aspects of development bank management
Aspects of Development Bank Management
Foreword

THE WORLD BANK has been involved since 1950 in supporting the growth of development banking in developing countries. Its objective has been the building of self-reliant institutions that can effectively mobilize resources and allocate them to efficient and productive investments. In this effort the Bank and its affiliates have been conscious of the critical importance of the quality of staff needed to manage the development banks.

Thus training of development bank staff has figured prominently in the curriculum of the Economic Development Institute, the World Bank's staff college for economic administrators in developing countries. Several hundred development bank officials have attended EDI's courses in general development going back to 1956, courses dealing with the evaluation and monitoring of industrial and agricultural projects since 1963, and, since 1973, courses specifically directed toward development bank staff. A distinguishing feature of these last courses is that a majority are sponsored jointly by a group of international and bilateral agencies interested in development bank training, and are conducted in the training centers established by the African Development Bank and by national development banks in India and the Philippines.

EDI courses are generally designed for senior level executives. But the chief executives of development banks perceived a need to exchange views with their peers on the problems that confront them in the task of managing their institutions. To provide a forum for such discussions, EDI conducted two seminars in 1979 and 1980 for chief executives of development banks (and some of their deputies), the first in English and the second in French. This volume brings together most of the papers that served as the basis for discussions at these seminars.

This collection of papers on the management of development banks recalls EDI's very first publication in 1957; the author was William Diamond, who is a joint editor of the present volume. Mr. Diamond, who was one of EDI's original staff members and a senior fellow before his retirement from the World Bank in 1978, headed
the Bank's Development Finance Companies Department for many years. V. S. Raghavan, also a joint editor and contributor, has held management positions in development banks for several years in India and Mauritius. He was the member of the EDI staff in 1973–1975 and 1978–1980, mainly concerned with the spread of training courses in development banking. EDI is grateful to the editors for the interest and care devoted to preparing this volume. EDI is also indebted to all the authors for their contributions. I am confident that the development banking community will find these essays useful.

AJIT MOZOOMDAR

Director, Economic Development Institute
The World Bank
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Preface

This volume of essays is an offshoot of the seminar on Development Bank Management conducted by the Economic Development Institute of the World Bank in February 1979. The object of the seminar was to give a group of top executives of development banks an opportunity to exchange views and experiences, in an organized discussion, on the principal issues they face in managing their institutions.* The officials who attended the seminar, being entirely chief executives of development banks or their deputies, were in a position to speak with authority about the issues on the agenda of the seminar.

To facilitate a systematic discussion, the seminar was divided into sixteen sessions of approximately three hours each. Rather than cover all the activities of a development bank, these sessions were highly selective. The principal criterion for the selection of subjects for the sessions—the linking thread—was the problems the management of developing banks confront and management's role in dealing with them.

Those problems fall into a few broad categories: functions of top management; establishment of long-range corporate objectives and policies; criteria for investment selection; investment monitoring; mobilization of resources; planning and internal controls; personnel development and organization; financial policy; and evaluation of corporate performance. The various sessions in the seminar reflected these concerns, though somewhat imperfectly. Moreover, whichever way the concerns of management were divided for purposes of discussion, some overlapping of subjects and issues was inevitable. This no doubt reflects the fact that, at the level of top management, all issues converge and become interrelated. While the subjects of the sessions, taken together, were far-ranging, they certainly did not deal comprehensively with all the concerns of management.

*An almost identical seminar in French, attended by chief executives of development banks in francophone countries, was given in January 1980.
Each session in the seminar was conducted by a person (generally from the World Bank Group) with considerable experience in a particular field. Considering the experience of the persons attending the seminar, however, what was important was not the ideas put forward by the session’s chairman, however qualified he might have been, but the drawing out of the experience of the participants. There were therefore no formal lectures or expositions by the chairman during the seminar. To help stimulate the thinking of the participants, several papers were prepared on the topics chosen for discussion and were circulated in advance of each discussion, as were also some noteworthy papers previously published. It should be added that neither the papers nor the discussion leaders reflected a single viewpoint with respect to development banking. Stimulation of thought rather than direction or even guidance was the objective.

