

# DILEMMAS IN DEVELOPMENT BANKING

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## I. Introduction

Discussion of aid policy revolves around two central questions. The first is the proportion of their national income that the relatively wealthy nations should give to the Third World. The second is how this aid can be spent to the maximum benefit of those who receive it.

The first question is essentially a moral and political one, about the distribution of income between rich and poor. There have been efforts by bodies such as the Brandt Commission<sup>1</sup> to justify greater aid on economic grounds: as a means to an international reflation which will boost trade, output and employment throughout the world, and thus serve to enrich the donor nations as well as the recipients. Despite these efforts, the volume of aid remains determined and constrained by political factors. Appeals to enlightened self-interest have fallen on deaf ears when those appealed to were conservative governments, seeking ways to restrict public spending; because cutbacks in aid, whose recipients have no vote, provide a politically easy means of achieving this end. Thus, the first year of the Reagan administration in the United States saw the proportion of the U.S.A.'s Gross National Product devoted to aid cut back from 0.27% in 1980 to 0.20% in 1981<sup>2</sup>; while the first year of the Thatcher Government in Britain saw the net aid flow from Britain to the Third World cut from 0.52% of Gross National Product in 1979 to 0.35% in 1980, though it subsequently recovered to 0.44% in 1981<sup>3</sup>.

The second question, of how aid can be used most effectively, is largely an economic one. It gives rise to a range of issues: including to which sectors aid would be most productively directed; the conditions for successful project implementation in these sectors; and the efficiency of the donor institutions themselves.

It is on this final issue, of the efficiency of the financial intermediaries, that this paper will focus.

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\* The author thanks Stephen McCarthy, Alison Macdonald and Jean-Paul Seiller of the European Investment Bank for their comments on an earlier draft of this paper.

1 Brandt Commission, « North-South: A Programme for Survival », Report of the Independent Commission on International Development Issues, chaired by Willy Brandt. Pan Books, London, 1980.

2 OECD, « Development Co-operation », OECD Paris, 1982.

3 Overseas Development Administration (ODA) UK, « British Aid Statistics, 1977-1981 », HMSO, 1982.

## II. The Theory of Development Banking

The profitability of any bank or financial institution depends on three main factors:

1. *The quality of its portfolio.* In narrow financial terms, other things being equal, a bank will be more profitable the lower the proportion of its bad debts, and the greater the average return on its loan portfolio. A development bank, unlike a commercial bank, should also be interested in the economic effects of its portfolio: how many jobs are created per dollar lent; how much foreign exchange is generated or saved; and whether there are significant external benefits or costs in its lending operations.
2. *The efficiency of portfolio management.* A bank will be more profitable, the lower its administrative overheads as a proportion of its portfolio.
3. *The structure and cost of finance of the bank.* A bank will be more profitable, the lower the average cost of capital raised to finance its lending operations. For a commercial bank, which raises its funds on the market, the cost of capital depends on the financial soundness of the bank itself, which is related to the quality of its portfolio and the return it achieves on it. Thus the variables determining the profitability of a commercial bank are inter-related. For a development bank, the relationship is not necessarily so close. To the extent that a development bank obtains its funds from government grants and subventions, the cost and availability of those funds depends upon political decisions rather than market forces.

There is a critical difference between the objectives of a commercial bank and those of a development bank. In the case of a commercial bank, the key objective is to maximise profits. As the formal model contained in Appendix One to this paper demonstrates, this objective is achieved when the return it earns on the last dollar lent just offsets the costs it incurs on raising and lending that dollar. The objectives of a development bank, however, are not primarily financial. Although a development bank must seek to obtain a return on its funds sufficient to cover its costs, beyond this it should be more concerned with the economic benefits of its lending operations than with the profits they generate for the bank. In order to break even, a development bank need only obtain an *average* return on each dollar it lends sufficient to cover its average costs.

