 1961 at Muree, Pakistan and June 4-9, 1962 at Istanbul. 4) A conference of Latin American Development Banks, February 21-23, 1964 at Caracas, sponsored by the Venezuelan Development Corporation.

\textsuperscript{12} Four of seven respondents to a recent questionnaire prepared by the Reserve Bank of India indicated they employed full time technical staff for appraisal of loan applications. Working Group on State Financial Corporations, Summary of Replies, (Bombay: Reserve Bank of India, 1963) p. 35. See Reserve Bank of India, Appraisal of Term Loans (Bombay: Reserve Bank of India, 1962) p. 9.
The sources for these specialists vary from country to country. The financial section of PICIC is composed of men with Masters of Business Administration from Karachi's School of Business Administration. In Turkey's Industrial Development Bank (IDB), they have come almost entirely from the tax bureau of the Ministry of Finance. In South Africa, the Industrial Development Corporation's (IDC/SA) finance section hires as auditors or accountants university graduates with two to four years' practical experience. IDC/SA makes a point of seeking men who have an eye for business as well as figures. IDC/SA's economic appraisal of projects centers on marketing and the specialist is similar to the marketing expert in the United States. Since marketing is a new field in South Africa, experienced marketing men are in short supply. In Pakistan, both PICIC and the Industrial Development Bank (IDB) draw their marketing men either from economists or the business administration field. In Turkey, the shortage of economists equipped for this kind of work was such that the IDB of Turkey had to train its own.

6. Increases in the number of managers with responsibility spanning the three specialist fields of economics, finance and engineering suggest that the evolution of the development banker will be toward a gradual overlapping of these three specialties in one person, who will have either technical competency or supervisory responsibility bridging more than one field.

Three years ago, IDC/SA, one of the oldest development finance institutions, dropped designations indicating the specialist background of their department heads. The titles of technical manager, financial manager and marketing manager were all changed simply to manager. The rationale was that such men should be recognized, both by the IDC and its clients, as being capable of dealing with the full range of problems of any project. The effect was to deepen general management capability. The creation of deputies to the General Managers in IDB of Turkey, ICICI, PICIC are similar moves to widen the management levels which span the specialist field.13/

A similar evolution at the staff level would also be desirable. The increased use of economists, engineers and financial experts

13. IDB of Turkey has two deputy general managers; ICICI has a deputy general manager as well as a general manager and a fully active chairman (the deputy general manager post may currently be vacant, its incumbent assumed the post of general manager of the Nigerian Industrial Development Bank early in 1964); PICIC has one deputy general manager.
considerably improves the level of expertise in development banking. However, these men are hired as engineers or accountants, not as development bankers. Retention of their original professional identity may conflict with their evolution as development bankers. IDB of Turkey is experimenting in a new direction by having a staff engineer, who also has a business administration degree, work in both the financial analysis and engineering departments of the bank. The Deputy General Manager of PICIC was thinking in the same vein when he expressed the hope that PICIC's engineers would some day be trained as financial analysts.\textsuperscript{14}

To these six influences toward professionalism should be added the procedural policies developed for each phase of the life of a loan extended by a development bank.

\textsuperscript{14} A similar transition evidently does take place among World Bank staff members: "All these three types of men - economists, engineers and financial men - work in very close contact together. And in the end, after they have been working together for a certain number of years, a new type is produced...a kind of hybrid investigator in the World Bank and in the International Development Association." Hugh B. Ripman, "Appraisal and Supervision of Projects." Speech given in Taipei, Formosa, March, 1961. (Washington: IBRD, 1962)(Mimeograph), p. 2.

Engineers are the most likely prospects for such multiple discipline competency. Since it is "easier to train people possessing a technical background with some knowledge of economics to be good sectorial programmers than it is to provide economists with the minimum technical education necessary." Although the quote pertains to programming, the point applies also for project appraisal. Albert Waterston, "Planning the Planning. Under the Alliance for Progress", Swerdlow, p. 157.

Another mechanism which increases multiple discipline awareness is the loans committee, usually comprised of senior officers, which involves its members in a consideration of all aspects of a project.
Before examining the ways procedure and structure can be used profitably in developing development bankers, characteristics of both which are common in several development banks must be examined. The procedures under review here are those which determine the progress of a financial proposal within a bank; they are the methods by which responsibilities are allocated among the various sections of a bank, rather than the more detailed procedures followed by the sections.

Seven major phases in the financing of a project are:

1) Reception of a project application by the development bank or development of a project by staff.
2) Initial screening by which the number of projects accorded full investigation is narrowed down.
3) Full appraisal or investigation of all aspects of the application.
4) Decision making as to whether a loan or other assistance will be proffered by the development bank.
5) Legal implementation necessary prior to disbursement of any funds.
6) Disbursement of funds.
7) Follow-up on the project, both as the funds are being disbursed and thereafter until the bank's interest is liquidated.

Each phase is examined in turn.

**Reception Or Development**

Four objectives are often accomplished in this phase:

1) The bank meets its potential client or partner either face to face or through the mail.
2) Sufficient data is acquired to provide a basis for a preliminary screening.
3) Applications for projects which on their face do not fall within the bank's terms of reference are rejected.
4) Application is injected into the processing flow.

At the outset, a distinction should be noted between those projects which clients bring to the bank in search of funds and those
which are developed by the bank. Some banks, mostly privately owned, do not initiate projects. Others, mostly government owned, not only initiate but also manage industries in the absence of private entrepreneurs. In between, banks with a variety of ownership patterns take varying degrees of initiative toward establishment of new industries, including 1) promotional efforts to making known the bank’s facilities - such as the periodical published by PICIC and the formation of a separate small industries division by the Industrial Development Company of South Africa designed in part to provide wider recognition to the assistance rendered small businessmen and 2) development through research of ideas for products to discuss when a client with suitable experience approaches the bank. Alternatively, a client may have an idea which it asks the development bank to help develop. The allocation of staff time among self-initiated projects and client projects reflects in part the state of the economy and political setting. When conditions are favorable for private investment, the flow of client projects leaves little time for development bank staff to work on their own project ideas. As an official of the I.D.C. of South Africa indicated, the Corporation has to take the ones who come through the door. When conditions are such that private investment is slack, the development bank can turn its resources to initiation. It was in part for this reason

15. The cost of maintaining extra research and technical personnel and facilities for project development may not be considered justifiable expenses by private investors. They also may be unwilling for the bank to become an owner-proprietor of self-initiated projects for which no private investment is found. More research on the actual attitudes of the important classes of private investors, e.g., local institutions, local individuals, foreign institutions, toward expenditure on such functions would be extremely useful.

16. They include the Latin American fomento and development "corporation" in the sense mentioned in footnote 1. Among such institutions are: Corporacion Boliviana de Fomento, Corporacion de Fomento de la Produccion (Chile), and similar institutions in Guatemala, Haiti, Panama, Honduras, Nicaragua, Peru and Venezuela, as well as the Uganda Development Corporation, National Industrial Development Corporation (India), and the Pakistan Industrial Development Corporation.

