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Future Role of National Development Banks in the Twenty First Century

Background paper*

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Evolution of Development Financing and Development Banking

The discipline of development banking has its genesis in the growth theories and development models of the development economists of the 1950's. These pioneers in development (Arthur Lewis, Albert Hirschman, Gunnar Myrdal, Paul Rosenstein-Rodan, Raul Prebisch, Walter Rostow, Colin Clark, Hans Singer, Celso Furtado, Jan Tinbergen, Roy Harrod, Evsey Domar, Hollis Chenery and others) explained that the growth of income will be directly and positively related to savings. The more an economy is able to save and invest, the greater will be the growth of its gross domestic product. The concept of capital investment was advocated as the means to achieve accelerated economic growth. This led them to believe that the provision of long-term financing accelerated growth and consequently the creation of development banks was considered to be a solution to the problem of alleviating the shortage of development financing. Just as the World Bank had been created in 1945 to address this problem worldwide, and the Marshall Plan had been established in 1947 to finance the reconstruction of Europe. Development banks were to generate a multiplier effect through investment financing to activate the development process towards take-off.

Viewing this from today's perspective, fifty years later at the end of the twentieth century, we find changed circumstances that lead us to project that the future role of national development banks in the twenty-first century will be determined by the nature of the society and the development context and economic environment in which these banks will operate to achieve their objectives of serving as the principal instruments for planning, financing, implementing, monitoring and evaluating the execution of development projects and programs in accordance with national, regional, and international development priorities. This role is also influenced by their history and legacy, that is the experience they have gained and the evolution they have lived through in the second half of the twentieth-century. Other important factors in shaping this role are the current dominant trends in the world economy that have a major impact on the future nature of economic activities. In particular this includes economic liberalization, the privatization of public enterprises and the progressive globalization of the world trade, finance and production.

Nature and Scope of Development Banks

A development bank is a specialized financial institution with functions and operations that can be defined with regard to its hybrid financial and developmental character. On the other hand,

the field of "development banking" goes beyond the scope of a development bank proper.

Development banking, in addition to the functions and operations of development banks, also covers the relations of these institutions with national and local governments, with regional and international institutions, and with policymaking and planning agencies. Development banks are financial instruments of national development policy whose performance is measured more in terms of social benefits generated (as measured by indicators of social accounting), then in terms of social (economic) and private (financial) returns. The operations of development banks are linked with the industrial, rural, agricultural, infrastructure, social, governmental, institutional, financial and other development processes. Development banks are organized to achieve the preparation, appraisal, financing, implementation and evaluation of investment projects and programs. In addition, the work of development banks requires knowledge about financial markets, capital markets, financial intermediation, banking, resource mobilization, human resource and technology development, marketing, technical assistance, institution building, development economics and international economic and financial transactions.

In this paper, the term "development bank" is used to denote the specialized financial intermediary for which in the past the literature more often used the term "development finance institution"(DFI). However, since the 1982 world external debt crisis, the "banking" aspect of these institutions has received greater emphasis, which has led to a more general use of the term "development bank" to reflect to reflect also in name the important change in their role. The term "Development finance institution" may be more precise for a public entity, because a "bank" normally tends to be a privately owned institution and licensed by the central bank and other government agencies.

However, in most countries the financing of development and investment projects is undertaken by government-owned financial institutions. On the other hand, many countries today have already both public and private development banks. Others are privatizing public institutions. While a private bank is a legal entity with a banking license, a government financial institution may not be incorporated as legal entity. Many of the important development banks have been created by law. There are some that simply exist as a special account in the Central Bank, the National Treasury, or the Ministry of Finance. When the financing mechanism (instrument) is only a special account, then it is often has the name "development fund". There are many large and important development funds in developing countries. The wider use of the name "development bank" stresses the character of these institutions as long-term financial intermediaries. This name also underlines the trend of strengthening their banking role, as contrasted to their developmental role.

To better understand the concept of a development bank, we can ask the question: "What is a development bank"? What makes it different from a commercial bank and from an investment

bank, or from non-bank financial intermediaries"? We know that commercial banks make short-term loans, they make money transfers, they buy and sell foreign exchange and they deal in derivatives. Most of their loans are for periods of less than one year. Investment banks specialize in

raising long-term funds in financial markets through the underwriting and issue (placement) of securities -- that is stocks and bonds and variations on these financial instruments, such as floating rate notes and hybrid instruments. They operate in the capital market. These instruments commonly finance already established enterprises, governments or public enterprises.

Development banks, like investment banks, operate in the field of long-term finance. Their core business is to extend long-term loans for the financing of projects and development programs. Through diversification in the 1980's, and 1990's, they have added the provision of other financial services, working capital financing, venture capital financing, advisory and consulting services, leasing, insurance, brokerage and investment banking services, programs for entrepreneurial development, privatization, restructuring, capital market development and provision of technical assistance. Investment banks share some characteristics of development banks, but in other aspects they are quite different. Development banks assume many investment banking functions over time and enter more into the field of investment banking. Important differences are that development banks give priority to the financing of projects that yield substantial economic, social and environmental benefits. They provide technical assistance, training, and institution building services to improve the quality of projects and to reduce their risk. They use economic and social cost-benefit analysis as part of project appraisal to estimate the expected contribution of a project to development. All this has the impact that development banks have to change over time more rapidly than the commercial and investment banks since they have to go with the changes over time, try to prepare others for these changes, and try to stay ahead of the coming changes.

Mention should be made of the recent emergence of a special type of microenterprise finance institution that provides financial services to the poor, such as Grameen Bank in Bangladesh, Rakyat Bank in Indonesia, Banco Sol in Bolivia, the Kenya Juhudi Credit Scheme, Solidarios in Colombia, Genesis and Prosem in Guatemala, and other schemes that have been successful in Cameroon, Malaysia and South Korea. While some literature (Khadker) indicates that it was the failure of formal institutions, or established development banks, to serve the rural poor that led to the evolution of these systems of financial intermediation, some development banks have also opened their own windows to finance microenterprises as is shown, for example, in Hajo Gesem El Sayed's analysis of the role of national development banks in Sudan (presented below).

Projects that Contribute to Development

The three policies of development banks that make them different from other financial intermediaries are project appraisal, acting as a lender of last resort, and the provision of technical assistance. These policies establish strategic requirements for the approval and financing of development projects. One policy is that the social and economic benefits of the project be estimated quantitatively through the use of cost/benefit analysis. The other policy is that the development bank will not provide its scarce long-term resources for any project for which funds are available from other sources. This way the development bank acts as lender of last resource for socially worthwhile projects which otherwise would not receive financing. The third policy is that through thorough and detailed project appraisal the development bank will be able to identify aspects of the project that can be improved. It then will provide technical assistance and training, or require the contracting of technical assistance and training, to improve the quality of the project, reduce its risk and improve its social (economic) and private (financial) returns.

Economic, Social and Environmental Appraisal of Projects

Before the financing of a project is approved, in addition to requiring a minimum private (financial) rate of return ("hurdle rate"), the development bank makes an economic, social and environmental appraisal of the project. There is also a minimum social (economic) rate of return ("hurdle rate") that is required for approval of the financing of a development bank project. To obtain the social (economic) rate of return, market prices and costs are adjusted through the use of shadow (or accounting) prices to obtain social prices, that is prices which estimate the social costs and benefits of the project. These returns will measure the contribution that the project makes to society (social development) and to the economy (economic development). The discipline of cost-benefit analysis was developed in the 1960's and 1970's with the publication of three major manuals by the United Nations, the OECD and the World Bank that have guided social and economic project appraisal practice ever since. 1/

In our current economic environment of liberalization and globalization, the shadow price of foreign exchange has become less important, while the quality of management, because of increased competition, globalization, and the advances in human resource development and training, has become more important. Thus, adjustments need to be made accordingly also in the parameters used in project appraisal to account for these changes.

1/ United Nations (UNIDO), *Guidelines for Project Evaluation,* United Nations, 1972, 383 pages.
I. M. D. Little and J. A. Mirrless, *Manual of Industrial Project Analysis, OECD, Paris, 1968.*
Lynn Squire and Herman G. van der Tak, *Economic Analysis of Projects,* World Bank, Washington, D.C., 1975.