The result was an intense two-week discussion, which was, however, neither conclusive nor complete because, invariably, the three hours allotted for each session proved insufficient to cover all aspects of the issues proposed for discussion. The problems facing each development bank manager are unique to the environment in which he operates; no single “solution” is therefore applicable to the common problems of all development banks.

This volume brings together, for wider circulation among persons involved or interested in development banking, most of the papers circulated in advance of each session of the seminar. All the essays prepared specifically for the seminar have been revised for publication. This revision has included some views reflected in the seminar, but in no sense is an essay intended to be a summary of the discussion in the corresponding session in the seminar. Papers previously published have been lightly edited for inclusion in this volume.

The essays included in this volume have been arranged under eight headings. Each heading has a short introduction by the editors, which highlights the interrelationship of the various issues confronting management and the integral role of management in dealing with them. As with the sessions in the seminar, the content of the individual essays tends to overlap precisely because the issues dealt with are inextricably interrelated. The overlapping seems greater in the essays than it did in the seminar, for each author finds it necessary to define development banking in relation to the subject of his own essay. The volume should be viewed, however, not as a collection of essays on different topics, but as a book on the single subject “development bank management,” with each chapter de-
voted to one of the many interrelated issues on which the chief executive must from time to time focus his attention.

Several points should be made about these essays. First, they do not represent a single viewpoint, certainly not that of the editors. Almost certainly, none of the authors would agree with all the views presented by the others. Second, the object of the essays is not primarily instruction or the passing on of truths, but the focusing of issues and the stimulation of thought. If the reader is led to identify issues and problems he had only vaguely sensed earlier, or is led to view his problems in a new light, or finds useful suggestions for the solution of his problems, the objective of the writers and of the editors will have been accomplished. Development bank managers may (the editors hope) find the essays most useful as the basis for discussion among themselves and with their senior staff. Third, the authors alone bear responsibility for the views they present. (A note on each of the authors appears in the Appendix.) Fourth, it has not been possible to include in this volume essays on such topics as investment monitoring, programming and budgeting, staff selection, use of computers, and performance evaluation, which are important for the management of development banks. The editors hope that a companion volume covering these and other relevant aspects of development banks can be brought out in the not-too-distant future.

William Diamond
V. S. Raghavan
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Lillian Ruckman did most of the typing of the manuscript. Christine Houle prepared the manuscript for publication and coordinated production of the book. Nancy Wirtes read and corrected proof, and Raphael Blow prepared the chart. The editors are grateful to all of them.
Aspects of Development Bank Management
Part I

Management's Role and Priorities

The literature on management, which was skimpy until World War II, has since then burgeoned into a substantial and rapidly growing library of books, articles, and specialized periodicals. This literature is fed by the research of schools of business and of management, by the diaries and commentary of managers who have become increasingly self-conscious about their profession, and by the philosophers of management who attempt broad syntheses of its role in, and contribution to, modern society.

While the literature on management is extensive, very little has so far been written about the management of a development bank, and even less on this subject by the manager of a development bank. This may seem odd, given the persistent concern about management among the sponsors (and later, the shareholders, government, and directors) of development banks and among those who support them, especially the external institutions which provide a large part of the finance of many development finance institutions. While the appraisals of the external institutions deal critically with management and often lead to pressure for management changes, they have not led to a systematic treatment of development bank management—as has been the case, for instance, with other matters that concern them: techniques of project selection and appraisal, project supervision and handling of projects that are in trouble, mobilization of financial resources, project promotion, financing small-scale enterprises, and so on. Development bank managers who have written about their own work also usually deal with specific aspects of their activities, such as those mentioned above. What is lacking is an integrated view of their task. Perhaps this is because the profession is still relatively young, and not many managers have been at
their jobs long enough to enable them to take a reflective, balanced view of their total experience.