17. An official of the I.D.C. of South Africa cited examples of existing clients turning to that institution for assistance in developing ideas beyond the client's research or planning capabilities.
that the IMDBI recently created a separate division to develop its own projects.\textsuperscript{16} 

The new client normally receives a form requesting information. These vary widely: in some the information desired is listed in detail, in others only broad categories are given. Banks may provide a preliminary form and later furnish a full application form. Others differentiate data requested by the size of the loan requested or its purpose.\textsuperscript{17} ICICI and IDC of South Africa give potential clients a list of subjects that should be covered in a proposal and then view the nature of the clients' response as an indication of its general level of sophistication. ICICI has clients throughout India and tries to have a meeting with the party as soon as possible. Whatever its size or shape, the initial form should provide the basis for a preliminary appraisal of the idea presented for assistance.

An office other than that responsible for project evaluation can handle the initial distribution and receipt of applications and thereby relieve the specialist staff of routine.\textsuperscript{20} Upon receipt material

\textsuperscript{18} The introduction of a self-initiated project into the evaluation routine presents the danger of favorable bias attaching to an idea evolved by a bank's own staff. The Uganda Development Corporation's development division, for example, was responsible both for evaluating clients' proposals and initiating its own. The IMDBI's creation of a separate division seems a better alternative. The IDC/SA meets the problem by permitting anyone on the staff to work as time allows on new self-initiated projects, with the responsibility of bringing it before the Proposals Committee (loan committee) when sufficiently developed. From that point, self-initiated projects are treated in the same manner as clients' projects. The self-initiated ideas are called projects to distinguish them from those of clients, called propositions.

\textsuperscript{19} The Industrial Guarantee Fund of Iran has three application forms, each applicable to a different amount category of loans. The Banque Camerounaise de Development and the Economic Development Finance Organization of Greece distinguish on the basis of loan purpose. See Boskey, p. 121.

\textsuperscript{20} In PICIC, the Economic and General Department handles matters at this point thereby lightening the loan on the Operations Department. In Turkey's IDB, the application comes to the Office of the Deputy General Manager overseeing the engineering, economic research and financial departments. Here there is a Chef du Bureau who goes over the information to determine that everything asked for has been received. In the IDC of South Africa, applications are received by the Secretary who presents them at the next meeting of the Propositions Committee.
should be reviewed to assure that the required data are assembled for the preliminary qualitative appraisal. The receiving office frequently rejects the project if it is prima facie beyond the bank's area of operation with respect to sector, size of loan and other set limits. In some countries, the application may be screened for relationship to the current development plan.

Some receiving offices make qualitative evaluations as well as routine checks. The Loans Department of the National Investment Bank (NIB) of Ghana, headed by a former commercial banker of considerable experience, both receives the initial inquiry and decides whether an investigation should be recommended. Thus the separation of reception and initial screening phases is not clear-cut.

**Initial Screening**

The primary purposes of an initial screening or a preliminary appraisal are:

1) To determine whether the bank should conduct a full investigation of the project. Included in this determination may be:
   a) consideration of policy implications,
   b) rough estimates of feasibility, usually from an economic or financial aspect considered particularly critical in the economy concerned.
   c) background or character checks on the applicant.

2) Completion of any routine checks not covered earlier.

3) Assignment of investigation responsibility, especially where appraisal is carried out by teams composed of different specialists.

The early elimination of applications unlikely to sustain successfully the scrutiny of a full investigation is a critical element in the cost pattern of a development bank's operations.\(^{21}\) The experience of the IDC/SA provides an appreciation of the cost advantages.

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21. "(O)ne of the main factors making for higher expenses was the cost of examining projects which ultimately were not proceeded with or did not materialize." ICICI, *Report of Proceedings - Regional Conference of Development Banks in Asia* (Bombay, June, 1962) p. 18.
There, the typical man/day cost at the completion of a preliminary appraisal is three to six man-days or one or two days each from a team composed of a marketing expert, a financial analyst and an engineer. At this point the decision is made whether or not to commit the bank to an investigation which will require approximately 21 man-days in the field, plus another 20 man-days for writing the investigation report. The cost at the end of the preliminary appraisal equals roughly 10% of the anticipated cost if the bank proceeds through the appraisal stage.\(^\text{22}\)

Three examples illustrate the variety of format and content of such preliminary appraisals. In PICIC, the preliminary appraisal spans the reception, initial screening, and full appraisal phases. Its Economic and General Department receives applications and does some mechanical or formalistic screening. But it also investigates the background of the applicant and the prospect of the project's producing a favorable impact on the economy. If the application is recommended for further study,\(^\text{23}\) it is sent for its initial examination by the Appraisal Committee which considers appropriate question of policy.\(^\text{24}\) If at this point, the Appraisal Committee decides in

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\(^{22}\) Where a clear decision is not desirable at this point, the priority list assignment scheme of IMDBI might prove valuable. Its loans committee at this stage assigns a priority to a new application which indicates the relative speed the application will be handled among all applications. In mid-1963, an official of that bank indicated that the load of project applications was relatively light and that the priority list signified a probable favorable response rather than priority for investigation. About 70% of those placed on the priority list were being acted upon favorably.

\(^{23}\) Economic General's report is a one page summary ("this project appears sound...recommend a study be carried out"). If the report is negative, a letter from the General Manager is sent to applicant stating a brief reason. (Every rejection letter is from the General Manager.) In order to keep other departments informed of what is being turned away at this stage, a weekly list of applications rejected by Economic and General, with a short statement as to why the negative action was taken, is circulated within PICIC.

\(^{24}\) E.g., appropriateness of the bank's entry into the particular industrial field, effect of financing the project on bank's relationships with other financial institutions, government, clients, etc.
favor of a full investigation, the first step is a preliminary analysis of the product's potential market. If no satisfactory market exists, further investigation is halted.25/

In Turkey's IDB, after the receiving office has determined that all data required in application form are present, the Financial Department makes a rough appraisal of the financial aspects of the proposal to determine that estimates of cost and return are on their face within sensible bounds. The second component of the initial appraisal is a background check on the applicant, made through banking and business circles. This review, similar to one conducted in the Pakistan bank, ascertains the nature of the applicant's financial position and character reputation.26/

In South Africa's IDC, an application is brought to the next meeting of the Propositions Committee, which convenes twice a week. Staff experts representing engineering, marketing and finance groups are assigned to complete a "basic assessment" of the proposal from the materials provided by the applicant. The three staff members work simultaneously making separate, brief reports. Assessments are completed within two or three days, with a report back at the next Propositions Committee meeting which then decides whether a full investigation should be pursued. The financial, the marketing or the engineering department is assigned primary responsibility to see that the basic assessment is completed on schedule and to move the project forward if it receives a full investigation. This assignment depends upon whether the project involves mainly marketing, financial or engineering problems.

25. The marketing experts are part of PICIC's Economic and General Department while the financial analyst and engineer who complete the investigation team are from the Operations Department, whose Chief assigns all investigating personnel and coordinates the appraisal investigations. This separation is made to assure that the determination of the market potential is made with maximum independence and freedom from any administrative pressure.