The techniques and methodologies for environmental appraisal were developed in the 1970's and early 1980's. Special manuals for the environmental appraisal of projects were published and development banks added environmental specialists, or environment divisions, to their staff or organizations to better complete the environmental assessment of projects. But more recently it has also become a practice to make an environmental appraisal of development policies. 2/

Importance of Development Banks

There are over 550 development banks worldwide. With a total of 32 international, regional, and sub-regional development banks, this leaves about 520 national development banks for a total of 185 countries (the total number of members of the United Nations), or about 2.8 development banks per country. Developing countries on average have three or more development banks, while industrial countries tend to have fewer institutions. The largest number of development banks with 152 is in the Western Hemisphere (Latin America and the Caribbean), with 29.5 percent of the total; second in numbers is Africa, with 147 development banks, or 28.5 percent; third comes Asia and the Pacific with 121 banks, or 23.4 percent; followed by Europe with 49 banks, or 9.5 percent; and the Middle East with 47 banks, or 9.1 percent. Since this reflects the pure number of development banks without regard to size or value of financial assets, it does not represent their full importance, because in large countries one single bank may have assets that exceed the assets of the banks in a dozen of smaller countries. Assetwise, Asia, the Americas, Europe and the Middle East are likely to rank ahead of Africa. 1/

Since development banks finance large projects over a long period of time they tend to accumulate substantial assets. The Latin American Association of Development Banks (ALIDE) has calculated the total assets of its members periodically and the results have shown repeatedly that their assets have generally tended to be underestimated. 2/ Public development banks in Latin America in 1994 held 62.3 percent of development bank assets, while private and mixed banks held 37.7 percent.

Taking the 53 member countries of the Islamic Development Bank as of 1998, the number of national development banks in these countries was 170, to which 9 international, regional and sub-regional institutions and associations can be added for a total of 179. This is an average of about three development banks per member country. The names and countries of these institutions are shown in *Annex 1* at the end of this paper.

1/ World Bank, *Environmental Screening*, Environmental Assessment Sourcebook, Update 2, Environment Department, 1993.

2/ World Federation of Development Finance Institutions, *Directory of Members 1997,* Manila, Philippines,

3/ Rommel Acevedo, *Desempeño Operacional y Financiero de la Banca de Desarrollo Latinoamericana a Mediados de las Noventa*, ALIDE, Lima, 1996, p. 47.

How Development Banks are Changing

The question: "How Development Banks are Changing" has occupied the development community, development bankers and financial policy-makers, particularly since the debt crisis of 1982. The largest and most important development bank, the World Bank, for the last three years since 1996, has also been discussing the nature of its future mission and it has reorganized and restructured itself, as have the Asian, African and Inter-American development banks. 3/

How have development banks actually changed since the early 1980's? A survey of the changes from region to region and country to country shows a substantial degree of diversity of outcomes. There have been adaptations of, and additions to development bank functions and operations, and changes in the development cultures that emerged during the 1980's and 1990's. These changes are in conformity with the financial reforms that have been implemented in many developing countries during this period and with the impact that liberalization, globalization and privatization have had on their environment.

Changing Role in Lending Operations and Investment Financing

The changes that occurred during the last thirty years can be assigned to two major groups: (1) changes in lending operations and investment financing; and, (2) changes in resource mobilization and borrowing. The common elements in the changes on the lending side have been the diversification of operations and the expansion of non-lending services, as described under the twelve headings below. This involved the the following initiatives:

(1) Entering into new fields (branching out) of investment banking and export financing;

(2) the addition of new non-lending services and the expansion of already existing advisory, training and consultancy services;

(3) conversion of direct lending operations into apex lending mechanisms, providing funds on a wholesale basis to smaller financial intermediaries for on-lending to final borrowers;

(4) the provision of working capital financing and bridge loan financing;

(5) assistance and advise in the restructuring and rehabilitation of problem enterprises;

(6) programs for entrepreneurial development, human capital formation, institution and capacity building and the creation of learning organizations;

1/ James D. Wolfensohn, *The Strategic Compact*, World Bank, March 13, 1997, 7 pages.

(7) activities contributing to the development of capital markets, securities markets, and the creation of incentives for private sector development and foreign investment;

(8) the design, preparation, implementation and management of the process of privatization;

(9) the creation of non-bank financial intermediaries as subsidiaries or affiliates of development banks in the fields of leasing, insurance, brokerage, savings institutions, credit rating firms, venture capital, pension and mutual-fund management, credit card sponsorship and administration, and micro- enterprise finance. Zainul Bahrin Zain explains this below in the next paper as assuming the "financial supermarket function" in the case of development banks in Malaysia.

(10) the attainment of greater autonomy in investment decision making, project selection, and the provision of technical assistance, training, capacity and institution building, since the main financial problems of national development banks in the past resulted from political interference in their operations;

(11) greater emphasis on environmental development, human capital development, the use of information technology, and the creation of learning organizations;

(12) the removal of subsidized and non-profitable projects from regular operations and their transfer into separate trusts, or special funds, at the risk of outside project sponsors who may have social, political, or other objectives.

All these changes have not simplified development bank operations, but rather increased their complexity and sophistication. It will be the challenge for development banks to manage this complexity in the twenty-first century.

Changing Role in Resource Mobilization and Borrowing

On the borrowing side the common elements in the changes in resource mobilization and borrowing can be described under the six headings below. These changes include the innovation and the reform of resource mobilization techniques through the following initiatives:

(1) greater emphasis on overall development bank profitability and financial soundness, strengthening of the capital base and reserves, and obtention of investment grade credit ratings with the goal to issue bonds and achieve listings on stock exchanges;

(2) adoption of asset and liability management techniques and risk reduction programs;

(3) the use of financial engineering techniques and instruments to reduce the exposure to the foreign exchange and interest rate risks and to better match the maturities (term structure) of assets and liabilities;

(4) greater reliance on long-term private funds mobilized in financial markets;

(5) the use of financial derivatives and guarantees for protecting assets and liabilities against financial risk, such as the foreign exchange risk and interest rate risk;

(6) privatization of public institutions and mergers (consolidations) of development banks with commercial banks, investment banks and export-import banks. This trend is described below in the Case Study of Pakistan of Tahir Abbas from the Industrial Development Bank of Pakistan.

All these changes have raised the professional requirements for the qualifications of financial managers. Manager now need to know much more about strategy development, managerial processes, creation of development and corporate cultures, international financial markets, and the use of the greater diversity of financial instruments. Managers also need to deal much more with money center commercial banks and investment banks, and political, economic, and environmental organizations.

Management Information Systems, Technology and Computers

The ability of national development banks to make quick and informed decisions and to achieve faster project appraisal and loan approval, is not only imperative, but also crucial in the more competitive and technology based business environment of the twenty-first century. Speed in all operations will be much greater due to the continuous rapid improvements in information and telecommunications technology and the use of the internet as instantaneous information highway linking financial markets and banks. National development banks, therefore, must spped up the process of modernization of their management systems, business operations and work processes to ensure that the demand of business opportunities can be satisfied.

Business operations and the information and workflow of national development banks need to be properly integrated with each other and coordinated through computerized automated management information systems and operational software programs. This will need to include international on-line connections. The time of the telex has passed, the time of the fax remains short and the time of internet and satellite information, knowledge, technology, and communications flows is rapidly expanding at a breathtaking pace. The adoption and utilization of the appropriate computer systems is transforming manual operations in banks and expediting the achievement of greater efficiencies in work processes.

Impact of External Changes on Development Banks

The changes that have occurred from country to country have been influenced by the type of financial reform pursued by each country and by the constraints imposed by national and local policies and conditions. National development bank operations depend essentially on the frame-work of financial policies governing and regulating the domestic financial sector operations. To generate an effective pipeline of projects, development banks have to carry out studies of the structure, opportunities, and bottlenecks in the industrial, agricultural, mining, infrastructure and services sectors of their economy. To evaluate the development prospects of these sectors requires the identification of the available strategic investment opportunities and bottlenecks for the preparation, analysis, and ranking (prioritization) of the viable potential future projects.

These changes have given ground to an extensive debate about the appropriate future role of development banks. After the external debt crisis of 1982 and the resulting weakening of the financial position of many development banks, their usefulness and mission has been called into question. 1/ Some development banks have been closed down and liquidated and others have been converted into hybrid commercial financial intermediaries (commercial banks with development financing windows). (See below the experience with "universal banking" of the development banks in Pakistan). Others national development banks have restructured, diversified and consolidated their operations to concentrate on their main lines of business -- the financing of development projects -- and to add promising new lines of products and services. The experience also seems to indicate that the poorer the country, the greater is the strategic importance of providing development bank financing.