The following papers may help development bank managers focus deliberately on their own functions and on the tasks to which they devote their time. They should lead managers to ask themselves whether their actual day-to-day activities reflect their views of their responsibilities or primarily day-to-day pressures. The first paper, by William Diamond, discusses the principal problems and priorities of managers of development banks as he sees them, that is, as an outside observer. The second paper, by V. V. Bhatt, is a prescriptive view of what the tasks of a development bank's management should be if the institution is to fulfill its social function.
Chapter 1

The Preoccupations and Working Style of Chief Executives of Development Banks

William Diamond

Most discussions of management deal with the subject in prescriptive terms, analyzing the functions of management and suggesting organizational arrangements that might be helpful to that end. I would like to make some comments on how managers actually behave: that is, what they do and how they spend their time. My reason for dealing with management from this angle is that there are often differences between how a manager (or anyone else, for that matter) ought to act and how he does act. Something can, I believe, be learned from the reality. It is toward the chief executive officer, the one at the top, whatever the specific title, that I want to direct attention.

Qualifications and Performance

In general, bank managers have come from no single background and have had no single type of training. By origin they have been economists, stockbrokers, commercial bankers, central bankers, civil servants, engineers, and soldiers. Their backgrounds are apt to

This article was published in Focus, vol. 3 (1977), pp. 6-11. The article was based on an address to participants in the Development Banking Course of the World Bank's Economic Development Institute, May 4, 1977.
be especially diverse in a newly established development bank, in a
country that has not had one before. There the profession is new.
Later, when development banking experience has begun to grow, it
becomes possible to find managers who have come up from the
ranks of their own institutions or who have had directly relevant
experience in other, similar institutions in the same country. As
time progresses, more and more managers have had some sort of
professional experience in development banking, so that the newer
breed of managers is much more likely to have had development
bank experience than the old.¹

According to my observations, the lack of development banking
experience has not in itself been a deterrent to success in managing
a development bank. Among the various backgrounds, none seems
to have particularly enhanced or detracted from the effectiveness of
a development bank manager. Thus, expertise in some particular
discipline or line of activity does not seem to have been crucial.
What seems to have been far more important is the personality and
leadership qualities of the managers, how they conceived of their
job, and the objective environment in which they had to work—plus
luck.

If this estimate is right, then the emergence of a newer breed of
managers, with better professional training and experience, will
not necessarily enable them to do a better job than the older chief
executives did. Training and experience should enable chief execu-
tives to read and understand their environment more effectively,
and thus to protect their bank against it, to take advantage of it, and
even to influence it. They may help chief executives respond effect-
vively to pressures and thus help the development bank survive
despite being buffeted by circumstances. But training and experi-
ence may not contribute to personality or leadership qualities and
certainly will not affect luck. They will not necessarily help man-
gers make conscious, tactical changes in their bank’s course to
ensure achievement of its underlying objectives. Nor will they
necessarily help anticipate changes in the environment so that
managers can adjust the bank’s goals before it is forced to move in
directions others dictate or sinks into oblivion.

In this light, a training course for chief executives of development
banks that focuses on project preparation, appraisal, and supervi-
sion can be valuable by sensitizing them to the technologies they
should have at their disposal in running their bank. But such a
course can be only part of management training, and not neces-
sarily the most important part.
The lack of relevant training and experience in many countries in which the World Bank helped set up development banks led the Bank to recommend the employment of foreign managers who had such experience. Selecting managerial staff is extraordinarily difficult, and it would be surprising if the choice were always successful. If the Bank's recommendations of foreign managers sometimes fell short of expectations, the reason may be essentially the point made above. While some financial knowledge is certainly needed, probably too much emphasis was placed on technical expertise and on directly relevant experience. Perhaps the Bank underestimated the qualities needed to energize in a common cause the many people and groups involved in running a development bank. It almost certainly underestimated the importance of knowing the objective environment, especially the business community, and overestimated the ability of an outsider, no matter how carefully selected, to know and deal with local conditions. There are, of course, situations in which there is no alternative but to seek someone from the outside to lead an institution. In such circumstances, one must not only be careful in choosing; one must also be modest in one's expectations, and must recognize that the outsider's tenure is primarily a period of preparation for local management.