26. In the absence of established credit rating services, the value of these checks is questionable; an official of IDB of Turkey commented perhaps apocryphally, that he usually interpreted a report by a commercial bank of a client's soundness as a sure indication that the client was in fact well in debt to the reporting bank, who was eagerly eyeing the development bank's interest in providing new capital!
The ideal initial appraisal is a two step process, combining some of each of the above patterns. First, a check is needed to assure that the requisite material is present and that on its face the project falls within fairly clearly stated boundaries defining the bank's operations. This examination probably should be conducted by staff other than investigating and decision-making bodies, since it normally comprises a level of investigation not requiring more highly qualified personnel. The second step involves consideration of policy aspects and qualitative judgments as to whether a full investigation is justified. At this point, the wisest course would appear to be a brief evaluation including all the major aspects of project evaluation, not merely one or two. To the extent that broad policy questions are at issue, management should take part in order to be sure that the project is ready for full appraisal.

Appraisal

The goal of the project appraisal stage is to provide the bank with the fullest evaluation of all aspects of the proposed venture, based on the most accurate data obtainable. Such an appraisal is not confined to the "relatively narrow point of view of a potential creditor." Instead the investigator ideally places himself, as does the IBRD in its own investigations, "in the situation of management...interested in all the circumstances surrounding [a project], the whole economic complex of which the project will form a part. This means...the economic;...technical;...managerial;...organizational;...commercial;...and financial aspect." 28

It would be difficult to over-emphasize the importance of developing proper project appraisal methods. A development bank may conceivably prosper temporarily on projects that result from the intuitive reactions of the General Manager, or from strong political or private pressure. Over the long run, however, effective appraisal prior to commitment of funds lays the foundation for a sound development bank.

Three basic approaches to appraisal can be identified. The first is the assignment of one man to the project with the task of reviewing all its facets. This was frequently the practice of the Development Division of the Uganda Development Corporation. But few men working

27. Ripman, p. 3.
28. Ibid.
in the development banking field have demonstrated the ability or training to examine adequately the financial, economic and engineering aspects simultaneously, although as noted in the prior section, there is hope that this capability may eventually develop among experienced development bank managers and staff.

The realistic present day alternatives lie in marshalling a variety of experts. The basic distinction between various banks is how evaluations are made.

**Team Appraisal**

The team approach to appraisal is well illustrated by the practices of PICIC and IDC/SA. In PICIC, the Chief of Operations assigns an engineer and financial analyst from his Operations Department and a marketing expert from the Economic and General Department to a project investigation. As indicated above, the marketing member starts first, but is soon joined by the engineer working on technical design of a plant with production capacity, as indicated by the market estimate. The financial analyst is soon investigating the financial needs of the project assuming sales initially at 70% of the rated capacity of the proposed plant. The three men hammer out three reports. The Chief of Operations acts as coordinator; it is his responsibility to prepare one project appraisal from these three reports for presentation to the Project Appraisal committee. The reports involve personal interviews at client's offices, visits to proposed sites, recourse to both private and public institutions and to relevant published data. If the industry is new to the bank or the country, PICIC may carry out an extensive nationwide market study.

In IDC/SA the Propositions Committee sets a schedule for completion of the investigation.29/ The three-man team responsible for the initial assessment normally carries on the full investigation and a team member or a senior is designated to the coordinator, or "chaser", for the project. The team presents one report with joint conclusions and recommendations directly to the Propositions Committee.

29. The IDC reported that the field work of investigation normally takes a week; writing up typically takes another week and discussion with the client at least another week. The Corporation's practice is to have the client's informal agreement on the proposal before it goes to the IDC board, thereby minimizing extended negotiation with the client after board approval.
Consecutive Departmental Investigation

In an alternative approach, illustrated by the practice of Turkey's IDB, the financial, engineering and economic research departments conduct investigations separately and consecutively. The technical department receives the file and undertakes investigation covering both technical feasibility and profit analysis. A departmental report is prepared. The file moves on to the economic research department for investigation of economic aspects and potential market. After the economic report is completed the file goes to the financial department for its investigation, in the course of which figures previously used may be revised or estimates returned for alteration. The financial department chief merges parts of other two reports into his final version which is sent on to the Finance Committee for decision.

Variations of both methods can be found. ICICI uses the team approach but there is no economics member. His omission is evidently due in part to the view that determination of long range prospects for a particular industry is properly the responsibility of the planning wing of government and in part to the very pragmatic belief that India is currently and prospectively a seller's market. What can be locally produced can be sold. The IMDBI* follows the consecutive departmental investigation path, but the loans department has fixed responsibility for coordination.

*Industrial and Mining Development Bank of Iran.

30. Many development banks do not perform all the necessary appraisal tasks. In such cases outside personnel are relied on for appraisal. The IDB of Pakistan and IFC of India have relied heavily upon Advisory Committees. Members are outstanding men in various technical fields. After the IDB makes a preliminary screening and determines that it technically feasible the loan should be granted, the advice of the advisory committee is sought on the technical aspects. The advisory committees operate as the technical arm of the bank. Similar procedures are used in the IFC of India.

Reports by professional consultants hired by foreign investors or experienced indigenous entrepreneurs may also be a source of appraisal opinion. Similarly, the planning arm of the government may have investigated the feasibility of a project which it then brings to the bank with a request for funding. Finally, in the guarantee scheme of the Industrial Guarantee Fund of Iran, the bank's appraisal function is limited to formal review and the cooperating commercial banks which do the actual lending bear responsibility for investigating the project. (Cont'd.)
Decision Making

The decision to commit funds frequently involves more than one step. These are:

1) a recommendation at a level below the board of directors.
2) the decision by the board of directors or members to whom it has delegated authority.
3) approval from the IBRD or aid agencies from countries furnishing funds extending credits to be used by the borrower.

A committee consisting of the general manager, his deputies and department heads normally considers the project before it is submitted to the board of directors. In PICIC, where the appraisal has proceeded on a team basis, one report is presented for consideration. In IDB of Turkey, where the investigation is conducted consecutively by departments, the finance department report serves as the basis of discussion, while the technical and economic research department heads have their own departmental reports at hand for reference should there

30. Cont'd.

Although some of these schemes work well, others have proven not so successful. One difficulty experienced is that the advisors are only advisors and busy ones at that. Although they may attend meetings and take an active interest the attention given to individual projects, even with their outstanding expertise, has in some cases been too scant. In other cases poor consulting firms have been relied on by the applicant. It would appear that wherever possible a bank should rely primarily on its own staff.

31. PICIC's project appraisal committee consists of the General Manager, Deputy General Manager, Chief of Economic General Department, Officer in Charge of Economic Research, Chief Engineer, Chief of Operations, Chief, Accountant and Finance, and the Law Officer; the IDB of Turkey's Finance Committee is made up of the General Manager, two Deputy General Managers, the heads of Technical, Economic Research and Finance Departments. In IDC/SA, the Propositions committee is composed of the Chief Accountant, Chief Marketing Officer, Chief Textile Officer and Chief of Small Industries Division. These officers are immediately below the top managerial level of the general manager, his deputies and managers. This suggests that as a bank ages, the committee function steps down the level of management. Contrast NIB's executive committee of the board, which may be a substitute for the internal sub-board committee.
arise technical or economic aspects not covered in the finance department's report. These committees may approve a project and send it on to the next stage, reject it or hold it for further information and discussion.