In this respect, we can observe changes going into two directions: (a) in the poorest countries the diversification in the mobilization of financial resources leads to adding on deposit banking, because there is only a money market and not yet a viable and developed capital market; and, (b) in the middle-income countries, particularly the upper-middle-income countries, the diversification in the mobilization of resources leads to adding on the investment banking function, because the capital markets offer already the opportunity to issue securities as a means of mobilizing financing. This lesson emerges clearly from a comparison of the experiences of Pakistan and Sudan on the one hand, and the experience of Turkey on the other hand, as is well illustrated in the case studies presented below (Tahir Abbas, Pakistan: Hajo Gesem El Sayed, Sudan; Hayati Özkan and Sudi Apak, Turkey).

1/ World Bank, World Development Report 1989, on Financial Systems and Development, Oxford University Press, New York.

Impact of Economic Liberalization

Looking at the role of development banks in the twenty-first century and at how this role will be influenced by the worldwide trend toward economic liberalization, we can draw some conclusions from the experience of how liberalization has impacted on development bank operations in recent years. The main impact has been on permitting the diversification of operations, entering to a greater extent into the fields of commercial and investment banks and into the fields of financial and economic consulting firms. This has increased the exposure of development banks to market risk. From a policy perspective, financial reform and financial development programs have increased the autonomy and independence of national development banks, while at the same time increasing their responsibility for maintaining adequate levels of capitalization, reducing their levels of arears and bad loans, and requiring them to be fully self-reliant in searching for new resources and maintaining a financial position enabling them to raise funds at market cost under the new circumstances of increased risk. While liberalization may have initiated this change in the role of national development banks, when privatization and globalization is added to this force, the new requirements become increasingly more obligatory and more essential for maintaining the financial viability of national development banks. This viability is only given when development banks make enough earnings to be able to pay the cost of raising private resources in financial markets.

Privatization of Public Enterprises

While studies on industrial productivity show that the efficiency of public enterprises at the outset is not necessarily lower than that of private enterprises, the same studies also show that over the long-run it is much more difficult to maintain high levels of efficiency in public enterprises because of the greater difficulty in making changes, and because of the weaker incentives or absence of incentives for making changes, due to the general absence of competition. Many national development banks enjoy a monopoly position in their country. With the more rapid pace of change of technology, the required rapid adaptations are also more easily carried out in a private corporation. This rationale for the privatization of public enterprises and enterprises producing financial services has become internationally accepted and is destined to put its imprint on economic trends in the twenty-first century.

While the developmental role of development banks is reaffirmed and their role in social development is becoming more important, there is also a trend towards the privatization of development banks. Many African countries have created "Private Development Finance Corporations" in addition to their public "National Development Banks". Malaysia started to

privatize its development banks in 1995 1/. Brazil is debating the possibility of privatizing its highly developed national, regional and state development banking system, and Kazakstan is in the process of privatizing its Export-Import Bank, which also acts as a national development bank. With privatization these institutions are also entering more into the field of equity financing through adding "venture capital" departments or subsidiaries, as has been the trend for some time with the Business Development Bank of Canada and the Development Bank of Japan.

Privatization is an institutional restructuring process involving changes in ownership which requires several years for its implementation. New shares need to be sold to private investors. The preparation for this normally requires the strengthening of the financial, accounting and auditing function to establish a better base for estimating the value of the enterprise. Privatization requires a change of management and a change of corporate culture of the institution. The new manager must have the confidence of the private investors who are the new owners and the new corporate culture requires a stronger client orientation. A good reputation, trust, and a good track record must be established in the financial markets. After several years this then will lead to gaining access to resources available from the private financial markets.

National development banks in some countries have become advisors to their clients going through the process of privatization. This has been particularly important for medium and small enterprises which often are not able to afford the high fees for the advise of international investment banks and accounting firms. In Eastern Europe and the former Soviet Union the European Bank for Reconstruction and Development (EBRD) has assumed an important role in advising their clients on privatization. Nacional Financiera (the National Industrial Development Bank) of Mexico has performed this role on a national scale for many years.

Impact of Globalization on National Development Banks

With the advent of the "EURO" on January 1, 1999, there is now an acceleration of the trend of mergers and acquisitions within the European Union and as a consequence, an acceleration of the trend of formation of global enterprises in finance, industry, and services worldwide. In East Asia, the economic difficulties and financial crises paradoxically also have contributed to an acceleration of globalization, because they have brought a more rapid removal of restrictions on the entry of foreign capital and technology and the lifting of barriers to market access for trade.

1/ Mohamad Saleh Bin Mohd Ghazali, *Reinventing Development Banks for the 21st. Century,* Seminar for Chief Executives of Development Banks, American University, Washington, October 9, 1995, 12 pages.

The impact of globalization on national development banks will be fully subjected to the requirements of international standards and conventions. While local, national and regional differences will be respected and taken into account, also the development banking business is becoming more global. Globalization has contributed to increasingly dynamic private sector activity and to the free flow of goods and services across the globe. Liberalization of barriers to cross-border finance and ever more sophisticated communications technologies have facilitated increased capital flows, to which particularly the upper middle income developing countries have gained greater access. As globalization deepens, countries and their development banks will confront the need for more policy coordination, going beyond strictly economic, trade, and commercial concerns to include many social issues, such as migration, labor and safety standards, environmental concerns, social security, health, education, and professional certification. Global trends will have a greater influence in all these fields.

To emerge stronger from the East Asian crisis, development banks have emphasized the "Three E's" -- "Entrepreneurship, Education and the Environment". The countries that have been least affected by the crisis are those that were strongest on entrepreneurship, that have had a solid culture of innovation and change and that have considered the impact of environmental factors on project development from the beginning -- as, for example, Japan and Canada. The Asian crisis also offers an opportunity for development banks: (1) to facilitate the re-capitalization and recycling of local enterprises, and (2) for becoming catalysts for attracting foreign investment. The better performance of the Asian national development banks viz-a-viz the commercial banks during the Asian financial crisis makes development banks relatively stronger as they become an important force in the recovery of the Asian economies that have had financial difficulties.

The countries that were best prepared for using innovation and for digesting change are those that placed the highest priority on education (human resource development, and the creation of a learning organizations and knowledge banks) . The countries that had the least disappointment with their project execution were the countries that had fully taken into account the environmental requirements -- the environmental risk proved to be the most serious and rigid for many projects. With globalization, financial markets are becoming increasingly specialized, diversified and sophisticated. The electronic information highway (internet) makes geography less important. There will be more on-line banks (virtual banks) that have no branches. Investment choices will proliferate. The internet will give direct access to financial markets and investors will get better financial information and advise. 1/

1/ Bill Gates, The Road Ahead, Viking, New York, 1995, p. 182.

The challenge of globalization for development banks is to tailor their policies and practices in such a way as to optimally manage the impact of private capital inflows, particularly in the area of the domestic financial system. This will require stricter observance of prudential norms in banking and credit markets, intensive loan supervision, and monitoring and maintenance of higher levels of capitalization. For commercial banks, the *Basle Committee on Banking Supervision* of the Central Banks will issue the "Twenty Five Core Principles for Effective Banking Supervision" which will become an international standard. 1/ These principles (commandments), while they have been designed to principally strengthen the solidity of commercial banks, will also have a strong impact on the financial operations of development banks.

Impact of Information Technology on National Development Banks

The rapidly emerging advances in information technology offer great opportunities for increasing the proximity and improving the access to clients. Information is obtained rapidly and passed on speedily. With cellular phones, satellites, computers, and the internet, remote areas are brought as close to the home office as the business offices across the street. There are interesting cases where this technology has been used successfully by development banks in Venezuela and Colombia. *FONCREI*, the Fund for Industrial Credit of Venezuela (a development bank), simply opened a toll free telephone line ("800 INDUS-46387") throughout the country. 2/ Anyone, particularly small business owners, are able to reach their Credit Fund (*FONCREI*) by making a local telephone call. Building effective communications systems has been the key to creating efficient banking products in developing countries.

Development banks play a strategic role in helping their clients to take advantage of the new technologies by providing access to their own information systems and the internet, by sponsoring networks among their clients to share ideas, create a storehouse, or knowledge bank, of relevant information on key topics of their business, and by offering on-line training and advise over the internet. Through these networks they can identify and offer opportunities to replicate successful experiences in the country and reach out to geographic areas that previously remained marginalized. Where there is a general lack of communications infrastructure, as is the case in many parts of Africa, the new information technology permits to leapfrog forward to the use of the most advanced systems. This is a field where development banks can take on an important new role in the twenty-first century.

