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THE ROLE OF DOMESTIC DEVELOPMENT BANKS IN THE MOBILIZATION
AND UTILIZATION OF EXTERNAL RESOURCES IN A DEVELOPING COUNTRY

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By its very nature, a Development Bank is, as opposed to a Commercial Bank, a Development Planning oriented institution concerned with the financing of Fixed investment. Of course, we must appreciate the fact that all banks are meant to assist development. But it is also a fact that depending on the monetary policy of the Government in question, a significant proportion of the resources of a Commercial Bank are employed in financing ongoing operations and the vast majority in either providing working capital for productive enterprise or generally government capital finance via security holdings. This while the effect of a Development Bank in an economy could easily be dampened by unsound lending policies of the commercial banking sector on whose resources development projects also depend for working capital, a Development Bank should, in my opinion, see itself as the vanguard for sound development policies of both the Government and the Commercial Sector.

It is the aim of this paper to provoke discussion on how Development Banks can, as of themselves and given a free hand to evaluate the soundness of proposals in a national goal framework, spear head sound economic development policies in a country. In this essay I shall confine myself to Development Banks in the true sense of the word i.e. Banks whose duty it is to provide medium and long-term finance - as opposed to progressive commercial banks which have wings that specialise in medium term finance as well. However, it may suffice to say here that given the right institutional framework, what I shall state to be true of a Development Bank also apply as appropriate to other medium term lending institutions.
As already intimated in the preceding paragraph, I would define a Development Bank to be a financial intermediary that has been created with the sole purpose of providing medium and long-term capital for development projects in either Agriculture or Commerce and Industry or both. This it can do either by direct participation in equity or preference share capital or through loans, debentures, and mortgages.

Naturally being a bank, to do either of these things, it means that it has to satisfy itself of the commercial or economic viability as well as the technical feasibility of the project or programme it is financing. It will be appreciated that it is not the Bank's Function to subsidize a project or alter prices to make it viable. If such measures are in the national interest, the Government, not the Development Bank is responsible for them.

It follows from this that it must, as of necessity, have a fund of knowledge of all the circumstances surrounding the project or programme being promoted. Hence the need for project appraisals. But knowledge needs experience, and there is nothing which creates relevant experience as fast as a national base. This is thus the greatest virtue that a domestic Development Bank has over other Development Banks in the efficient use of external resources.

To appreciate this we have to look broadly and examine the pre-requisites of external financiers and the problems of borrowers in the realm of technical co-operation between countries and/or development institutions.

It is a well known fact that there remains an unresolved debate between advocates of multilateral resource transfers as opposed to those who support bilateralism, in as far as efficient use of resources is concerned.
Whereas some small developing nations have tended to prefer multilateral capital transfer to bilateral on account of their political weakness, the opposite is true of some creditor countries which seek political domination via bilateral programmes. On the other hand, experience has shown that decision making in multilateral resource transfer — especially via the UNDP and the specialized Agencies — has tended to be so slow that one is not decided between political and economic factors when the preference in programme implementation is considered.

There is then the question of tied "Aid" — both to the country of resource origin as well as to projects in the receiving country. This again has had such debasing economic effects in terms of actual material cost in the case of procurement tied "aid", as well as time cost in case of project tying because of the built in inflexibility in resource allocation that the struggle still continues to do away with tying of any nature.

Provided that almost all development economists agree that the answer is to tie resource transfer to programmes not projects, source, or import content. This in essence means that once agreed on the efficiency of a development programme, the partners in development would put at the disposal of the receiving country such resources as are needed to complement its internal contribution to implement the programme. In this way not only would it provide maximum flexibility in the allocation of resources as between the various projects in the programme, but it would also provide maximum flexibility in the re-arrangement of priorities according to economic vicissitudes in the domestic and international environment of the recipient country.

However, programme oriented co-operation also assume that the partners in development are equally informed about and relatively agreed in assessing the efficacy of the programme. As we saw above, knowledge needs experience and particularly environmental experience. It is for this
reason, therefore, (though not for programme "aid" purposes) that most Development Assistance Institutions nowadays have tended to establish resident representation in receiving countries or regions.