The committee decision contrasts markedly with the practice in many U.S. commercial banks in which primary responsibility for deciding on commitment of funds rests with individual loan officers. In the appraisal and decision-making procedures reviewed here, in the evaluation and decision each step is a collective rather than an individual one. Such practice reduces the likelihood of arbitrary or biased decisions, but probably slows the process and tends to obscure the location of responsibility. Committee decisions appear to be one price paid for good appraisal of projects, since decision making is closely linked to evaluation, which in underdeveloped countries demands careful internal scrutiny of each aspect rather than reliance upon external technical consultants and market data.

The inclusion or exclusion of the investigating staff in the committee deliberations of a particular case presents a significant issue. At PICIC the men who do the project appraisal take an active part in the meetings when their projects are discussed. In IDB of Turkey and IMDBI (Iran) they are not normally present; the department heads of IDB and the Loans Department of IMDBI serve as links between the committee and investigating personnel.

A bank's board of directors normally has final authority to finance or reject projects which reach it, although the board may have delegated responsibility to the general manager or executive committee in loans up to stated limits. The approximate number of applications reaching different stages of recommendation and decision making at PICIC and IDC of South Africa was estimated by officers of those banks as follows:
<table>
<thead>
<tr>
<th>At reception</th>
<th>PICIC</th>
<th>IDC/SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial appraisal made</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Recommended for full approval</td>
<td>90</td>
<td>80</td>
</tr>
<tr>
<td>Recommended for Board appraisal</td>
<td>80</td>
<td>60</td>
</tr>
<tr>
<td>Approved by Board</td>
<td>65</td>
<td>30</td>
</tr>
<tr>
<td>approved</td>
<td>50</td>
<td>3032</td>
</tr>
</tbody>
</table>

The experience of several banks has indicated a declining proportion of rejections after their beginning years. In the IMF, the early rejection rate was about 70%; now it is about 20%. Similarly, in the early days of the IDC/SA, only 20% of the applications that made it to the detailed investigation stage were likely to be accepted, whereas at present the figure is nearly 50%. With the passage of time, the banks gained more confidence in their knowledge of what they could and could not do. Original conservatism was

32. The latest annual report of the IDC indicates the fallout between the number of "enquiries" and the number of "applications investigated" to be considerably greater than the 40% drop indicated above between reception and those on which a full investigation is made:

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of enquiries</th>
<th>Applications investigated</th>
<th>Applications accepted</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958</td>
<td>154</td>
<td>36</td>
<td>25</td>
</tr>
<tr>
<td>1959</td>
<td>174</td>
<td>45</td>
<td>24</td>
</tr>
<tr>
<td>1960</td>
<td>227</td>
<td>41</td>
<td>20</td>
</tr>
<tr>
<td>1961</td>
<td>309</td>
<td>58</td>
<td>35</td>
</tr>
<tr>
<td>1962</td>
<td>344</td>
<td>84</td>
<td>54</td>
</tr>
<tr>
<td>1963</td>
<td>574</td>
<td>120</td>
<td>62</td>
</tr>
</tbody>
</table>

Source: Industrial Development Corp. of South Africa, Annual Rep. 1963. The larger figure probably includes many informal enquiries that never were followed with a definite proposal and data on which an initial appraisal could be made.

Comparable figures for ICICI in 1962 indicate that 109 applications were received, 99 considered by the Board, of which 92 received Board approval.
overcome. At the same time, borrowers acquire a better idea of the corporation's policies, and as a result submit fewer of what one banker described as "harebrained" ideas.33/

Legal Implementation

In this phase, the legal and/or the secretary's department:

1. Draws up and completes execution of the loan agreement containing terms upon which the finance will be made available as well as any conditions to be met both prior and subsequent to the disbursement of the finance.
2. Draws up and executes, where called for, mortgage deeds and guarantees by banks or other third parties.
3. Assures compliance with the above documents and other legal agreements that may be pertinent.

Legal agreements establish conditions which must be met and maintained throughout the relationship between bank and borrower. Before funds are forthcoming, the borrower may be asked to mortgage property as collateral, obtain guarantees from third parties, and substantiate that he will be able to provide his share of the funds, including working capital (this may take the form of a guarantee from a commercial bank that they will lend the necessary money.) The borrower may have to procure management satisfactory to the bank, undertake that the articles of association of his company will be made to accord with the agreement, promise to obtain more than one bid on machinery, and similar tasks. The loan agreement also sets up the terms upon which the finance is made available, e.g., the security as referred to above, repayment schedule, interest, insurance provisions, commitment fees, etc.

A development bank's law work is the responsibility of a separate department within the bank, usually called the legal department or secretary's office. Where the legal and corporate secretary's

33. The IBRD, the IFC and AID generally require that loans using funds they have made available receive their approval. This represents another decision making step, although it is likely that rather than disapproval by the international organ, revision of the project or the amounts involved is the more likely outcome.
professions overlap, these two offices are combined into one department, as in the Industrial Development Corporation of South Africa where the secretary's office covers all these matters. Some development corporations do not maintain lawyers on their staff, relying upon outside solicitors.

The conditions in a loan agreement pertaining to the disposition of income after the business is operating provide an important form of security for the bank. Restrictions on the amount of dividends that may be paid to shareholders as long as any money remains due or payable to the bank; prohibitions on further encumbrances, investment in any other concern (including its own subsidiaries), expansion into business activities other than set out in the agreement and restraints on expansion of capacity offer in many cases surer protection against the loss of the bank's investment than the property mortgaged as collateral. Too often the realistic recovery value of the physical assets of a plant in a remote part of the underdeveloped country do not furnish the bank with security consistent with the paper value of the property covered by the mortgage deed.

The basis for a continuing relationship between the bank and the borrower is established by those legal conditions and requirements pertaining to the period of time after the funds are disbursed. These include provision for right of inspection of borrower's books, the return by the borrower of copies of annual and semi-annual reports and other financial material. The task of the development bank at that stage is discussed below but the importance of having a legal basis for these relationships needs to be emphasized. In the United States, commercial and investment bankers are accepted by business and confidential advisors who acquire an intimate knowledge over a wide span of years of the businessman's operations and problems. In the less developed countries, the situation is not as common. Frequently, in the process of acquiring a loan from a development bank the businessman has divulged more information to an outsider than he ever has previously. However, as the money is disbursed, there is a tendency to revert to the normal business practices which operate against the use of outsiders as advisors. Continuing relationships, or follow up, play an important part in the growing professionalism of the development banker. Legal departments can assist by devising covenants which will help the exchange of information.
Disbursement

The mechanics for arranging the actual extension of credit is the primary concern of the disbursement phase. The actual disbursements of funds may be carried out by the accounting section, with the secretary's office or a special division responsible for the preparation of materials other than legal documents. For example, PICIC's post sanction and end use division:

1. Sees that clients get competitive quotations from machinery (it sometimes helps directly with machinery suppliers but usually avoids such contact);
2. Assures machinery that is ordered has PICIC approval;
3. Obtains import permits for the client;
4. Establishes letters of credit (in some banks these are prepared by the bank themselves and others by commercial banks);
5. Receives shipping documents from suppliers and after checking them endorses them over to the client who then receives the machinery.

In addition to paper measures to insure the proper use of funds as they are being disbursed, development banks also make field checks on the actual use of the funds at the site of the operation. These are considered in the next section on follow-up.