Priorities of Chief Executives

I asked three chief executive officers of development banks associated with the World Bank what they thought were their most important jobs and how they spent most of their time. One manager named as his principal tasks: getting and training staff, protecting his institution's independence, applying his final judgment to pending investment proposals, and considering how to adapt his development bank to changing circumstances in his country. The second gave as his most important and time-consuming task maintaining good relations with the many other institutions which make up the environment in which his development bank works. He named them (in order) as the government, the business community (including both the industrialists who are his clients and bankers who are his partners), other development finance institutions, and management and other training organizations. This second manager said that in day-to-day affairs he relied on team management rather than individual decision. The third gave his principal functions as: long-range planning, anticipating changes in the economic
environment, maintaining good relations with his board of directors and shareholders, and generally supervising the day-to-day affairs of his company.

The differences in the comments made by these managers were largely of emphasis, stemming in part from their personalities and styles and in part from the nature of the companies they manage. For instance, it became clear that all three managers were concerned about relations with their board members. One company's shareholders, however, consisted primarily of several well-knit and collaborative groups of businesses, while the shares of another company were held primarily by a group of aggressive and competitive businessmen. It was natural that the manager of the latter should say he had to worry about his board while the former didn't mention this factor at all.

The third company had been virtually torn apart for some years by dissension in the board among individuals representing two powerful business interests. The advent of new, strong management, the resignation of the contentious board members, and the broadening of representation on the board had resulted in the virtual elimination of this matter as a subject of active concern. Obviously, however, a chief executive can ignore this subject only at his peril—and none of the three did—although only one considered it an active problem.

Another difference among the managers was that one placed more emphasis on applying his own final judgment, after reviewing the technical analyses presented by his staff, in making corporate decisions. The other two emphasized management-team decision rather than decision from the apex. Perhaps the difference stemmed from the fact that the one who emphasized his own final judgment was the oldest of the three and had spent his life in banking while the other two, an economist and an engineer, were more technocratic in outlook and behavior. A related difference among the three men concerned their staffs. The one who spontaneously mentioned senior staff as a principal concern was also the oldest of the three, and perhaps the prospect of managerial succession may have appeared more real to him.

There were other differences among the three managers, but they should not be overstressed. My questions about their preoccupations and problems were put without warning, and they answered off the cuff. Moreover, the differences were principally in emphasis and, under questioning, proved not to be so great as they may have sounded. In fact, given the differences in the men, the companies,
and the countries, it was striking that the similarities in their responses were so great. The tasks they considered most important and time-consuming were much the same. Moreover, the managers of other development banks who are considered relatively effective and successful would probably have replied in very similar terms. In my talks with these three men over the past decade, and with their counterparts in other institutions, their concerns seemed to be principally the following:

- The economic conditions, government policies, and above all, political and economic prospects in their countries that affected their banks' welfare, survival, and growth.
- New ideas about what their banks might be doing in the next several years. (In this connection, these men have come up with, and have carried out or are carrying out, ideas and plans they had not dreamed of when they took over their present jobs.)
- The development of new sources of finance. (I do not recall many meetings with these men in which they did not speak of visits to, or plans to visit, New York, Tokyo, or European capitals to seek additional finance.)
- Perceived threats from government to independence of action. In earlier years the question of freedom of action generally concerned what was called "government interference." While the question of government force in determining specific policy or investment decisions may sometimes be an issue today, development banks now seem to think that freedom of action depends primarily on mutual understanding—by the development bank of government policies and objectives and by the government of the value of a development bank's experience in devising government policies and in achieving government objectives. Thus dialogue has replaced confrontation as the principal mode of interaction between government and bank.
- Protection against pressures from board and owners (whether private or public). Here, too, with the growing maturity of management and experience of the institution, understanding has replaced confrontation.
- The quality of staff, especially staff of the caliber that might take over management in the future.

**Internal, External, Present, and Future Orientations**

This recital suggests that the eyes of capable chief executives are primarily on the future rather than on the present and on the
external relations rather than the internal affairs of their banks. True, one of the managers referred to the need to develop staff and to his personal concern about applying his own final judgment in making investment decisions, another referred to general supervision of day-to-day affairs, and a third spoke of maintaining contact with technical and managerial training institutions. Obviously staff development and managerial succession were on the minds of all three. But it would not be correct to conclude that personnel was their only significant concern about internal affairs. As became apparent in the discussion that followed, other day-to-day matters do in fact consume much of their time and also that of their counterparts in other institutions. Indeed, some chief executives are unable to emerge from such day-to-day affairs and never find the time to deal adequately with the long-range questions listed above.