There are three major elements in the costs of a development bank's operations. The most important is generally the interest expense on the funds it raises for those operations. However, the control a bank can exercise over the interest expense is likely to

4 Baum, Warren C. « The World Bank Project Cycle », *Finance and Development*, December, 1978.

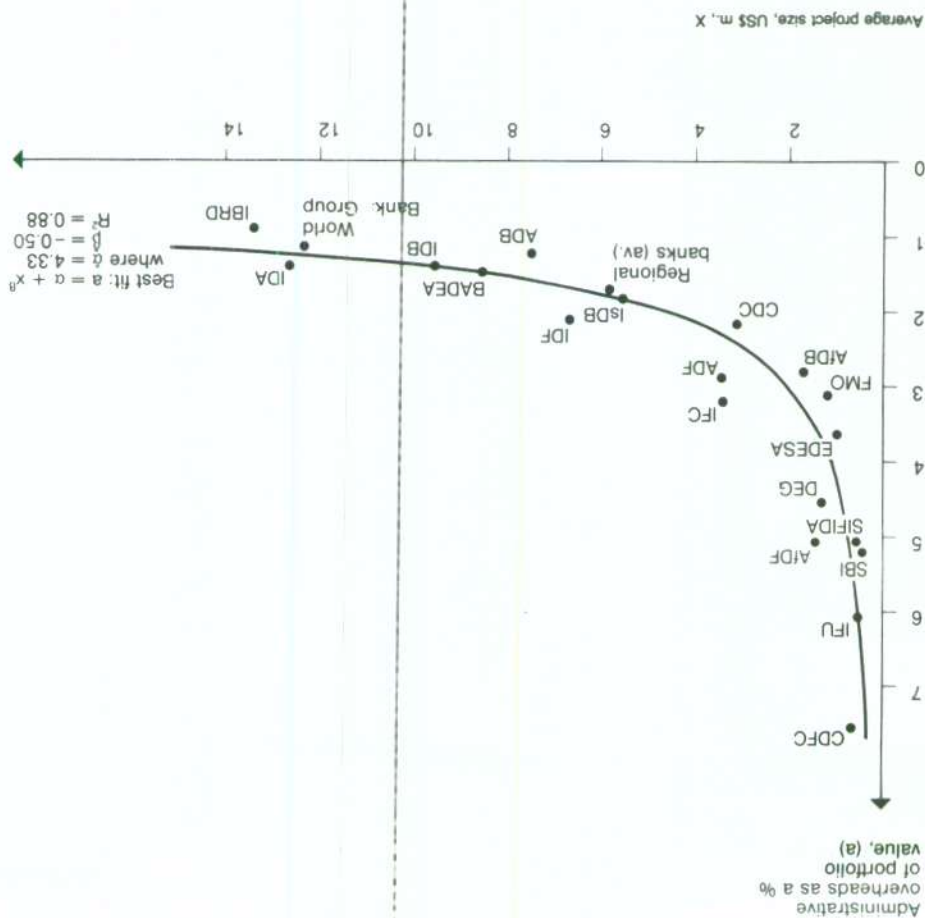
1. The initial identification of suitable projects.
2. Their preparation by the promoter.
3. Appraisal of the project by the bank.
4. Loan negotiations, leading to the signature of finance contracts by which the bank agrees to provide funds for the project on agreed terms and conditions.
5. Implementation and supervision of the project.
6. Evaluation of the completed project, to establish the extent to which it has achieved the targets set for it at appraisal stage.

The World Bank<sup>4</sup> distinguishes between six distinct phases of aid administration as follows:

### III. The Administrative Costs of a Development Bank

The level of administrative costs that a development bank has to carry. attractive interest rates. It is therefore important to analyse the factors which determine tight rein on its administrative costs if it is to be able to fund development projects at portfolio. At all but relatively high rates of default, a development bank must keep a costs: that is, the administrative costs entailed in building up and managing a loan However, once bad debts are under control, attention turns to the third element of reduce the annual probability of default to a low level, certainly less than 2%. to improve the appraisal and monitoring procedures of a development bank in order to by more than that percentage. The conclusion is that it is worth spending more on staff tage increase in the probability of default (or the amount of bad debts written off each year as a proportion of total portfolio value) will cause the required return to increase formal model of development banking in Appendix One shows that any given percentage increase in the cost of operations is the cost of bad debts written off. The second element in the cost of operations is the cost of bad debts written off. The be limited. The market rate of interest is determined by market forces, while the cost and availability of government funding are determined by political factors external to the bank.