Unfortunately despite this effort, there still has been a need for more technical knowledge to be imported from the "Aiding" country to assist the resident office to appraise the projects or programmes seeking assistance. To that extent, it could be argued that Regional Offices and Resident Representatives have often seemed to hamper information flow and delay decisions not improve or speed it—particularly due to lack of delegated responsibility. It is obvious, therefore, that to the extent a domestic Development Bank can build such expertise which is favourably evaluated and accepted by the international financial community, a National Development Bank can act as a wonderful bridge between the over-cautious international financier and the over-ambitious development planner in the receiving country, to the mutual benefit of the development partnership. The initial task for the partners would be to treat and appraise the Bank itself as a project. Once its economic and technical viability is assured and the necessary resources made available, the Bank would have achieved all the objectives in the efficient mobilization and use of resources—namely multilateralism, bilateralism, project tying and programme tying. The only sufferer will be procurement tying which in any case is not a panacea but an anachronism relating largely to inappropriate or inaccurate attempts to solve industrial economy balance of trade difficulties by exporting them.

Multilateralism is achieved because in the first place multilateral agencies are provided with a reliable instrument though whose intermediary role their own agency programmes can be efficiently and reliably executed. Secondly, multilateralism is achieved in the sense that the Bank itself has, though domestic, to act in a manner analogous to a multilateral agency in that once in the Bank, all the resources lose their identity.
On the other hand, bilaterism is equally achieved in that the Bank as a project in a particular country will be available for support from any source. Thus to the extent that bilateral support emanates from affinity of economic goals, that chance is not lost. It is equally true that even the bilateral collaborator seeking identity for political reasons has a chance to get half the way.

Finally but not least important, it is possible to achieve programme financing which is so badly lacking in present day partnership in development. To-day, so much time is wasted first in the identification of sources of finance for a project, and secondly in not being able to go ahead with the implementation of an urgent modification to a current agreed programme or project because of the lengthy consultations which have to be gone into with this remote financier. So lengthy are the procedures that at times one is afraid of initiating modifications for fear that even the current programme will be frustrated instead of a revised one being approved.

On the other hand, given a domestic financing institution these delays can easily be averted. In the first instance the Bank will have been in constant touch with the progress of the programme or project in question. It will, therefore, be already aware of the need and efficacy of such modifications as the planning or implementing authority deems essential.

Secondly, being in command of its own resource inflows and outflows, it will be in a much easier position to adjust its allocation of outflows rapidly in a manner that can assist the planning authorities to make appropriate adjustments to their implementation priorities.

It will be appreciated that control of present international financing procedures is so remote that switching around of allocations is next to impossible. Institutions like the World Bank or UNDP go by projects. To bring about a new project or modification of the current one thus entails new appraisals by these institutions as well as - in the case of new or radically revised projects - fresh consideration by their respective authorising bodies - i.e. the Boards in case of the IBRD and its affiliates and the Governing Council in case of the UNDP. Obviously these cannot be easy procedures.
Besides, these Boards and the Governing Council of the UNDP are composed of people of varying experience and historical backgrounds. They are thus not only subjected to variegated pressure and philosophies, but above all, the demands on their resources are world wide and substantial. It follows that even with all the good will in the world, it will be expecting too much of these institutions to exercise high flexibility and speed to achieve genuinely decisions.

So much for multilateral agency problems. Bilateral agencies too have their own problems. Although my experience so far with these agencies is that in a number of instances action is faster than in the former, but still it is not fast enough to meet the demands of a developing economy in a hurry especially as a growing number seem to be copying World Bank procedures without World Bank levels of staff or experience to operate them. It will be appreciated that here too, the agency is subjected to another Government's decisions. Thus, even with the speed in technical communication the world now enjoys, it is not possible to expect the flow of information to be as perfect as one would wish, nor is rapid communication over space and setting gaps always conducive to comprehension. Thus recognition of the need and urgency of proposals is an equally slow process. Unfortunately, the local representative where one is available, is often will nigh powerless in this respect.