The internal affairs that make a heavy claim on chief executives are the protection of the portfolio, the promotion of new activities, and the resolution of staff conflicts.

The protection of the portfolio is a natural concern because it affects the financial integrity of the development bank and its standing, and therefore determines not simply the nature of its future but whether it will survive at all. Individual projects often go bad, and remedial measures are needed to put them back on the track; or companies sometimes fall into serious arrears because of a generalized situation in the country that affects a large number of debtors. Dealing with problem investments or with serious arrears of payments is not a matter which the managers I have known ever fully delegate to others.

Although the promotion of new enterprises and the undertaking of new lines of activity may be initiated by ideas and papers from the staff, and a special unit in the development bank might work on the proposal, the chief executive gives them special and personal attention. This is understandable since promotion is a costly process, a financial commitment is needed sooner or later to back up a promotion, and the development bank has a moral involvement because its commitment brings others into the investment as well.

Conflicts and differences of opinion inevitably occur that staff cannot resolve itself and on which the chief executive is required to make a choice, a compromise, or a synthesis. In a large and diversified development bank, conflicting claims on the institution's administrative budget can be settled only by the chief executive. And personal competition among staff is not unknown and can threaten the stability of the company if not resolved in good time.
The first and third items may be covered by the single word "troubleshooting," but they by no means cover every contingency that arises under that head. The manager is a development bank's principal troubleshooter; and in an area as complex as development and in an institution as innovative as a development bank should be, there is no lack of contingencies which the chief executive will feel compelled to deal with himself.

These, then, appear to be the principal preoccupations of the top managers of development banks. Of course, the mix of these elements changes from time to time. The concerns of the chief executive of a development bank just coming into existence are different from those of the chief executive of a well-established institution. When a development bank is new, a manager is necessarily involved in everything, especially in a small institution in a very underdeveloped country. The principal concerns will necessarily be to find a core staff, to establish the operational disciplines that will govern the staff's work, and to start up operations.

Only when staff is found and trained, operational policies developed, and procedures and practices established and understood can the managers delegate jobs and concentrate their attention on what they consider their most important tasks. Some managers never reach this point: they may not be successful in attracting or developing a staff of the caliber that justifies delegating authority, or they are personally incapable of delegating certain tasks no matter how trivial, and remain so. Even in well-established companies, new managers' use of their time will change after they have been on the job for some time. Finally, circumstances will from time to time arise in the company or in the economy that will force managers to shift time and attention from some matters to others. In general, urgent matters, which must be decided quickly, will almost always have the first claim on their attention. But only at their risk, and their company's, can they for long neglect important subjects in order to deal with urgent ones.

Lines of Communication

The chief executives of development banks develop an effective private intelligence system outside their own institutions. No matter how good a staff's sources of information and analytical capacities, managers draw heavily on their personal contacts in order to keep their fingers on the pulse of the countries, to know what is
going on in the business communities and governments, and to maintain contacts with institutions that impinge directly or indirectly on the activity of the development banks. Indeed, chief executives often seem to rely more heavily on their private sources than on their staffs. This seems to be particularly true of information about people and enterprises; such knowledge, privately gathered, looms large in decisionmaking on investments, in promotion, and in keeping tabs on the portfolio. Perhaps this is because directly received intelligence is usually fresh, although it is likely also to be partial and raw, while intelligence coming from the staff is more likely to be old and predigested, bland rather than hot. The staff’s reports may have more influence on a manager’s view of the situation five to ten years hence, and therefore on his development of long-range strategies, than on his assessment of what will happen tomorrow or in the near future, which is crucial in dealing with current operations and problems. (Incidentally, playing tennis may be good for a manager’s health and hence good for his development bank, but playing golf and walking are more likely to be helpful in gathering current intelligence.)

Chief executives tend to hold their cards close to their chests. However much they may believe in open lines of communication with their staffs, they rarely tell all they know. They are likely to prefer to listen and to talk, perhaps because they do not have the time to read or write memos. They sometimes prefer to keep information to themselves and to keep their decisions just slightly mysterious—a device that keeps them at a certain distance from their staff. While such behavior may add to their mystique, it has a cost: unless there is a period of careful preparation, a development bank almost always undergoes a sort of trauma when there is a change of chief executive officer, since neither the institution nor the new manager fully inherits the knowledge of the old manager.