Figure 1  
RELATIONSHIP BETWEEN PROPORTIONATE ADMINISTRATIVE OVERHEADS AND AVERAGE PROJECT SIZE FOR 19 DEVELOPMENT BANKS



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The full cycle lasts almost ten years on average. The World Bank calculates that about a quarter of staff time is absorbed in supervision and evaluation<sup>5</sup>, so the remaining three-quarters comprises the work undertaken on various stages of the appraisal and negotiation of a project.

Experience indicates that the bulk of the appraisal and negotiation costs of international development banks are fixed. No matter what the scale of a lending operation, certain costs cannot be avoided: notably, the considerable expense of an appraisal mission launched from Europe or North America to the southern hemisphere; the administrative costs involved in processing a loan internally within the bank; and the legal costs of drafting, negotiating and executing a finance contract.

With any operation where there are high fixed costs, one would expect that there are likely to be economies of scale: that is, the larger the scale of the operation, the lower its unit costs. In the case of a development bank, one would anticipate that the greater the average size of its lending operations, the lower its administrative costs as a proportion of its total loan portfolio.

This hypothesis was tested against data obtained from the annual accounts of nineteen international development banks, comprising the three institutions of the World Bank group; five members of the Interact Group of European parastatal development banks; three regional development banks and their three soft fund affiliates; two Arabic development banks; and three private sector development banks based in Europe. A Tableau of key statistics and notes on the methodology and sources used, is annexed as Appendix Two of this paper.

Table One shows the relationship between the proportionate administrative overheads and average size of the lending operations of the nineteen institutions. The strength of the relationship may be better appreciated in graphical form. What the Table 1 and the Figure 1 show is that there is an inverse power relationship between the average size of loans made by development banks and their proportionate administrative overheads, of the form

$$a = \alpha + X^{\beta}$$

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5 Weiner, Mervyn C., « Evaluating the Bank's Development Projects », *Finance and Development*, 1981.



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where

$a$  = administrative overheads as a proportion of portfolio value

$X$  = average size of lending operation, US\$ million (=  $Q/N$ , where  $Q$  is total portfolio value, and  $N$  is the number of lending operations which comprise the portfolio).

Empirically, for the sample of nineteen international development banks during 1981 and 1982, the parameters were estimated as follows:

$\hat{\alpha} = 4.33$  (estimated intercept parameter)

$\beta = -0.5$  (estimated slope parameter)

$R^2 = 0.88$

What this relationship implies is that, for the period 1981/82, substantial economies were reaped by development banks as they increased their lending operations up to about US\$ 5m, but thereafter there was more limited scope for further economies by spreading administrative overheads over a larger loan size.

The implication would seem to be that, in order to keep the cost of lending as low as possible, development banks should lend a minimum of US\$ 4-5 million in any single operation.

However, there is a conflict here with the objective of a development bank to maximise the economic benefits derived from the investment of its funds. Project lending in large amounts is suitable only for large, discrete investments. It is not suitable for small rural development schemes, which often have greater economic and social benefits. McCarthy<sup>6</sup> has summed up the dilemma perfectly:

« Because the rural areas are vast and the poor numerous, only a large number of inevitably small projects can reach these groups effectively. The typical donor appraisal procedure, however, requires in advance the details of each project, its location, its estimated cost, and where the materials will be procured. Such information cannot be centrally assembled for, say, several hundred clinics in a health programme; indeed, the details are bound to change as the programme proceeds. It is not surprising if an urban hospital gets built instead ».

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6 McCarthy Stephen, « The Administration of Capital Aid », *Development Dialogue*, 1978, 1.