1/ Bank for International Settlements, *Core Principles for Effective Banking Supervision*, Committee on Banking Supervision, Basle, September 1997, 44 pages.

2/ Nelson Quintero, Presentation at ALIDE Seminar on *FONCREI*, Caracas, November 17, 1997.

Human Resource Development, Training, and Institution Building

While the diversification of operations, restructuring, and privatization does not guarantee greater success, to increase the probability of its success it needs to be preceded, or closely accompanied, by intensive training of the staff of the national development banks in the new fields of operations. There are now many instances where national development banks have established their own training institutes to upgrade their and their clients' human resources, and to increase the competence of their operational and advisory staff. In 1995 alone there has been a series of steps in this direction. The World Bank created its "Learning and Leadership Center", the African Development Bank created the "African Development Institute", the Asian Development Bank established its "ADB Institute" in Tokyo, and the Inter-American Development Bank created its "Institute for Social Development". As this shows, the multinational finance institutions took the lead in creating learning centers in 1995 and since then development banks have followed their example.

Creating Learning Organizations

There is a worldwide trend to making banks and enterprises into "learning organizations". A "learning organization" is defined as:

> *"One which continuously improves its processes, products, and services, which facilitates the learning of all its members both individually and as a team, and which continuously expands its capacity to produce results and transforms itself in order to meet strategic goals."1/*

The trend towards creating "Learning Organizations" has brought a paradigm shift in the traditional attitudes towards learning, training and education. The need for life-long-learning with technological changes and the explosion of the availability of information and knowledge on the internet is being recognized as part of regular work, as is illustrated by the following statement of the President of the World Bank":

> "*It is clear that in recent years the [World] Bank Group has underinvested in human resources, and has not given sufficient attention to education, technical training, and skills renewal. Not nearly enough has been done to enable staff to stay at the cutting edge of their professional disciplines, and to be the best they can be." 1/*

There is now a general trend for development banks to assist in manpower training and education and client learning. The objective of the learning organization is not just to achieve quality of product, but quality of people, quality of service, and quality of the total organization. 2/

1/ Greenwood, Wasson, and Giles, 1993
2/ James D. Wolfensohn, *Striving for Excellence by Investing in our Staff,* World Bank, February 29, 1996, 5 pages.
3/ William Wiggenhorn, "Motorola University - When Training Becomes an Education", *Harvard Business Review, August 1990, pp. 71-83.*

Capacity Building and Institution Building

Over time there has been an increasing recognition that capacity and institution building are a critical component in successful development. These elements preserve achievements accomplished made by society and pass them on to the next generations. When there is an absence of institution building, then achievements tend to be short lived and they are lost for the next generations. Institutions are the social construct that keep in existence what has been acquired, achieved, accomplished, invented, or built. They pass on their capacities, assets and traditions to the next generations, to their sons and daughters, grandsons and granddaughters and their descendants. Institutions are the backbone of society and development -- politically, socially and economically.

As development practitioners have learned more about institution building, development banks have also integrated the need for capacity development and institution building into their development projects and programs. The process of institution building and capacity development is a long-run task. The time frame is decades, generations, not merely years. But the benefits are also long lasting, for generations and centuries. This is what preserves the achievements of development.

While the knowledge in this field remains in evolution, different definitions can be found of the nature of capacity development and institution building. The field of management and administration has its specific business approach to institution building and the field of development has its more social, economic, and environmental approach to institution building. At the national level, institution building is seen as: *"A process that strives to achieve the long run goal of increasing a country's capacity to determine its own future"*. The objective of national development banks in this field is to strengthen the country's capacities to design and implement development policies, projects and programs. The benefits from institution building are": *More successful development, improved performance, increased local "ownership", enhanced commitment, greater sustainability, self-reliance and more autonomy."1/*

Learning and Training Centers

One major instrument of more recent origin in human resource development is the creation of "Learning and Training Centers" in development banks. This trend has taken hold in the leading multinational enterprises which have established their "Corporate Universities" (General Electric, Motorola, McDonalds, Hewlett-Packard, Arthur Andersen, American Express). There are now over three thousand corporations in the United States alone that have their own in-house university. The purpose of these "Learning Centers" is generally twofold:

1/ Edward V. K. Jaycox, *Capacity Building: The Missing Link in African Development*, African American Institute, Reston, Virginia, May 20, 1993, 4 pages.

(1) First, they are to develop the institutions' strategic goals for the future and to inculcate them into the entire organization. This is the managerial objective.

(2) Second, they are to enable the enterprise to remain at the cutting edge in their industry, and field of technology. This is the technological objective to meet their competition through continuous renewal.

Development banks can provide a service in this field, as has been done by the Industrial Development Bank of Malaysia when it established its "Technology Training and Engineering Center" to enable its clients to effectively compete in the world markets. 1/ There are also countries where development banks have created "Development Centers" and "Information Centers" on micro- and small-scale enterprises. Closer to home, we can look at the Association of National Development Banks in Member Countries of the Islamic Development Bank (ADFIMI) as taking on the function of a learning and training center for its members, offering seminars to these institutions on subjects of strategic importance for the preparation of their professional staff to meet with confidence the challenges that will face them in the twenty-first century. Through cooperation among its members and with the Islamic Development Bank (IDB), ADFIMI is also poviding advisory and consulting services. This function will continue to gain importance with the further advances of globalization.

Changed and strengthened development banks have continued their critical contribution to development financing within their national economies. In some countries and regions new development banks have been established (Central Asia, China, Russia, Poland, Siberia, Kazakstan, Palestine, Eritrea, NAFTA). New development banks have sprung from the needs of transition economies. Three national sectoral development banks, and a big local provincial development bank (Pudong) are playing an important role in the rapid growth of the Chinese economy. The new development bank of the North American Free Trade Association (NAFTA) was established in San Antonio, Texas. In countries where also commercial banks have started to operate as project lending intermediaries, the experience of the last ten years shows that they faced some of the same political and financial problems for which the development banks had been criticized, while they were less equipped to handle these problems.

Financial Resource Mobilization by National Development Banks

During the second half of the 1990's, the development prospects of the developing countries and the transition economies depended critically on the mobilization of domestic savings and private

1/ Mohamad Saleh Bin Mohd Ghazali, *op. cit.*

external capital. To be successful in the mobilization of resources requires the development of responsive and efficient financial systems and markets. Financial markets need to have depth, breath and resilience. For their resource mobilization, national development banks have to look increasingly to private domestic and external sources. Official and concessionary development assistance flows are shrinking. The political demand and pressure to channel official flows away from development bank type intermediaries towards social and environmental public goods became donor policy and it can be expected to continue gaining in importance.

By contrast, private capital flows to developing countries have tripled from 1990 to 1996. 1/ But only a handful of the developing countries have had access to these flows. The poorest developing countries have not received a reasonable share of the private resources. This has enhanced the potential role of national development banks to act as catalytic agents for attracting more private flows, given that private investment trends for developing countries generally have been on a sharp upward trend during the 1990's. Improved macro-economic environments and the growing dominance of the private sector have raised average returns to private investment in developing countries. Resource mobilization requires also that national development banks emphasize profits. Particularly in East Asia, development banks held that "there is nothing wrong with making a good profit". Still, many of them did not build sufficient reserves from their good profits to successfully weather the 1997/98 financial crisis. Some of them had to close down.

In most cases "the making of the profit" had little to do with having sufficient reserves to successfully survive a major crisis of the proportion experienced in East Asia in 1997-98. The key has been the exposure to foreign exchange dominated debt which was not covered by hard currency generation from exports. This story had been seen twice in Mexico during the past fifteen years. The critical analysis, which had been omitted, was the determination of a country's capacity to assume foreign exchange debt.

Within the enormous size of the global capital market, the growing presence of institutional investors will continue the trend to diversify risks and enhance portfolio returns. This changes significantly the competitive environment for national development banks needing to mobilize private funds from financial markets. To protect their financial positions, national development banks have to equip themselves with effective hedging and risk management instruments. The item of greatest importance is coverage of the foreign exchange risk. This represent an important problem of great urgency, as is indicated below in the case analyses of Pakistan, Sudan and Turkey by Tahir Abbas, Hajo Gesem El Sayed and Hayati Özkan. The European Bank for Reconstruction and Development (EBRD) in London offers assistance to its clients in East Europe and the former Soviet Union in obtaining protection for their foreign exchange exposure. This may be an approach that could also

/ Mohamad Saleh Bin Mohd Ghazali, *op. cit*.

be explored by the Islamic Development Bank (IDB). There is a need to create an institutional mechanism to provide coverage for the foreign exchange risk. National development banks are also expected to offer a range of services to their clients in this new field of risk management, as well as related advise and training services.