Chief executives spend a great deal of time with government agencies. The more important and complex the operations of a development bank, the greater the amount of time so spent. That so much effort is devoted to relations with government is not only at the managers’ initiative, the result of their wish to know what is going on and to clear their lines, also it is likely to be at the government’s initiative, the result of its wish to draw on the manager’s experience. Managers are likely to find themselves drawn into government or government-sponsored committees as well as consulted on specific issues bearing on government development policy.
Chief executives also develop an intelligence network inside their development banks. They need to know enough, but not too much, about the flow of operations, the condition of the portfolio, the financial situation of the bank, and the staff. There are many mechanisms whereby chief executives can keep in touch and ensure that problems will come to their attention. The method they choose will obviously reflect the size of their companies and the quality of their staffs, as well as their own style of management. For some kinds of issues and problems, especially those affecting staff, their informal contacts with staff are sometimes more valuable than formal reporting.

Finally, chief executives tend to be deeply committed to their jobs. It is not easy to get them far away from the development bank, that is, away from thinking and talking about it. In fact, sometimes they seem to be addicted to it.

Setting Bank Objectives

The activities of the chief executives of development banks reflect both day-to-day imperatives and their conceptions of their job. As noted earlier, their eyes seem primarily on the future rather than on the present. Indeed, the three I talked to did not fully report their activities related to current problems, and it was evident that they felt their jobs (like those of their counterparts I know) were not simply to assist their development banks in overcoming current problems but to guide them toward a useful and effective future. This was the unifying concept underlying and linking their references to keeping abreast of changing circumstances in the country, to maintaining a certain relation with other institutions whose activities impinge on theirs, and to looking for new ideas about what their companies should do in the future. This concept is central to the job of a chief executive. That is, the main task of chief executives is to establish the objectives of the banks they manage, to illuminate these objectives for those who play a part in achieving them, and to keep them under constant review and revision.

It may seem odd to comment on objectives since many people involved in the creation of a development bank or in its operation seem to believe they know precisely what they are doing and why (that is, they know what their objectives are). If the various operational or financial ratios they use to measure progress are satisfac-
they believe all is well and the institution can continue doing the same thing. This is not so, however. Some of the critical activities of a development bank—particularly those relating to innovation, technical assistance, and community education—are not amenable to statistical measurement. Moreover, times change, as do the operational objectives of a development bank or any other institution. Even an enterprise whose objective is explicitly and uniquely the maximization of return on capital must keep abreast of the market, technology, competitors, and government policy. It must plan changes today to meet conditions expected some years hence. Thus it may have to engage in what may in the short run appear to be profitless activity to ensure or establish profitable positions in the future. It may also have to change its product mix, abandoning some old products for new ones. The problems of adjustment are magnified for a development bank.

The illumination of objectives may seem simple. Presumably the sponsors of the company or the government had an objective clearly in mind when the bank was set up; in many cases, they or the first board of directors issued statements of policies that seemed to define the objectives of the bank. But in fact this is not often so. Rather, objectives laid out in charters and policy statements are often sufficiently vague to allow for widely differing interpretations. Charters and policy statements, which typically call for investments in "economically sound projects" or investments that will "promote economic development," are not themselves sufficient to suggest the operational guidelines a development bank needs, nor are they sufficiently precise to provide the criteria on which the management, the board of directors, the stockholders, the government, or the public can assess a development bank's performance. Some vagueness is desirable to permit flexibility in adapting to circumstances without excessive formality. There is, however, another reason for vagueness about objectives. The sponsors of a development bank often have only a hazy idea about the kind of institution they are creating; and that idea may constitute not a single notion but several notions, which are sometimes conflicting. Those notions may vary from reasonably well understood term-lending, whose failure or success may be measured by the returns on the shareholders' capital, at one extreme, to innovative investment promotion, which would call for quite a different type of institution; they may range from an instrument for financing the sponsors' own business ventures to an institution whose purpose is