Follow-Up

The follow-up phase encompasses a development bank's continuing interest in a project beginning at the point of disbursement of funds. Follow-up divides into two aspects:

1. Short term follow-up during disbursement designed to insure funds are being spent in accordance with the understanding between the borrower and the bank;
2. Long term follow-up, or after care, by which the bank maintains a continuing relationship for the life of its interest in the project through review of financial and other information, plant visits, and provision of advice.

A development bank fails in its primary mission unless its funds are used for the developmental project agreed upon rather than being diverted to other activities. Similarly, unless the business succeeds,
the bank not only has failed in its mission, but will also probably lose its investment. Nevertheless, follow-up procedures are probably the most neglected aspect of development banking today.\(^{34}\)

There are at least three reasons. First, the reluctance of borrowers to provide needed information once they have received their money makes long term follow-up difficult. During the appraisal and disbursement phases, it is comparatively easy for the bank to obtain data, since the leverage is still with the bank. After the borrower has received his funds, he quickly becomes less interested in providing profit and loss statements, balance sheets and operating reports essential to a good follow-up procedure. Second, the full burden of follow-up does not become apparent in a bank's early years; when it does, the impact is great, due to the build up of cases once the bank is in full operation.\(^{35}\) Whereas the load on appraisal procedures is paced since projects flow through that phase and out, the flow to follow-up is cumulative for the first ten to fifteen years of the bank's life until the early loans are being liquidated. Most development banks today have still to reach that point. Banks which have concentrated their attention on the project appraisal, suddenly find they have an almost unmanageable follow-up problem. Third, the concept is new, just as project appraisal was five years ago. The banks themselves are still experimenting in an area of uncertainty for a proper dividing line between taking an interest in the affairs of a client for the purpose of protecting the bank's investment, and the provision of advisory services, which still are often regarded beyond the scope of

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\(^{34}\) A branch manager of one bank stated the problem of follow-up was "just now" getting attention in his bank. Virtually nothing had been done on follow-up prior to his arrival four months earlier. An officer in a second bank reported follow-up to be their weakest area. As indicated below, ICICI only recently created a separate department, as did the Industrial Finance Corporation of India.

\(^{35}\) For example, ICICI adds about 60 companies a year to its client list, and the head of the follow-up section estimated he would have to triple his personnel to take care of each company individually.
a bank's mandate. The concept of a banker as a continuing advisor to business, so prevalent in U.S. banking, is spreading slowly if at all. 

The experience of three development banks in handling follow-up illustrate the variety of methods that have been tried. Follow-up in ICICI was something of a stepchild until a separate section was created for it. At first included in the appraisal department, the responsibility later was moved to the disbursement department. In both departments, the subject quite naturally tended to be subordinated to the department's primary responsibility. A separate section, comprised of a section chief trained in financial analysis, two statisticians, a marketing expert and two men from banking institutions assumed responsibility for follow-up. The section hopes to add an engineer soon. The composition reflects ICICI's team approach found in its appraisal routines. The section sends out an inspection team when periodic reports indicate that construction, production, profit and other standards are not meeting the predictions of the project appraisal. In IDB of Turkey, where departmental independence is emphasized in appraisal, follow-up is also spread out among a number of departments. The engineering department is responsible for the proper end-use of funds while disbursements are being made. Long term follow-up becomes the joint responsibility of the finance and the development loans operations departments. In theory the finance department, or the engineering department at the request of the finance department, investigate all companies on a regular basis. In practice, the finance department each year identifies those projects believed facing difficulty; these are assigned to the finance department staff for inspection. During the first eight months of 1963, 27 of approximately 350 borrowers were inspected. The practical outcome in IDB as in most banks is that

36. A recent survey of 1000 businessmen in the United States ranked counseling on business problems third among the most useful services performed by U.S. commercial banks, behind granting short term loans and handling deposits and checking accounts. Dun's Review and Modern Industry, Vol. 73, No. 6, June 1959, p. 175.

37. In this manner, follow-up acts as an informal review of the accuracy of the appraisal.
borrowers who are slow in repaying are the only ones who receive attention. In the IDC of South Africa, the allocation of follow responsibility falls between the above examples. The function is normally carried out by a marketing, a technical and a financial expert who individually try to build a working relationship with the borrower somewhat similar to the account executive concept in some service fields such as advertising or consulting. Procedures are individually designed to meet the special problems in each case. The main checks are made through the individual relationship by the departmental man. The manager overseeing the department assigned coordinating responsibility during the appraisal of a project also has supervisory responsibility for the follow-up.

In summary, from the initial reception or development of a project idea through the administration of its repayments, development banks face certain common tasks in handling their lending business. The seven broad phases discussed here appear to constitute, along with the actual receipt of funds in repayment, a framework on to which the varied details of procedural policies may be fitted. The manner in which a bank's staff is organized to accommodate these policies determines its internal structure.

38. The head of the IDB's finance department said that he needed a hospital for the really sick cases more than a fixed, uniform follow-up system. Note that ICICI's system of comparing reported operational data to projections probably focuses the attention of a follow-up department on a case before it falls behind in payments.

The follow-up personnel problem in many banks might be alleviated by using less highly trained staff on field inspections and routine data checks. In IDB of Pakistan, for example, engineers were currently performing all inspections in the Karachi region. Junior staff might be used for routine, cursory inspections.
IV.

There appear to be three common types of structure stressing different approaches to grouping of personnel. I call these three approaches appraisal group oriented, specialist discipline oriented and loan purpose oriented.

Appraisal Group Oriented

The appraisal group oriented approach bases departmental structure around project appraisal and follow-up, the major tasks of the development financing process. This approach treats project appraisal as a unity and brings together in one department the special talents of the engineer, the financial analyst and the economist, the three necessary components of full project appraisal. The simplest example is the National Investment Bank of Ghana (NIB), with three basic departments: the Development Services Institute, the Loans Office (banking department) and the Secretarial and Legal Office. The Development Services Institute has engineers, economists and financial experts on its staff. It performs project appraisals and will execute the follow-up responsibilities as its projects come to fruition. This arm of the bank will also conduct some long range research, house special financing and advisory services to small industry and provide some consulting services to government and industry. Thus all the bank's technical functions are gathered under one roof. The Loans office is responsible for the financial transactions of the projects, including the bookkeeping, disbursement, receipt of repayments and similar tasks. Management, in the form of a managing director and his deputy, is a distinct function.39/

PICIC maintains the same three basic departments called: Operations, Accounts and Finances and Legal and Secretary's Office. But PICIC's structure is more sophisticated in that these departments are divided into divisions. The Operations Department contains the Project and the Post-sanction and follow-up divisions; the Accounts and Finance Department has Accounts, Insurance and Audit divisions; the Legal and

39. The NIB structure demonstrates the universal practice of keeping the secretarial and the legal duties separate from the other functions.
Secretary Department possesses a division for each aspect plus a Shares Division. In addition, a fourth major department, Economic and General consists of the General and Economic Research divisions. The Economic Research division carries out the long range economic studies for PICIC. This bank departs from the pattern described in NIB by placing the marketing expert (economist) in the Economic Research division from whence he comes to join the financial analyst and engineer on project appraisal tasks.