Macrofinancial Policy Framework

Without sound macroeconomic and macrofinancial management, financial sector development and modernization is not sustainable. The control of inflation and of fiscal policy requires stronger coordination among the major economic and financial agencies. The rewards for good economic policy-making are high and visible. This brings back the fundamental role of governments in creating the enabling environment for undertaking solid long-term financing operations. It includes providing sound legal foundations, prudential regulation, protection and transferability of property rights, standardization of accounting, strengthening of auditing firms, and public disclosure and dissemination of financial information. In the overall success, the sound management of economic and financial fundamentals, flexible economic policies and responsive financial institutions remain key variables. In recent years greater recognition has emerged on the need to focus on the sustainability of renewal and reform. The financial systems of developing countries are heterogeneous. In developing them further, existing conditions must be thoroughly assessed and the lessons of experience must be taken into consideration to provide a sound basis for sustainability.

Impact of Policy Framework on Resource Mobilization

There are three major trends that are exerting an impact on the business of development financing. First, the adoption of a client-based development-financing-and-provision-of-services-model -- is replacing the traditional directed credit rationing development bank policy, thus basing lending decisions on market criteria. Second, the reorientation of the functions of government and

the resulting shift towards market based development strategies provides national development banks with a much greater degree of autonomy. Third, the emergence of substantial private flows towards the developing world in the context of a technology driven integrated global financial system have redefined the sector priorities for development banks. These trends are interrelated and they have considerable more distance to go before reaching saturation.

How the Development Bank Model has Changed

Old Core Model of a Development Bank

From their creation in the 1930's and after World War II until the 1980's, the usefulness of the traditional development banks was seen in filling the gap of term finance in the financial systems of developing countries. This gap was in terms of providing long-term funding for investment projects. Development banks also performed the function of acting as catalysts for the development of capital markets and they developed the expertise for undertaking successful project financing by developing standards for project preparation, appraisal, supervision and evaluation. They were allocating loans to the priority sectors contained in development plans. Development banks were also to maintain a policy dialogue with the government and to conduct applied research to provide recommendations as to what kind of economic and financial policy changes were desirable for the optimal growth of the productive, infrastructure and services sectors. They were to be self-sustaining, financially viable banks, which, after some seed capital from the government or external agencies at the beginning, would be operating autonomously on their own in the long-run. These development banks served as key channels for the multilateral and regional institutions and they used a narrow range of financial instruments, mostly long-term project loans.

New Core Model of a Development Bank

The new core model of a development bank is different in that it expands the old model and looks for a development bank that fits in with an increasingly specialized, diversified, agile and sophisticated financial services industry. They new rejuvenated banks rely on market criteria for the allocation of loans. They are development banks that provide client based funding and services. They give priority to allocating risk efficiently and to obtaining their funds through reliance on private savings. They meet the competition of commercial banks and other specialized intermediaries that now also receive funds from multilateral and regional institutions. No standard prescription or norm exists for the new development banks. The key objectives are to provide investment financing services at prices that reflect actual costs and on terms and conditions which respond to investment needs. Thus, lending operations are subject to open competition and effective regulation and supervision.

Economic theory provides, as explained in the first paragraph, a series of reasons that support the continuing need for development banks such as: market limitations, external factors, economies of scale, differences between private and social benefits and risk aversion of the private sector. 1/ Diversification is crucial to the deepening of the long term financial markets. As financial markets become mature and competitive, an assortment of financial services related to investment financing can be combined advantageously under one roof. This appears to apply when the role of venture capital companies, of syndication services, of financial guarantees, and advisory services is combined. The range of financial services is enlarged by securities markets. Informal financial institutions can be encouraged to meet the financial needs of small and micro enterprises. New style development banks engage in the use of technical assistance and guarantees to promote privatization, lease contracts, concessions and franchises, and "build, operate and transfer (BOT)" schemes. They may also engage in underwriting and the provision of insurance for private direct investment. To

provide these new products and services they invest heavily in human capital and technology. They become more of a "learning organization and a knowledge bank" anticipating and preparing for future challenges.

Re-Invent To Stay Ahead: Seven Guiding Principles

To stay ahead in periods of rapid change in the economic and business environment, national development banks continually need to re-invent and renew themselves if they are to sustain their contribution to development. They need to embrace the future and participate in the modernization of the financial system. They need to provide spirited leadership for the entire financial community. As instruments to achieve this, seven guiding principles can be adopted and followed for the operations of national development banks in the twenty-first century, namely: (i) selectivity; (ii) client orientation; (iii) results orientation; (iv) cost effectiveness, (v) integrity; (vi) partnership; and, (vii) being a catalyst and innovator. As the successful institutions have shown, the key achievements depend on developing an institutional culture which reflects vision and on adopting a strategy of financial and managerial integrity. This is also emphasized below in the Case Study of Malaysia of Zainul Bahrin Zain. Client orientation involves redesigning business processes so that they deliver products and serve markets in a responsive and cost effective manner. Cost effectiveness of development finance is the key to sustainability and implies the effective use of technology as well as excellence in business process design. These "seven guiding principles", like in a corporate mission statement, can be supplemented by a set of "operational priorities" as follows.

1/ Francisco Suárez Dávila, "A Mexican Perspective on Reinventing Development Banks for the 21st. Century", *Mercado de Valores, Mexico,* December 1995, pp. 12-18.

Operational Priorities for National Development Banks

Excellence: should be the overarching priority for development banks. This implies a specialized focus, the use of the full range of tailor-made instruments in support of this focus and well trained highly qualified staff integrated into networks that can access the best available sources of expertise globally.

Organizational Design: of a development bank should be consistent with the demands of the competitive environment. For publicly owned development banks this means a guarantee of managerial independence in operational, financial, and personnel decisions and a staff which is not too large in relation to the volume of services provided. For privately owned development banks this means the adoption of a sound and rational credit policy, as well as a fully objective and effective investment decision process.

Public and Private Ownership: Publicly owned development banks would concentrate best on activities which the private sector cannot handle. If public ownership is to be maintained, the financing should be oriented towards activities with substantial public goods contents or high

economic and social benefits. Development banks are also to supplement the financing in areas not adequately covered by commercial banks and other financial intermediaries.

Long-term Perspective: National development banks should continue taking the long-term perspective for their country in line with their developmental mission, assuming the role of the wise and prudent institution which aims to counterbalance market failures and to maintain the big picture of the country's future needs.

Relationships of National Development Banks with Government

Development banks were created with important links to government. A great many are fully owned by government. Many of the private development banks have an important government minority ownership. Because of their role in development, national development banks and the development function of governments are necessarily linked. Since national development banks regularly allocate investment funds and appraise the worth of investment projects, it is in their own interest to be in close touch with government policy toward investment, the finnancial sector, and the business sectors they finance. A good knowledge of government policy is also of importance to their clients, who will turn to their development bank for expert advice on these matters. Understanding of policy and closeness to policy-makers enables national development banks to anticipate and forsee new policy directions and to consider consequent adjustments in their own strategies.

National development banks are in the unique position of being deeply knowledgeable about policy on the one hand and about the practical effects of policy on the business sector on the other. Senior development bank staff thus should be close to the government's policymaking apparatus and

make themselves available as advisors on policy changes and program viability. Development banks should accept every opportunity to influence government thinking on matters relating to business and development.

Governments, on the other hand, are expected to provide a favorable and appropriate macroeconomic framework for the operations of national development banks as mentioned above. In the analysis of the future role of national development banks of Sudi Apak of Turkey presented below, particularly in his conclusions. He lays out a set of macroeconomic policy requirements that should be considered a pre-requisite for permitting effective development bank operations: (1) avoiding a mismatch between short-term debt and foreign reserves; (2) avoiding big current account balance-of-payment deficits; (3) avoiding a fiscal deficit; (4) assuring an appropriate composition of capital inflows; and, (5) avoiding an overvalued exchange rate.

Conclusions on the Future Role of National Development Banks

National development banks in developing countries in the twenty-first century will continue to play an important role in project financing, the administration of lending programs, the

provision of technical assistance, the transfer of technology, the implementation of pre-investment, feasibility and project studies, the financing of medium- and small scale enterprise and the development of highly specialized human resources. They are adding an assortment of new roles to their traditional functions. In the end, their competence, flexibility, adaptability and innovative capacity within their own political, economic and social environment will determine their future importance for the achievement of the development of their countries.