Table 1

RELATIONSHIP BETWEEN PROPORTIONATE ADMINISTRATIVE OVERHEADS AND PROJECT SIZE FOR 19 DEVELOPMENT BANKS, 1981/82

(Notes on sources are annexed as an appendix)

institution	Value of loan & equity portfolio US\$ m	Number of projects in portfolio	Administrative expenditure US\$ m	Average project size US\$ m	Admin. expenditure as a % of portfolio value
<i>Interact Group</i>					
Commonwealth Development Corporation, UK (CDC)	700.2	222	15.2	3.15	2.17
Deutsche Finanzierungsgesellschaft für Beteiligungen in Entwicklungsländern, FRG (DEG)	275.8	201	12.4	1.37	4.50
Netherlands Development Finance Company, Netherlands, (FMO)	84.1	70	2.6	1.20	3.09
Industrialisation Fund for Developing Countries, Denmark, (IFU)	33.1	62	2.0	0.53	6.04
Société Belge d'Investissement International, Belgium, (SBI)	19.4	52	1.0	0.37	5.31
<i>World Bank Group</i>					
International Bank for Reconstruction and Development (IBRD)	29,167.5	2,165	290.1	13.47	0.99
International Development Association (IDA)	14,876.6	1,176	193.4	12.65	1.30
International Finance Corporation (IFC)	1,176.2	333	39.3	3.53	3.34
	45,220.3	3,674	522.8	12.31	1.16
<i>Regional Development Banks</i>					
African Development Bank (AfDB)	556.2	300	15.5	1.85	2.79
African Development Fund (AfDF)	326.3	214	16.4	1.52	5.03
Asian Development Bank (ADB)	2,332.3	317	27.9	7.36	1.20
Asian Development Fund (ADF)	872.2	246	25.1	3.55	2.88
Inter-American Development Bank (IDB)	3,956.7	413	52.3	9.58	1.32
Inter-American Development Fund (IDF)	3,638.8	578	75.2	6.30	2.07
	11,682.5	2,068	212.4	5.65	1.82
<i>Private Development Banks</i>					
Commonwealth Development Finance Company Ltd, UK, (CDFC)	32.5	42	2.4	0.77	7.50
Economic Development for Equatorial and Southern Africa (EDESA)	30.4	31	1.1	0.98	3.62
Société Internationale Financière pour les Investissements et le Développement en Afrique (SIFIDA)	25.6	53	1.3	0.48	5.20

Institution	Value of loan & equity portfolio US\$ m	Number of projects in portfolio	Administrative expenditure US\$ m	Average project size US\$ m	Admin. expenditure as a % of portfolio value
<i>Arabic Development Banks</i>					
Arabic Bank for Economic Development in Africa (BADEA)	412.8	48	5.9	8.60	1.44
Islamic Development Bank (Is. DB)	516.9	95	9.7	5.44	1.88

Rates of exchange used to convert into US\$:

US\$ 1 = £ 0.52 (UK); US\$ 1 = 2.24 DM (West Germany); US\$ 1 = 2.47 D Fl (Netherlands); US\$ 1 = 7.33 DK (Denmark); US\$ 1 = 38.18 BF (Belgium); US\$ 1 = 0.86 UA (Africa); US\$ 1 = 0.78 ID (Islamic Development Bank).

Research undertaken by McCarthy<sup>7</sup> of the economic effects of the lending undertaken by the European Investment Bank (E.I.B.) under the First Lomé Convention indicated that smaller lending operations had in aggregate greater economic benefits than larger ones. The European Investment Bank undertook two broad types of lending operations: direct loans to projects in the industrial, mining and tourism sectors; and global loans to national development banks, which then used the funds to make allocations to small- and medium-scale projects in the sectors in which the Bank was authorised to operate. McCarthy analysed a sample of 42 direct loans made by the Bank under Lomé I, and 55 allocations from global loans to eight national development finance corporations. The key findings were as follows:

- i) The mean project size of direct EIB operations (at 69 m. Ecus, or approximately US\$ 57 m.) was twenty times that of indirect operations through national development finance corporations (at 3 m. Ecus, or approximately US\$ 2.5 m.).
- ii) The mean Economic Rate of Return (ERR) estimated at the time of appraisal of indirect operations was 20% compared with a mean ERR for direct operations of 14%.
- iii) The mean capital cost per job in indirect operations was 29,000 Ecus, compared with 36,000 Ecus per job in direct operations.