The Industrial Credit and Investment Corporation of India illustrates the appraisal group approach with a still more highly structured organization. It has a Project Department with engineers, financial analysts and economists and an Accounting and Disbursements Department divided into Accounting and Disbursements sections. In addition, more functions are upgraded to departmental level: Secretary and Shares Department, Legal Department, Follow-up Department and Economic and Statistical Department. ICICI is at nine years relatively old among development banking institutions suggesting that departmentalization may increase with age.40/

Specialist Discipline Oriented

The structure of specialist discipline oriented banks emphasizes the importance of the financial, economist/marketing and engineering disciplines as separate components in development banking. Each component normally forms a major department of the bank. A project department with primary responsibility for project appraisal and with men from all three disciplines, is absent. Instead, the three departments contribute to the project appraisal; they may all contribute to follow-up. Other functions which most naturally fall to one of the three departments are so assigned.

The Industrial Development Corporation of South Africa is an excellent example of a specialist discipline oriented development bank. The four major structural units are the technical, marketing, accounting and secretary's divisions. As previously indicated, loan proposal evaluation is made by a team composed of one man from each division and a man from each, often the same one, maintains close contact with the borrower over the life of the loan. The Chief Accountant's office is responsible for loan administration and auditor's tasks, as well as its share of proposal evaluation and follow-up. Similarly, the marketing section carries out long range market research and statistical accumulation as well as the economic

40. "The Industrial Development Bank of Egypt and the Industrial Development Corporation of Thailand also appear to have appraisal group orientation."
aspect of appraisal. In addition, there is a new small industries division and a Chief Textile Officer whose office has overall responsibility for the bank's extensive interests in the textile industry.

The preparation of separate project appraisal reports by the Engineering, Economic Research and Financial Analysis departments of Turkey's IDB accentuates its specialist discipline approach. The sharing of follow-up among the Economic Research, Finance and Development Loans Operations Department and the maintenance of long range economic research by the Economic Department Department fall into the same specialist discipline oriented pattern. However, additional, separate departments for loan administration, accounting and auditing, equity participations and working capital blend characteristics of the appraisal group and loan purpose approaches.

**Loan Purpose Or Sector Oriented**

The third basic approach groups many responsibilities along sectoral lines, according to the purpose for which credit is granted. An example of loan purpose orientation is the Banque Camerounaise de Development. Its Direction des Operations is divided into three major offices. One is for industrial loans. Another is devoted to the establishment of joint ventures with foreign investors in which bank equity would represent the local participation. (It is also the bureau with responsibility for establishment of projects desired by the Cameroun government for which the government sets aside sums from the annual budget.) The third office handles only social credit loans, e.g., housing, furniture, small equipment and other consumer item loans. Each office has responsibility apparently, for its own appraisal, follow-up and research relating to financing within its area.
Administration of all loans is a separate responsibility, divided according to whether the source of the financing is from the bank's own funds or from the special government budgetary grants. In addition, there is a completely separate division for agricultural loans, with its own appraisal and inspection officers and also separate accounting and administration sections.\(^1\)

The choice of an appraisal group, specialist discipline or loans purpose orientation as a point of departure when establishing or reforming a development bank's internal structure can play a positive part in increasing professionalism in a development bank. However, there are policy choices on procedure, too, which can improve professionalism. These are logically arrived at before a structure approach is determined and are considered first in the following section.

\(^1\). The Development Bank of the Philippines also divides its main operating departments according to type of loan or sector financed, maintaining Agricultural, Credit, Development and Rural Banks (finance and assistance in establishing small, local development institutions), Government Loans and Acquired Assets (loans to local governments), Industrial and Real Estate Departments. Its service functions are also highly departmentalized; there are departments entitled Accounting, Administration, Branches and Agencies, Secretary, Treasury, Legal and Auditing. The Banque de Credit Agriculture and Industrial Foncier of Lebanon apparently also falls into this pattern, maintaining Industrial, Agricultural, Real Estate, and Tourism departments along with one for Accounting and one for Secretarial.
V.

The most important step toward professionalism through procedural policies is the fundamental one of establishing and consistently following procedure. Emphasizing this truism will seem unnecessary at first glance. The consequences of wise procedural policy - investment decisions based on all the available economic facts, corollary deterrence of arbitrary or non-merit decisions, increased security of investment achieved through practical follow-up, existence of a framework for training staff and increased efficiency of operations - all tend to raise the level of development banking and enhance the professional quality of the development banker's trade. However, workable policies governing procedures are not easy to establish, and once established are not easy to follow.

Most of the banks frequently used as illustrations here have apparently met this challenge. Four - PICIC, ICICI, IDB of Turkey and IMDB of Iran - belong to one group of 16 banks labeled by the

42. "(T)he formulation and implementation of sound lending policies are among the most important responsibilities of bank directors and management. Lending policies should in every case be reduced to writing since only then will they be clearly and uniformly understood by the officers who grant them and the directors who approve them. Moreover the very act of formulating a policy and expressing it in words that all agree to will sharpen the issues and make the end product more effective."

IBRD and IFC as private development finance companies. These form a small and relatively select portion of the whole development bank universe. They are borrowers from the IBRD or IFC and have benefited considerably from technical assistance in development of procedural policies and practices, including insistence from the outset on the finest management obtainable. They are predominantly privately owned and in order to attract private funds have tended to concentrate on large industrial loans and to avoid relatively high risk or high cost fields such as small, or even medium, industry and the quagmire of politically initiated projects. In the above cases these areas were catered to by other government-owned development finance institutions, a circumstance which has reinforced the private bank's franchise to concentrate. These banks have staffs commensurate with the large sums involved. Finally, they have developed their procedural policies over a period of years.


44. Characteristics of these "Private Development Finance Companies" referred to in text:

<table>
<thead>
<tr>
<th>Loans from IBRD/IFC</th>
<th>Date of Formation</th>
<th>Approx. Staff Size</th>
<th>Loan Size (Ave.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICICI</td>
<td>$90. mill.</td>
<td>1955</td>
<td>100</td>
</tr>
<tr>
<td>PICIC</td>
<td>$49.5 &quot;</td>
<td>1957</td>
<td>120</td>
</tr>
<tr>
<td>IDB of T.</td>
<td>$19.4 &quot;</td>
<td>1950</td>
<td>-</td>
</tr>
</tbody>
</table>

The IDC of South Africa, established in 1940, is among the oldest and most well established development institutions. Owned by the South African government, the IDC has a staff of about 135. Its average size of commitment from the period 1955-63 has been $110,000 (U.S. $57,100) excluding two major industries, phosphates and oil/coal, the Corporation has developed for the government. (Source: 1963 Annual Report and Accounts). However, approximately 43% of all their loans are under $10,000 (U.S. $56,000).
The frequency with which established procedural policies seem to coincide with these characteristics raises a legitimate question: does it make sense to speak of consistent procedures for new banks, small banks, or government owned banks, whether serving a narrow sector or multi-functional in scope? The answer must be affirmative.

New banks are no longer plowing virgin territory when they establish procedural policies. Project appraisal, for example, has passed through its initial stages of experimentation; sources of prior experience may be turned to for help, although obviously methods successful elsewhere cannot be applied without discrimination and considerable modification. Visits to older banks, acquisition of their procedural manuals and forms and acceptance of their advice as well as that of the international agencies can provide useful assistance. The problem is not the lack of useful experience, but rather the current inadequacy of methods for its practical transfer. Mechanics for exchange such as bank to bank technical assistance are just beginning to evolve.