The key to their success depends on developing an institutional culture which reflects their vision; on redesigning business processes so that they deliver products and serve markets in a responsive and cost effective fashion. Selectivity means that managers are trained to set priorities and act upon them. Partnerships allow to combine specialization with synergy. Client orientation is especially important in a competitive, fast moving business environment driven by the winds of globalization. Results orientation implies effective internal controls and a learning environment based on a rigorous evaluation of the operational impact. Cost effectiveness is the key to sustainability and implies effective use of technology as well as excellence in process design. Financial integrity is the foundation of the entire development banking business. Being a catalyst and innovator is to provide a driver for the flexibility that a national development bank needs for adapting its role to the ever changing circumstances in developing countries. This future role of national development banks implies their *renaissance* as the principle instrument for satisfying the needs of development financing.

Vision of the Role of National Development Banks in the Twenty First Century

Given the major changes, adjustments, and adaptations to create more free market-oriented economies, development banks need to take stock and develop their new vision for the twenty-first century. This vision will vary with each institution. Each development bank is unique and must develop its own vision and define its own mission. This is required in today's business and banking reality. In many countries this vision will include expanded roles in the development of the private sector, financial system, capital and securities market development. Specialization and expansion will be based on comparative advantage. Development banks should do what they can do best. Development banks also need to concentrate on what they know best, which is managing the risk that is inherent in long-run projects and in project finance. 1/

The trend and emphasis has been away from the term "Development Finance Institution" (DFI) and it has been moving more towards the concept of "Bank". The term "bank" places greater emphasis on financial responsibility and prudence in banking. This means that not only in name, but also in substance, development finance institutions have become stronger and more full fledged banks. That also means financially more solid banks. The Development Bank of Singapore is one of the strongest and one of the highest rated banks in a developing country. It has evolved into a universal bank. Development banks in Japan, South Korea and Turkey are becoming investment banks. National development banks importantly are instruments of development, instruments of change and instruments of progress. As banks they are the best organized and structured instruments for the

implementation of development projects. Most governments have found that they are the most effective instruments to assure the successful completion of development projects -- in the productive sectors, in infrastructure, in the services sectors, and in the social sectors.

Development banks are more specialized and complex than other banks and they require more highly trained staff. The new development bank is a more respected and solid member of the financial community, a financial intermediary better integrated into the domestic and international financial system, and a strong factor in development, having a more active and stronger role in national financial policymaking and development financing. The new development bank places greater emphasis on financial resource engineering (asset and liability management), on risk management, making use of new financial instruments. Development banks play a vital role in industrial and technology policy. The East-Asian crisis provides a tremendous opportunity for development banks rising to the occasion and demonstrating their utility in revitalizing investments. They can stimulate sectors with evident competitive advantages. There is a role in supporting small

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1/ José M. Ruisanchez, *Business and Management Strategies for the 21st. Century*, Seminar for Chief Executives of Development Banks, American University, Washington, October 9, 1995, 7 pages.

savings institutions. There is also a role to play in investment banking, particularly for the medium size enterprises that will start using these services for the first time. There is also a role in micro-enterprise finance.

The new national development bank will provide new services to their clients and upgrade their capabilities, competence, and the culture and skills of their staff. The twenty-first century offers to development banks an attractive menu of challenges and every bank can decide to explore the opportunities that that this new role offers. These opportunities may be increased through social, economic, and financial incentives and they may be constrained by policy restrictions and adverse economic and financial conditions.

Relationship with Multilateral Financial Institutions

The role of national development banks has also changed in their relationship with sub-regional, regional and multilateral institutions. They have become less applicants for and recipients of external lines of credit and more partners in the implementation of development programs and projects. This heightened independence and autonomy allows them also to build a relationship of closer cooperation with these institutions. Having survived the financial crises during the 1980's and the 1990's, they have achieved their own solid, independent, financial standing as viable financial intermediaries, they are more selective and they follow their guiding principles of striving for excellence, autonomy and the development of competent development specialists. They place more emphasis on relationships and they carefully construct their strategic alliances that substantially expand their reach and strengthen their role as catalytic agents, opening doors to resources from a

wide array of official and private sources. "They see their role as contributing to sustainable development and they are ready to discovering that development financing is the key to sustainable development."1/

Agenda for Action by the Islamic Development Bank and ADFIMI

From the contributions made by the members of the Group of Experts on the Future Role of National Development Banks in the Twenty First Century, there emerge ten items to be included in an action plan for the Islamic Development Bank (IDB) and the Association of National Development Finance Institutions in Member Countries of the Islamic Development Bank (ADFIMI) for the next year and beyond. This agenda is an action plan representing an exercise of strategy formulation and planning from the bottom up where the member institutions identify their needs and submit them for consideration to IDB and ADFIMI. Since implementation of some of these items can be carried out

1/ Orlando Peña, ADFIAP Annual Meeting, Istanbul, April 1998.

either by IDB or ADFIMI, or by both entities jointly or collaboratively, they are presented here as a single agenda. Therefore, for their implementation, an effort of coordination between the IDB and ADFIMI is required to establish the specific or joint responsibility for implementation. A detailed explanation of most of these items is contained in the text of the Cases Studies on Pakistan, on the Sudan, and on Malaysia by Tahir Abbas, Hajo Gesem El Sayed and Zainul Bahrin Zain, which are presented below.

The items for action are the following ten, which are presented not in an order of priority, but more in a logical order, or at random.

A g e n d a

Action Plan

(1) Creation of an Action Plan on National Development Banks: The purpose is to make this Action Plan the instrument to establish an ongoing process for attending to the needs of national development banks and their association. The requirements of a group of institutions with similar needs, taking advantage of the elements of synergy, rather than leaving these institutions to fend for themselves individually with incomplete information and guidance, can be better satisfied in a collective manner, providing assistance through the Islamic Development Bank (IDB) and the Association of National Development Banks in Member Countries of the Islamic Development Bank (ADFIMI). For special services provided to individual institutions, ADFIMI will need to charge a fee to cover the cost and administrative overhead expenses.

Development Banking Department

(2) Creation of a Development Banking Department of the IDB: The responsibility of this department would be to carry out the proposed "Action Plan", to improve the key operational functions of the national development banks, which may include corporate strategy planning, portfolio and credit risk management, human resource development, information technology, controls, and other systems. This department should be staffed with qualified professionals and experts who would be able to provide needed guidance and support to member development banks and to ADFIMI.

Managed Special IDB Fund

(3) Creation of a Managed IDB Fund for Special Lines of Credit: To cater to the funding needs of the developing Muslim countries, a "Managed Special IDB Fund" should be created to extend special credit lines on soft terms for introducing new technology and making efficient use of local resources. This fund should also extend equity support for newly created development banks in the less developed regions of the poorer member countries. This fund would help to overcome the current decline of concessionary financing from other sources.

Special Guarantee Corporation

(4) Creation of a Special Guarantee Corporation: To strengthen the mobilization of financial resources in poor Muslim countries with little access to private financing, the IDB should consider establishing a "Special Guarantee Corporation" capable to guarantee repayments, or provide insurance against defaults, as well as providing assistance and advice on strengthening the creditworthiness of members. The "guarantee corporation" should also assume the role of serving as a substitute for a rating agency by establishing credit ratings for financially weaker institutions.

Foreign Exchange Risk Coverage

(5) Creation of an Entity Providing Exchange Risk Coverage: There is an increasing volume of foreign exchange funds available from international capital markets for the financing of development. National development banks can take advantage of these opportunities for mobilizing additional resources for investment in development. But the acquisition of external funds will expose national development banks to the highly volatile foreign exchange risk that has been at the root of the East-Asian financial crisis. In this regard the Islamic Development Bank (IDB) and ADFIMI can carry out a study of ways and means for the creation of an institutional mechanism for providing foreign exchange risk coverage to development banks. This entity, or financial institution, to be created, would assist individual development banks to obtain exchange risk coverage as a hedge against this risk by selling such coverage to specific institutions on a cost-recovery, or commercial basis. 1/ Possibly, an already existing institution, like MIGA, or an international bank, can be induced to offer such coverage.