7 McCarthy Stephen, « The Economic Impact of EIB operations under Lomé I », internal memorandum of the European Investment Bank, April, 1980.



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So on any generally accepted criteria: whether it be capital cost per job, the financial rate of return, or the economic rate of return: allocations to medium-scale projects out of global loans had greater development value than large direct project loans. But they were also more costly for the Bank to administer; and in addition the national development banks which managed the global loans had to charge a margin on the interest rate to cover their own costs of appraisal and administration. Thus, the required return was greater on the smaller operations which were, on average, of greater economic benefit.

This demonstrates the potential conflict between the role of a development bank as an agency for Third World development, and the need to keep down its administrative costs and hence the interest cost of development finance.

However, there are certain reforms in development banking procedures which could ease this conflict.

#### IV. The Reform of Development Banking Procedures

Traditionally, lending operations by development banks have taken form of project loans: that is, loans to specific, identified, large projects, such as hydropower schemes, factories, hospitals, mines, and hotels. The reason for the predominance of this form of lending is that it enables the donor to maintain tight control over the uses to which his funds are put. A large project can be appraised, the cost estimates checked independently by technical staff, disbursements made against bills and invoices, and the transformation of finance capital into fixed assets monitored by staff on the ground. By these means, the development bank can be fairly sure that its funds are not being siphoned off for non-authorised purposes.

The problem with project lending is that it biases the flow of investment funds into large, mainly urban and public sector projects, and against small rural enterprise and social development schemes.

While the weaknesses inherent in project lending have increasingly been recognized<sup>8</sup>, methods of overcoming them are still in an embryonic stage. The key elements of a solution are threefold:

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<sup>8</sup> McCarthy Stephen, « The Administration of Capital Aid », op. cit. and OECD, *Compendium of Aid Procedures*, Paris, 1982.

1. There should be a move away from exclusive dependence on project lending, towards *programme lending*. Under programme lending, a single loans of US\$ 5 million upwards could be agreed without defining precisely in advance the uses to which it would be applied. Whereas project lending is generally restricted to large investments in fixed assets, programme loans could be applied more flexibly for all forms of capital expenditure, including expenditure on working capital, the replacement and rehabilitation of existing capacity, and small expansions and development schemes. In certain cases a programme loan might even cover maintenance costs and other current items. The borrower would normally be a self-accounting entity, such as a private company or public authority, capable of planning and recording an investment programme comprised of a series of relatively small operations. For example, a Water Authority could obtain a programme loan for a series of water production, transmission, and distribution schemes, which individually would be too small to justify the expense and complexity of a project loan, but together would entail the disbursement of several million dollars over a three-to five-year period.
2. In order that the administrative costs of financing small investments be kept to a minimum, *simplified, standard presentation and appraisal formats* should be introduced and agreed among donor institutions. The Interact Group has already made some progress towards agreeing a standard presentation format for its members, which sets out the expected benefits and costs of a project. The advantage is that an investment proposal can be presented to a number of potential funding agencies using the same information, rather than having to be extensively reworked each time. This would permit the saving of scarce administrative expertise and time. However, for large projects costing in excess of US\$ 5 million, the traditional detailed project appraisal procedures would be retained.
3. Finally, development banks should give greater attention to *monitoring ongoing programmes*, and to *institution-building* in its broadest sense. Closer monitoring is a natural concomitant of less detailed initial appraisal, to ensure that development bank funds are effectively used. Some development banks, such as the Commonwealth Development Corporation of Britain and the Caisse Centrale de Coopération Economique of France, already have local representatives in the countries where they lend. The local representatives both monitor ongoing investments (for example, by sitting on the Board of Directors of the borrowing institution), and actively assist on the identification and preparation of new investments. The representative system could be extended to other development banks; or alternatively, to keep

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down administrative costs, the same representative could act as agent for a group of development banks, such as the Interact Group.

In the longer term, the need for close monitoring can be reduced by building up the borrowing institutions. Institution-building involves not only the provision of technical assistance to establish a sound organisational structure, but more importantly the training of local staff to operate this structure without outside help.