Banks which have only four or five staff members may be overwhelmed by the elaborate methods and organization of banks with ten times the staff. But concepts such as initial screening, team appraisal, committee review and recommendation, and an operating follow-up program would seem to be capable of being scaled down to the dimensions of the small development bank.

Development banks which control and manage enterprises or provide assistance to smaller industries or agriculture most frequently are government owned. Such banks may find it difficult to establish and maintain their procedures because they are frequently subject to political pressures. Accounts of the premier's nephew who, with no prior business experience, applies for and receives an industrial loan to establish a plant; the senator who succeeds in blocking a loan request to the development bank because the project would compete with a plant he owns; or the development bank used primarily as a vehicle for dispensing patronage by the ruling political party abound throughout the world. The temptation is great under such conditions to abandon good project appraisal policies or never to establish them. Yet the game is worth the candle, since they are the means which give bank management the independent judgment which government may come to respect, especially when the moral and economic sanctions of an international agency stand behind the policies. Moreover, when the facts of life
the bank to back projects desired by government, the bank's own appraisal may serve as a basis for limiting its commitment.\footnote{A development bank may in effect limit its liability in given investments by several devices. In the Cameroun and many other countries, the government makes a special annual allocation from its budget to a separate fund which is used to finance named projects desired by the government. The IDB of Turkey and other banks also manage on a fee basis separate revolving funds established by the government for designated categories of loans. In the IDC of South Africa, the government subscribed additional equity capital in the corporation which then established through equity investment the government desired projects, with the proviso that the government would buy out the IDC interest any time at the corporation's request. This device maintained a satisfactory equity-debt ratio for the corporation, protected its portfolio balance and relieved the projects of heavy debt financing. In Uganda, the government may give directions to the corporation to invest in a given industry or on other matters concerning the public interest, but the corporation may refuse to follow them when it feels the action will prejudice its financial position, unless the legislature has guaranteed to cover any resulting loss. (To the author's knowledge, no direction has ever been given.)}

In summary, the quality of development bank management is neither a public bank problem or a private bank problem. It is an issue for all development banks. Establishment and implementation of procedural policy is a starting point. Once the bank determines upon this course, choices in both procedural and organizational policy can be made which will tend to increase professionalism. Three illustrative choices are discussed below.

Choice of Team Appraisal Procedure

The first is in the choice of a team over a consecutive departmental procedure in project analysis. Several reasons suggest that a team approach better advances the professionalism of the development banker.
1. Team analysis familiarizes every specialist with all the aspects of evaluation and follow-up. This raises the level of understanding each specialist has of all the greatly interdependent components of project appraisal. 46

2. Team analysis lessens the possibility of non-merit influence by emphasizing full discussion of the project by representatives of each specialist field. Conversely the consecutive departmental approach would seem to increase the opportunity for outside influence to determine a decision, since each department through its separate report may either support or block a proposal.

3. Team analysis would seem to minimize rivalry between the specialist fields by encouraging their working together as members of one unit.

In addition, there are several arguments, which, although only indirectly relating to professionalism, reinforce the choice of team appraisal over consecutive departmental. The consecutive approach tends to lose time as an application file moves from department to department. The arrival of a file from another department is unheralded. Of necessity it must wait until it can be scheduled within that department's work program. Further, within a given department,

46. "A few examples should be sufficient to indicate the relation between these matters. It is obvious that the volume of demand to be satisfied will have a very considerable influence and will at times be the determining factor - on the decision as to the capacity of the new productive unit. But the size of the market will depend, among other things, on the location of the enterprise, so that there is a definitive relationship between size, location and the market. On the other hand, selling prices will sometimes greatly influence the volume of demand. These are almost invariably dependent upon production costs, which in turn are a function of the scale of production and location. Hence, there is a further relationship between the market, size and location of the enterprise, and the costs and income budget of the project."
the file must wait until the man assigned finishes whatever he is currently working on. This delay is repeated in three different departments. More time is lost. A particular department may prove a bottleneck, sitting on a file for an inordinate period. Often by the time a file moves to the third department, something has happened externally to the investigation which affects the report of the first stage. Finally, there is an inevitable tendency for the departments to overlap in their investigation which may cause unnecessary feelings of rivalry as well as duplication of effort.  


A second choice is the inclusion of investigating personnel at the project committee's deliberations. Staff participation in the discussion of cases in which they are involved is a vital communication link between operating staff and management. As such, it fosters the esprit referred to in the opening section, which though intangible may be fundamental to success. A departmental head in ICICI attributed the strong esprit in that organization in part to the fact that staff are listened to by top level management.

47. The team approach, however, has its drawbacks: the necessity of an extremely competent single coordinator or alternatively enough senior strength in each department to rotate the job of coordination; the potential inability of specialists; the prospect in a small development bank of tying-up most of its manpower on a few investigations, holding up advancement of all other projects except those under immediate team investigation; and the difficulty in marshalling appraisal teams for a large number of small loans.

The time required to coordinate a large number of small loans is great. IDB of Turkey has many small balancing loans, i.e., for equipment to complement a plant already in existence. Frequently, the bank has loaned money on the main equipment and, therefore, has background data on the plant, management, etc. Still, however, IDB/T feels it necessary to move such applications through each department. IDC of South Africa recently changed its procedure for loans under R40,000 (U.S.$56,000) and henceforth will assign those project appraisals by a single man, particularly qualified in the individual field of the project, who will be designated by the Chief of the Small Industries Division. The solution, however, would seem within the scheduling capacity of a bank which believed the team investigation the most appropriate.
and accorded respect by it and to the fact that staff works not only with senior management in the corporation but also in client companies. Participation would seem most required when the consecutive departmental method is used for the project evaluation, since the probability of unreconciled, divergent points of view is greater.

Being heard and listened to, collaterally combats a chronic problem experienced by some established development banks - loss of trained staff to the private sector. A development bank comprises a good training ground. Promising accountants are attracted to the IDC of South Africa in part because they receive the best practical financial training to be had in that country. An accountant or junior auditor with two or three years' experience is offered a competitive salary when he comes into IDC's finance section. After two to four years with the Corporation, the same man has received a training which makes him attractive to private industries as a manager-comptroller or financial manager. At this level, the development corporation is not able to meet the salaries offered from outside.16

16. The IDC's marketing section has trained twelve men in the last three years, of whom only seven are still with the corporation, so heavy is the demand in industry for men experienced in what is a new field for the country. Similarly, in the financial department, none of the men below the department head level were employed by IDC five years ago. The department has come to accept a life expectancy of two to four years before its analysts go into industry. Having once accepted the inevitability of losing men to private industry, IDC/SA likes to see its alumni take jobs in client companies of the corporation. It feels that this helps to assure that clients are staffed with competent personnel. It also means that the corporation will be dealing with people it knows well. In less sophisticated societies, however, this practice might encourage the possibility that favorable appraisal reports of projects by staff might be rewarded later by jobs in the company concerned once it had received financing. This fear was expressed by the Chairman of one of the other banks.
Freedom to argue with the senior management has contributed to the low turnover of a bank such as PICIC, and this helps to hold men after they become most valuable to the bank, the time at which they begin to be development bankers rather than merely good financial analysts or economists. Participation along with senior management in loan committee work on projects can play an important part in the process.