Information Clearing House

(6) Expanding Cooperation among National Development Banks through IDB and ADFIMI: Creation of an "Information Clearing House". Member development banks should assist each other in policy formulation, strategy development, restructuring, managerial processes and other functions. An exchange of experiences and views on practices, policies, risks, organization, and institution building can be systematically and periodically supported and facilitated by the development banking department of IDB and by ADFIMI. Expert-groups and work-groups, as well as committees, can be established and issues of common concern can be explored, studied, and acted upon, with the resulting conclusions to be disseminated to all members for their benefit.

1/ Alan Roe, Nicholas Bruck and Marcus Fedder, *International Finance Strategies for Developing Countries,* Policy Seminar Report 31, EDI-World Bank, 1992.

Knowledge Bank

(7) Establishing an Internet-based Information Network and Knowledge Base to be called the "Knowledge Bank". The National Development Banks should be integrated with IDB and ADFIMI in a network of communication, information and knowledge to be stored in a data base that will place development banks on the same level of access to information that is applicable to commercial and investment banks. The universe of about 165 development banks in member countries is quite suitable for creating a useful, valuable and efficient "knowledge bank"1/. It can enormously benefit development banks and their clients who generally lack access to specialized financial and development related information systems. An example of such an Internet-based network is "IPAnet" of IFC and MIGA, which provides project information on investment opportunities in developing countries to potential investors all over the world. Another example is "A-Net" of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) which links the national development banks in the Asia and Pacific region. 2/ But while these entities post information received rather passively, this "Knowledge Bank" would be proactive and take up initiatives on items that emerge from its "Action Plan" and its "Information Clearing House". National development banks need to enhance their networking with other development banks to share experiences, to exchange ideas and information and to learn about the best management and human resource development practices.

Institutional Assistance and Training

(8)Strengthening the Catalytic Role of IDB and ADFIMI in Providing Institutional Assistance and Training to Members: There are urgent and important needs for having access to institutional assistance and specialized training in the institutions of all members. Quite a few Muslim countries remain somewhat removed from the mainstream of events in the field of development. For them assistance on computer and information technology, on international banking, asset/liability and risk

management, human resource development, learning and training techniques and other aspects of development bank operations is needed. Seminars and training in the same fields are essential for keeping development banks in the forefront of development financing and investment initiatives. While it is recognized that the already existing three-year ADFIMI Training Program for the years 1999 to 2001 contemplates seven annual seminars, five of which would have the duration of one week and two the duration of two weeks. In 1999 they would cover the subjects of: (1) executive development; (2) the training of trainers; (3) project preparation, appraisal and supervision; (4) financial risk management; (5) marketing; (6) credit supervision; and (7) management information systems. There are three more topics on the reserve list for seminars which could be substituted if

the programmed seminars cannot go forward. They include the subjects of: (a) small enterprise credits; (b) Islamic banking; and (c) strategic management. Other topics that have been requested by numerous members include: (i) entrepreneurial development; (ii) time management; (iii) human resource development; (iv) communications skills; (v) customer service; and (vi) change management and creating a learning organization. While it is also acknowledge that ADFIMI was created to provide this type of assistance, in various meetings and seminars member development banks have recently emphasized that it was crucial to further expand the institutional assistance and training provided to them.

Model Computer Program

(9) Creating a Program (software) for the Mechanization of Business Operations of National Development Banks: Commercial banks have used complex computer programs for the administration of their client's accounts, credit operations and other financial business. A program for administering the operations of national development banks should be less complex and its development should cost less. Many large development banks have developed their own computer programs for executing and administering their business functions. However, development banks in smaller and poorer countries still lack computerized operations systems. The "Model Computer Program" that is to be developed can be made available for use by development banks that will find this system valuable for the modernization of their operations and for ensuring conformity with international banking standards. It would also fulfill most reporting requirements periodically.

Political Role of ADFIMI

Creating a Political Voice in Support of Development Banks. In the European Union and the United States banks are sponsoring important legislation and reforms, which, if adopted, will change the international financial system by widening the scope of business of commercial banks, making their scope more universal and reducing their financial and business risk. To strengthen and upgrade the status of development banks they also need to receive political support from their associations, clients and the financial system. ADFIMI also needs to provide assistance and support for legislation and

reform that is needed in the interest of development banks through direct interventions, correspondence, publicity, publications, television, the internet, other media, conferences and seminars. ADFIMI should have an address in each member country to which it will send information on development banks to keep also governments informed on trends and changes in development banking.

1/ Their Internet website addresses are: "www.IPAnet.net" and "www.a-net.org".
2/ World Bank, *Knowledge for Development,* World Development Report, Oxford University Press, 1998.

ANNEX 1

Development Banks in Member Countries of the Islamic Development Bank

AFGHANISTAN
1. Development Bank of Afghanistan, AFGHANISTAN
2. Industrial Development Bank of Afghanistan (IDBA), AFGHANISTAN

ALBANIA [Has no development bank]

ALGERIA
3. Banque Algeriénne de Développement (BAD), ALGERIA
4. Banque de l'Agriculture et du Développement Rural, ALGERIA
5. Banque de Développement Locale (BDL), ALGERIA
6. Banque Exterieure d'Algerie, ALGERIA

AZERBAIJAN [Has no development bank]

BAHRAIN
7. Arab Banking Corporation, BAHRAIN
8. Bahrain Development Bank, BAHRAIN

BANGLADESH
9. Bangladesh Krishi Bank, BANGLADESH
10. Bangladesh Shilpa Rin Sangstha (Bangladesh Shilpa Bank) (BSB), BANGLADESH
11. Industrial Promotion & Development Company, BANGLADESH
12. Investment Promotion and Development Corporation, BANGLADESH
13. Saudi Bangladesh Industrial Agricultural Investment Company, BANGLADESH

BENIN
14. Fonds Africain de Garantie et de Coopération Economique (FOGACE), BENIN

BRUNEI
15. Development Bank of Brunei, BRUNEI

BURKINA
16. Fonds de Solidarité et d'Intervention pour le Développement de la Communauté des Etats de l'Afrique de l'Ouest (FOSIDEC), BURKINA

CAMEROON
17. Banque Camerounaise du Développement (BCD), CAMEROON
18. Cameroon Development Corporation (CDC), CAMEROON
19. Fonds d'Aide et de Garantie des Crédits aux Petites et Moyennes Entreprises (FOGAPE)
20. Fonds National du Développement Rural, CAMEROON
21. Societé National d'Investissement (SNI), CAMEROON
22. Southern Cameroon Production Development Board, CAMEROON

CHAD
23. Banque de Développement du Chad (BDT), CHAD

COMOROS
24. Banque de Développement des Comores (BDC), COMOROS

DJIBOUTI
25. Banque de Développement de Djibouti, DJIBOUTI

EGYPT

26. Union Arab Bank for Development and Investment, EGYPT
27. Export Development Bank of Egypt, EGYPT
28. Industrial Development Bank (IDB), EGYPT
29. Islamic International Investment Company, EGYPT
30. Misr-Iran Development Bank (MIDB), EGYPT
31. National Bank for Development (NBD), EGYPT
32. Arab Investment Bank, EGYPT
33. Principal Bank for Development and Agricultural Credit (PBDAC), EGYPT

GABON

34. Banque Gabonaise de Development, GABON

GAMBIA

35. Gambia Commercial and Development Bank, GAMBIA

GUINEA

36. Banque Nationale de Bissau, GUINEA

GUINEA-BISSAU

37. National Development Bank in formation

INDONESIA

38. Bahana Pembiayaan Usaha Indonesia (PT Bahana), INDONESIA
39. Bank Nagari, INDONESIA
40. Bank Pembangunan Daerah Bali, INDONESIA
41. Bank Pembangunan Daerah DKI Jakarta, INDONESIA
42. Bank Pembangunan Daerah Irian Jaya, INDONESIA
43. Bank Pembangunan Daerah Jawa Barat, INDONESIA
44. Bank Pembangunan Daerah Lampung, INDONESIA
45. Bank Pembangunan Indonesia (PERSERO), INDONESIA
46. Bank Rakyat Indonesia, INDONESIA
47. Bank Tabungan Negara (BTN), INDONESIA
48. Bank Uppindo, INDONESIA
49. Development Bank of Indonesia (BAPINDO), INDONESIA
50. Indonesian Association of Regional Development Banks, INDONESIA
51. Industrial Development Bank, INDONESIA
52. P.T. Private Development Finance Company of Indonesia (PDFCI), INDONESIA
53. Private Development Finance Company of Indonesia (PDFCI), INDONESIA
54. Regional Development Bank of East Java, INDONESIA