## V. Summary and Conclusions

1. The primary function of a development bank is to invest its funds in economically sound development at as low a rate of interest as possible. This requires that it keeps its administrative overheads to the minimum level consistent with thorough appraisal and monitoring of its lending operations.

2. The single most important influence on a development bank's administrative costs as a proportion of its total portfolio is the average size of the lending operation it undertakes. The larger the average size of a development bank's operations, the smaller its proportionate administrative overheads. Furthermore, the relationship is a power relationship of the form,

$$a = \alpha + X^{\beta}$$

where

$a$  = administrative overheads as a proportion of portfolio value

$X$  = average size of lending operation, US\$ million

and, for a sample of nineteen international development banks in 1981/82,

$$\hat{\alpha} = 4.33$$

$$\hat{\beta} = -0.50$$

$$R^2 = 0.88.$$

3. The significance of the power relationship is that it implies a critical minimum economic size of lending operation, which was around US\$ 4-5 million in 1981/82. As the size of the lending operation fell below this level, the proportionate costs of administration rose steeply; and this in turn implied a sharp increase in the interest-rate charged on the borrower.

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4. However, experience such as that of the European Investment Bank under the first Lomé Convention suggests that smaller operations, though more costly to administer, often have greater economic benefits relative to their initial capital costs than large operations. Yet the fact that large project loans are suitable only for particular types of investment such as discrete, lumpy infrastructural or industrial schemes, tends to distort the flow of investment funds and hence the pattern of development in the borrowing countries.

5. In order to resolve this dilemma, the methods of lending should themselves be changed. There should be a shift from exclusive dependence on project loans, towards programme loans made to self-accounting entities which could use then the funds to invest in a number of small sub-operations. The appraisal procedures for such sub-operations should be as simple as possible, and standardised between different development banks. Complementary with this, greater attention should be given to the monitoring of ongoing operations. Finally, development bank should actively assist in building up borrowing institutions, in order to enable them to administer and utilise programme loans without close external involvement.

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## Appendix One

### A Formal Model of Development Banking

Any financial institution must make a return on its loans and equity investments at least equal to the costs it incurs to finance them. If it fails to do so, it will start making losses, and eventually, when its reserves are exhausted, go out of operation. Formally, it must be the case that,

$$(1 - p)(1 + r) \geq 1 + i + a \quad (1)$$

where

$p$  = annual probability of default, or bad debts written off as a proportion of the total loan portfolio;

$r$  = expected return on the portfolio (the weighted average rate of interest on loans, and return on equity investments);

$i$  = average cost of capital raised to finance the portfolio;

$a$  = annual administrative costs as a percentage of the total portfolio.

The left-hand side of the equation expresses the return per monetary unit (say dollar) of a bank's portfolio; the right-hand side expresses the cost of each dollar raised to finance the portfolio. It states in formal terms that a bank must make a return on each dollar it lends or invests which is at least equal to the costs it has to bear per dollar.

There is a critical difference in the objectives of a commercial bank and a development bank. For a commercial bank, the key objective is to maximise profits. Let  $m$  = margin per dollar lent or invested by the bank; then

$$m = [(1 - p)(1 + r)] - (1 + i + a) \quad \text{from (1)}$$

or, multiplying out,

$$m = r - i - a - p - pr \quad (2)$$

Let  $Q$  = total value of the loan and equity portfolio in dollars, and  $TP$  = total profits earned on that portfolio, then

$$TP = mQ, \text{ or, from (2),}$$

$$TP = rQ - iQ - aQ - pQ - prQ \quad (3)$$

and total profits are maximised when  $\delta TP / \delta Q = 0$ , i.e. when

$$r = i + a + p + pr \quad (4)$$


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— the profitability of a bank is maximised when the return it earns on the last dollar lent ( $r$ ) just offsets the costs it incurs on raising and lending that dollar ( $i + a + p + pr$ ).

The objective of a development bank is not profit-maximisation, but rather the channelling of funds into economically beneficial projects at the lowest rate of interest consistent with breaking even. Thus, for a development bank, equation (1) becomes an equality:

$$1 - p + r - pr = 1 + i + a \quad (5)$$

Subtracting 1 and adding  $p$  to each side:

$$r - pr = i + a + p$$

or

$$(1 - p)r = i + a + p \quad (6)$$

Dividing through by  $(1 - p)$  gives:

$$r = \frac{i + a + p}{(1 - p)} \quad (7)$$

which defines the average return on its portfolio that a development bank must earn if it is to cover its costs.