Personally, I am most disappointed that even a well placed institution like the World Bank is not yet able to delegate more and more of its powers to its area offices. Thus although we have an area office next door here in Nairobi, we have to go all the way to Washington for negotiations of as small a project as a million dollar project. Moreover, it is not uncommon to see appraisal missions coming out from as far away as Washington for quite small projects. Admittedly on the one occasion a project was primarily handled via the Regional Office but the results were totally unacceptable to Washington leading to vast delays. That in itself demonstrates non-communication and non-delegation.
These and many other problems are, in my view, good enough reasons for developing countries embarking upon the establishment of properly staffed and adequately financed national Development Banks as an urgent and high priority part of financial institutional reform. I believe that it is wiser and could be easier to sell these banks as projects, or project clusters, in themselves and to seek more support in terms of finance and personnel for them rather than to try to work on individual projects.

Unfortunately, international financiers do nonetheless insist that the Development Bank should, in addition, produce actual projects that would qualify for financing before such support is given. Naturally and in view of what has been stated above, such insistence is not in the best interest of smooth and efficient international financial co-operation. We can only hope that as these Development Banks grow and prove themselves before the international community, it will be possible for the would be financiers to have confidence in the Banks' ability to use wisely the resources made available to them. In such a case, the only appraisal that would be necessary, would be of the Banks' capacity to absorb more resources and not of the specific projects requiring financing. For example if the World Bank wishes to support rural development as a whole it must develop means to channel funds to small projects via national "retail" institutions with itself as wholesaler concerned with guidelines and evaluation not individual ventures.

In the meantime, the responsibility for proving to the world that this is possible must lie with the respective Development Banks. Given the above thinking on the part of the Co-operating agencies it must be for the Development Banks to endeavour to "PROMOTE" as many projects which qualify for financing as possible. In this way, the Banks would be able to generate more funds for themselves through the re-lending of surpluses and/or repayments, assuming their borrowing terms are softer than those at which they lend. This should be the case in that while commercial terms may often be appropriate in local currency for the productive unit they can rarely, if ever, be so in foreign currency for the Development Bank.
This thus brings us to the final but most important role that a Development Bank should play. In an environment where entrepreneurial skills are lacking, a Development Bank must see itself as an engine generating initiative for "project inception" as well as the "training" of the necessary manpower to assist in the management of these projects.

It will indeed be a grave mistake if our Development Banks sit back and wait for projects to present themselves at their door steps before they realize that there is a job to be done. Even if projects do come in they may well be the wrong ones. While it is not intended in this paper to put full responsibility to these Banks for initiative - which is an impossible task and would therefore, be unfair to place on the Banks (and still more to the point useless as well), it is intended to emphasize that a Development Bank in a less developed setting must be more of a "PROMOTER AND FINANCIER" than a "FINANCIER of last resort."

It follows that, the Development Banks have to sell projects to planners and promoters as well rather than be only buyers of projects. It is my sincere opinion that only in this way and this way alone can we be able to generate quickly the necessary skills required of both our young men and women manning these Banks as well as those in the operating companies which the Banks finance and help to bring about.

Unfortunately initiative is a direct function of "Common Sense" and "Common Sense" is, as we all know only too well, not all that common. We must, therefore, promote it. In my view, the best way of generating initiative and activity is to keep on reminding first ourselves - and only then others - that we are not doing enough. This we can do by either talking about our weaknesses by self-criticism or more effectively by setting clearly defined targets for institutions and for individuals at all operational levels. Our job of evaluation will then be primarily to follow up how much of our assignments have been fulfilled.
It is the aim of this paper to provoke thought in exactly this direction on the part of Development Banking. It is hoped that it will attract the interest of both the financiers as well as those engaged in Development Banking. Unless we look at development as an international responsibility geared to promoting self-reliance for as many nations as possible in the shortest time possible, our efforts in development partnership will be fruitless. This approach is attainable if all our efforts, as citizens of the world, are directed towards making world resource allocation as efficient as possible in terms of generalizing development benefiting all countries and all citizens, especially the most deprived. It is my sincere conviction that by supporting Development Banks morally and resourcefully, i.e. financially and in terms of competent personnel, we shall be truly aiding rapid economic development of the world community.

"Where there is will there is a way" "IT CAN BE DONE,"

LET EVERYONE OF US PLAY HIS PART

I. J. Kadzai.

N.B. This paper was written when the author was Principal Secretary in what was then known as the Ministry of Communications, Transport and Labour. He has since transferred to Treasury. He wishes it to be known that what he has stated here are his own personal views and not necessarily the views of the Treasury.