IRAN

55. Bank of Industry and Mines, IRAN
56. Agricultural Bank of Iran, IRAN

IRAQ

57. Agricultural Cooperative Bank, IRAQ
58. Industrial Bank of Iraq, IRAQ
59. Iraqi Fund for External Development, IRAQ

JORDAN

60. Agricultural Credit Corporation, JORDAN
61. Cities and Villages Development Bank, JORDAN
62. Development Bank, JORDAN
63. Industrial Development Bank of Jordan, JORDAN
64. Jordan Islamic Bank, JORDAN

KAZAKSTAN

65. Central Asian Development Bank, KAZAKSTAN
66. EBRD Apex Unit, National Bank of Kazakstan, KAZAKSTAN
67. Export-Import Bank of Kazakstan, KAZAKSTAN

KUWAIT

68. Inter-Arab Investment Guarantee Agency, KUWAIT
69. Kuwait Fund for Arab Economic Development (KFAED), KUWAIT

KYRGYSTAN

70. Kyrgyz Project Promotion Agency, KYRGYZSTAN

LEBANON

71. Agricultural, Industrial and Real Estate Credit Bank, LEBANON
72. Banque Nationale pour le Développement Industriel et Touristique, LEBANON

LIBYA

73. Development Bank of Libya, LIBYA
74. Libyan Arab Foreign Bank (LAFB), LIBYA
75. Libyan Arab Foreign Investment (LAFICO), LIBYA

MALAYSIA

76. Association of Development Finance Institutions in Malaysia (ADFIM), MALAYSIA
77. Bank Industri Malaysia Berhad (BIMB), MALAYSIA
78. Bank Kemajuan Perusahaan, MALAYSIA
79. Bank Pembangunan Malaysia Berhad (BPMB), MALAYSIA
80. Bank Pertanian Malaysia (BPM), MALAYSIA
81. Malaysian Industrial Development Finance (MIDF), MALAYSIA
82. Sabah Credit Corporation, MALAYSIA
83. Sabah Development Bank (SDBB), MALAYSIA

MALDIVES

84. Bank of Maldives, MALDIVES

MALI

85. Banque de Développement (SA), MALI
86. Banque Nationale de Développement Agricole (BNDA), MALI

MAURITANIA

87. Banque Mauritanienne de Développment et de Commerce (BMDC), MAURITANIA
88. Fonds National de Développement de la Mauritanie (FND), MAURITANIA
89. Union des Banques de Développement (UBD), MAURITANIA

MOROCCO

90. Banque Commercial du Maroc, MOROCCO
91. Banque Marocaine du Commerce Exterieur, MOROCCO
92. Banque Nationale pour le Développement Economique (BNDE), MOROCCO
93. Caisse Nationale de Crédit Agricole (CNCA), MOROCCO
94. Central Popular Bank of Morocco, MOROCCO
95. Credit Agricole, MOROCCO

96 Crédit Immobilier et Hotelier (CIH), MOROCCO

97. Crédit Populaire du Maroc (CPM), MOROCCO
98. Société Nationale d'Investissement (SNI), MOROCCO

MOZAMBIQUE

99. Banco Popular de Desenvolvimento, MOZAMBIQUE

NIGER

100. Société Nigérienne de Banque (SONIBANK), NIGER
101. Fonds de Solidarité Africain (FSA), NIGER
102. Fonds des Petites et Moyennes Enterprises Nigérienne (FIPMEN), NIGER

OMAN

103. Oman Development Bank, OMAN

PAKISTAN

104. Agricultural Development Bank of Pakistan, PAKISTAN
105. Bank of Khyber, PAKISTAN
106. Bankers Equity Limted (BEL) PAKISTAN
107. Industrial Credit and Investment Corporation (PICIC), PAKISTAN
108. Industrial Development Bank of Pakistan (IDBP), PAKISTAN
109. Industrial Finance Corporation, PAKISTAN
110. National Development Finance Corporation (NDFC), PAKISTAN
111. Prudential Investment Bank, PAKISTAN
112. Regional Development Finance Corporation (RDFC), PAKISTAN
113. Saudi Pak Industrial and Acricultural Investment Company, PAKISTAN
114. Small Business Finance Corporation (SBFC), PAKISTAN

PALESTINE

115. Palestine Development Bank, PALESTINE

QATAR

116. Qatar Industrial Development Bank, QATAR

SAUDI ARABIA
117. Islamic Development Bank, (IDB), Jeddah, SAUDI ARABIA
118. National Industrialization Company, SAUDI ARABIA
119. Saudi Fund for Development, SAUDI ARABIA
120. Saudi Industrial Development Fund, SAUDI ARABIA
SENEGAL
121. Banque Nationale de Développement du Senegal, SENEGAL
122. Central Bank of the West African States (BCEAO), SENEGAL
123. Société Financière Sénégalaise pour le Développement de l'Industrie et du Tourisme (SOFISEDIT)
124. Caisse Nationale de Crédit Agricole, SENEGAL
SIERRA LEONE
125. National Development Bank (NDB), SIERRA LEONE
SOMALIA
126. Somali Development Bank (SDB), SOMALIA
SUDAN
127. Agricultural Bank of Sudan (ABS), SUDAN
128. Animal Resources Investment Bank, SUDAN
129. Arab Bank for Economic Development in Africa (BADEA), SUDAN
130. Farmers Bank for Development and Investment, SUDAN
131. Gedarif Development and Investment Bank, SUDAN
132. Islamic Cooperative Development Bank, SUDAN
133. Sudan Rural Development Company (SRDC), SUDAN
134. Sudan Rural development Finance Company (SRDFC), SUDAN
135. Sudanese Investment Bank, SUDAN
SURINAME
136. Nationale Ontwikkelings Bank, SURINAME
SYRIA
137. Industrial Bank, SYRIA
TOGO
138. Fonds de Coopération, Compensation et de Développement de la CEDEAO, TOGO
139. West African Development Bank, TOGO
140. Banque Togolaise de Développement (BTD), TOGO
141. Société Nationale d’Investissement et Fonds Annexes (SNIFA), TOGO
TAJIKISTAN [Has no development bank]
TUNISIA
142. BEST Bank., TUNISIA
143. Banque de Développement Economique de Tunisie (BDET), TUNISIA
144. Banque Internationale Arabe de Tunisie, TUNISIA
145. Banque Nationale Agricole (BNA), TUNISIA
146. Banque Nationale de Développement Touristique (BNDT), TUNISIA
147. Development Finance Institute for the Arab Maghreb (IFID), TUNISIA
148. National Investment Corporation, TUNISIA
149. Societe Nationale d'Investissements, TUNISIA
150. Société Tunisienne de Banque (STB), TUNISIA
151. Union Tunisienne de Banques, TUNISIA
TURKEY
152. Agricultural Bank of Turkey, TURKEY
153. Association of National Development Finance Institutions in Member Countries of the Islamic Development Bank (ADFIMI), TURKEY
154. Birleik Yatirim Bankasi , TURKEY
155. Development Bank of Turkey, TURKEY
156. Export Credit Bank of Turkey (TURK EXIMBANK), TURKEY
157. Iller Bankasi, TURKEY
158. Indosuez Euro Türk Merchant Bank, TURKEY
159. Industrial Development Bank of Turkey, TURKEY
160. Industrial Investment and Credit Bank, TURKEY
161. Park Yatirim Bankasi, TURKEY

162. State Investment Bank (SIB), TURKEY
163. Takasbank, TURKEY
164. Tat Yatirim Bankasi, TURKEY
165. Tekfen Yatirim ve Finansman Bankasi, TURKEY
166. Türkiye Ihracat Kredi Bankasi, TURKEY
167. Türkiye Sinaî Kalkinma Bankasi (Industrial Development Bank of Turkey), TURKEY
168. Türkiye Vakiflar Bankas , TURKEY

TURKMENISTAN [Has no development bank]

UGANDA

169. Co-operative Bank, UGANDA
170. Development Finance Company of Uganda, UGANDA
171. East African Development Bank (EAD), UGANDA
172. Uganda Development Bank (UDB), UGANDA
173. Uganda Development Corporation, UGANDA

UNITED ARAB EMIRATES

174. Abu Dhabi Fund for Arab Economic Development, UNITED ARAB EMIRATES
175. Emirates Industrial Bank, UNITED ARAB EMIRATES
176. United Arab Emirates Development Bank, UNITED ARAB EMIRATES

YEMEN

177. Cooperative and Agricultural Credit Bank, YEMEN
178. Housing Credit Bank, YEMEN
179. Industrial Bank of Yemen, YEMEN

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