A few interesting conclusions may be drawn from this equation. The first priority of a development bank is to keep  $p$ , the annual probability of default, under tight control. This is because any given percentage increase in the probability of default will cause the required return,  $r$ , to increase by more than that percentage, since from equation (7) an increase in the probability of default not only increases the numerator, but simultaneously reduces the denominator, of the required  $r$ .

However, once bad debts are under control, attention shifts to  $a$ , the proportionate administrative overheads incurred by a development bank. Rearranging (7) to derive  $p$ ,

$$p = \frac{r - i}{(1 + r)} - \frac{a}{(1 + r)} \quad (8)$$

Differentiating  $p$  with respect to  $a$  gives,

$$\frac{\delta p}{\delta a} = - \frac{1}{(1 + r)} \quad (9)$$


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which defines the extent to which the probability of default has to be reduced for any increase in proportionate administrative costs to be justified, given  $r$  and  $i$ . This equation indicates that the average cost of funds,  $i$ , is irrelevant in determining the extent to which bad debts have to be reduced. The sole determinant is the required return on the portfolio,  $r$ . The lower the required return, the greater the reduction in bad debts needs to be for any increase in administrative costs to be justified.

Administrative costs comprise three elements: the costs involved in raising and managing the finance required for the portfolio; the costs of appraising new loan operations; and the costs of monitoring existing loan operations. Formally,

$$AC_t = F_t + b(Q_t) + c(n_t) + g(N_t) \quad (10)$$

where

$AC_t$  = total administrative costs during time period  $t$ ;

$F_t$  = the fixed costs of development bank administration, independent of the value or number of loan operations;

$Q_t$  = total value of the loan portfolio during time  $t$ ;

$n_t$  = number of new loan operations signed during period  $t$ ;

$N_t$  = total number of loan operations effective during period  $t$ ;

and  $b' > 0$ ,  $c' > 0$ ,  $g' > 0$  (i.e.  $\delta AC/\delta Q > 0$ ,  $\delta AC/\delta n > 0$ , and  $\delta AC/\delta N > 0$ : administrative costs vary directly with all three independent variables).

The equation may be simplified, if one assumes that in general  $n_t$ , the number of new loans signed during the year, is related to  $N_t$ , the total number of loans in a development bank's portfolio at the beginning of the year. If the relationship is stable, then (10) becomes

$$AC_t = F_t + k(N_t) + g(Q_t) \quad (11)$$

where  $k$  is some (as yet undefined) function, and  $k' > 0$ . Dividing through by  $Q$ ,

$$\frac{AC}{Q} = \frac{F}{Q} + k \left[ \frac{N}{Q} \right] + g \quad (12)$$

or, letting  $AC/Q = a$ , proportionate administrative overheads,

$[F/Q] + g = \alpha$ , a fixed parameter, and

$Q/N = X$ , the average size of the lending operation in the portfolio,

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then equation (12) may be rewritten,

$$a = \alpha + k \left[ \frac{1}{X} \right] \quad (13)$$

if  $k$  is a power function, this becomes

$$a = \alpha + \frac{1^k}{X} \quad (14)$$

or, by simple inversion, and letting  $\beta = -k$ ,

$$a = \alpha + X^\beta \quad (15)$$

-which is the relationship tested in the paper.