Choice of Appraisal Group Organizational Orientation.

A development bank must select an organizational structure consistent with its choice of procedures, its personnel situation and its functions. The structure should also strengthen professionalism. The appraisal group oriented approach seems the best departure point for a bank using an appraisal team procedure, although the Industrial Development Corporation of South Africa operates a very effective appraisal team procedure based on a specialist discipline oriented departmental structure.

The reasons include those supporting the choice of team appraisal procedure, i.e., widening understanding of interdependent issues and increasing cooperation. In addition the appraisal group orientation also logically collects under one administrative head the people who are to be working on project appraisals. (The same holds true for those working on follow-up whether located in the project department or in a separate section.) It also offers the advantage of a simpler structure - a minimum of three major departments (project, administration and secretary (legal) versus four in the specialist personnel oriented (economics, finance (accounting), engineering and secretary (legal)).

49. Reported by the PICIC deputy general manager.
50. If the consecutive departmental appraisal procedure is chosen, the logical organizational choice is the specialist discipline orientation to structure. This approach does promote professionalism by encouraging the use of senior men in all departments as project coordinators. An additional possible argument is that it may allow more versatility in work assignments to the accountants and economists. They can be called upon to do specialist work unrelated to either appraisal or follow up. For example, an economist working in an economics department rather than a project department may more readily be assigned to long range economic research when not working on project appraisal or follow up, just as an accountant
However, five considerations may weaken the argument for use of appraisal group oriented organization structure. First, the traditional status of economists, engineers and finance analysts may vary so greatly in a particular country that sociological barriers prevent working together in harmony under one roof. Where, for example, engineers have long been a leading professional class, while the finance staff and the economists are latecomers in the country, it may prove difficult to group them together. Second, the individual strength of particular staff members may attract responsibility for a number of diverse subjects and so distort any preset, ideal pattern. Third, the structure of an institution may find as it matures that it needs to increase its departmental specialization and expand its departments in order to find growth room for key staff. The problem of sufficient room at the top is confronting one bank which at its inception a decade ago attracted a number of bright young men. The structure of the institution is pyramided so that it is a continuing challenge to find opportunities for these men to keep moving up in the organization, although current moral is high. Finally, the development bank which adds new functions to existing ones may find its employees not suited to the new and thus desire to separate the two groups organizationally. In the current conversion of the Banque Camerounaise de Development from a social credit institution to an industrial development bank, the difficulty of orienting older employees away from their preference for consumer loans to civil servants with steady salaries and toward lending to new small industries or independent artisan groups, may account for the distinct departmentalization in a loan purpose structure.

Fulfilling many diverse functions also leads a development bank away from the group appraisal orientation, which as its label indicates, is primarily focused on the financing function. A bank which 1) is the

in a finance department can devote time to the regular bank accounting work. These apparent advantages may not exist in practice; in the IDC of South Africa, for example, both of these departments apparently divide the long range research staff from the marketing appraisal staff and the accountants from the financial analysts. Still another possible argument is that the maintenance of specialist departments assists in the recruitment of staff specialists, who may wish to retain professional identity rather than submerging it in becoming a development banker.
successor to earlier institutions,\(^{51/2}\) is the only active development bank in the country,\(^{52/3}\) has a particularly good pool of scarce expertise,\(^{53/}\) or \(^{41}\) has a mandate to initiate and operate industries\(^{54/}\) may divide its various functions among a number of departments. Similarly, the diversification into underwriting,\(^{55/}\) guaranteeing commercial bank loans, providing working capital\(^{56/}\) or other types of finance may create separate departments.

This analysis suggests that as a bank matures, it tends to expand the nature of its activities and to acquire the staff allowing and in some cases impelling, increased departmentalization. The bank moves away from the appraisal group toward the loan use orientation of the Cameroun or Philippine institutions. However, the advancement of professionalism would argue for the initial structure to be appraisal group oriented.

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51. E.g., the Banque Camerounaise de Development.
52. E.g., the National Investment Bank of Ghana.
53. E.g., the capability of the Investment Company of Nigeria to issue shares and operate a new stock exchange.
54. E.g., the Uganda Development Corporation and similar entities, see footnote 16.
55. E.g., the ICICI, PICIC or Malayan Industrial Finance Ltd.
56. E.g., IDB of Turkey.
In summary, the quality of the development banker's performance is being improved by 1) guidance from the World Bank and similar sources, 2) proud self-identification by development bankers as pioneers, 3) exchanges of experiences at regional conferences, 4) increase use of specialists on bank staffs, and 5) experimental stretching of manager's competence over more than one specialty. These same forces are gaining recognition for him as a full fledged member of the financial world. But the pace is slow. Improvement in methods of doing banking work and allotting staff to tasks will hasten the pace. Part of this task is to establish workable routines for the seven major phases of a project's relationship with a development bank: reception, initial screening, appraisal, decision-making, legal implementation, disbursement and follow-up. Another part is to design an organization which best supports these procedures from one or a combination of three organizational approaches: appraisal group, specialist discipline or loan purpose oriented.

The model that seems most likely to facilitate improvement in performance is one in which the financial analyst, economist and engineer work together in evaluating projects and in looking after projects later; if staff members have done the investigating, they join their senior colleagues when the project is considered by the loans committee; the specialists work under one administrative roof within the bank, although those working on follow-up are separated as soon as availability of staff allows. Projects are looked at carefully in the early stages and dropped before full investigation if they appear on the basis of submitted information to lack promise, although admittedly a bank will do more to bring along less attractive projects if attractive ones are scarce. As the size of the institution's staff grows and it expands its functions, more specialized departments are created, but appraisal and follow-up maintain their multi-discipline nature.

57. Is such an attitude commensurate with the bank's developmental purpose? Or should a development bank try primarily to assist the marginal projects? Or does it need to place its weight behind fairly sure bets in order to prove itself a success so as to attract investment funds to it? These and other questions of function are important and are dependent upon the ownership structure of bank and its position in the whole spectrum of local development institutions.
This model provides only a superstructure. Much more detailed knowledge of what has worked and what has failed in different banks is necessary, as is analysis of why some methods succeed and others fail under comparable circumstances. Specifically, as part of comprehensive case studies of development banks, the following questions concerning procedural policy and professionalism require exploration:

1. Where do development bank managers see bottlenecks in their own organizations that slow the work of the bank?

2. To what extent are rulebook procedures altered or ignored in practice? Why?

3. What changes in attitudes toward their job, their profession and development occur over the tenure of specialists with development banks? How do their attitudes differ from their commercial banking colleagues?

Mechanics for the transfer of experience must also be improved. The advantages of bringing staff members of new banks to older ones should be weighed against those of seconding experienced bankers to new institutions. Financial aid from the international sources might include the cost of such technical assistance. Worthwhile programs for visitors which minimize the burden upon the host bank could be devised. Regional conferences should include in their agenda discussions among appraisal, follow-up personnel and loan administrators as well as managers. Finally, the problems of adapting successful techniques to the banks with limited personnel and banks specializing in small loans should be developed.