#### Notes on methodology

1. Net assets are defined as total Balance Sheet assets, net of the undisbursed balances of effective loans (which some Development Banks, such as the Asian Development Bank, include as both an asset and a liability).
  2. Gross revenue is revenue from the relevant institution's investment portfolio in development projects.
  3. The investment portfolio includes loans and equity investments held in the countries in which the bank operates. It specifically *excludes* investments held or deposit in commercial banks, and in bonds and government stock.
  4. A « project » is defined as any financing operation covered by a single Finance Contract or Loan Agreement. It may therefore cover a Global Loan or a Programme Loan to a number of smaller sub-projects.
  5. Operating surplus = surplus after interest payments, but before provisions or taxation.
  6. The interest expense includes expenses incurred in making bond issues, and other financial expenses.
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## Appendix 2

	(1) Net Balance Sheet Assets	(2) Value of loan & equity portfolio	(3) Number of projects in portfolio	(4) Equity base	(5) Debt	(6) Goods revenue derived from portfolio
<i>I. The INTERACT Group of parastatal development institutions</i>						
1. CDC, UK (fm, y/e 31.12.81)	377.4	364.1	222	48.9	313.6	415
2. SBI, Belgium (mBf, y/e 30.9.82)	1,060.1	742.0	52	825.6	226.6	51.6
3. IFU, Denmark (mDK, y/e 31.12.81)	672.8	242.8	62	629.9	—	17.6
4. DEG, West Germany (mDM, y/ 31.12.81)	1,358.9	617.8	201	1,150.0	6.3	37.5
5. FMO, Netherlands (mDfl, y/e 31.12.82)	235.5	207.7 (inc trust funds)	70	112.8 (inc. trust funds)	118.2	8.05 (ex. interest subsidies)
<i>II. The World Bank Group, y/e 30.6.82 (US\$ m)</i>						
1. IBRD	44,834.2	29,167.5	2,165	7,826.5	31,760.9	2,391.6
2. IDA	25,381.4	14,876.6	1,176	25,246.6	—	128.2
3. IFC	1,233.4	1,176.2	333	678.1	530.8	122.7
Sub total:	71,449.0	45,220.3	3,674	33,751.2	32,291.7	2,642.5
<i>III. Regional Development Banks</i>						
1. African Development Bank (mUA, y/e 31.12.81)	989.5	478.3	300	456.5	322.2	36.1
2. African Development Fund (mUA, y/e 31.12.81)	1,243.3	280.6	214	1,228.7	—	1.8
3. Asian Development Bank (mUS\$, y/e 31.12.81)	4,682.4	2,332.3	317 *	2,301.4	2,265.2	191.0
4. Asian Development Fund (mUS\$, y/e 31.12.81)	3,253.0	872.2	246 *	3,247.5	—	11.3
5. Inter-American Dev Bank (mUS\$, y/e 31.12.81)	4,473.5	3,037.4	413 *	2,339.8	2,042.7	249.8
6. IDB inter-regional capital (mUS\$, y/e 31.12.81)	2,085.5	919.3		600.5	1,424.4	81.2
7. IDB special funds (mUS\$, y/e 31.12.81)	8,182.0	3,638.8	578 *	8,171.8	—	93.2
Sub-total US\$m: (at US\$ 1 = 0.86 U.A.)	25,272.7	11,682.4	2,068	18,620.5	6,107.0	670.6
<i>IV. Private Sector Institutions</i>						
1. CDFC, UK (£m, y/e 31.3.82)	23.86	16.92	42	4.30	19.51	2.73
2. EDESA, Luxembourg (UK\$m, y/e 31.12.82)	38.0	30.36	31	18.15	15.23	4.28
3. SIFIDA, France (US\$m, y/e 31.12.81)	33.12	25.56	53	20.64	11.68	4.08
<i>V. Arabic Development Banks</i>						
1. BADEA, Sudan (US\$m, y/e 31.12.81)	951.5	412.8	48	951.5	—	85.8 (1)
2. Islamic Development Bank Saudi Arabia (IDm, y/e 8.11.80)	973.2	403.2	95	973.2	—	5.03

	(7) Administrative Expenditure	(8) Interest expense	(9) Operating surplus (deficit)	(10) Bad debt provisions for the year	(11) Disbursements in loans & equity invest- ments during year
<i>I. The INTERACT Group of parastatal development institutions</i>					
1. CDC, UK (£m, y/e 31.12.81)	7.9	14.7	19.5	2.8	72.8
2. SBI, Belgium (mBf, y/e 30.9.82)	39.3	0.2	26.5	13.1	209
3. IFU, Denmark (mDK, y/e 31.12.81)	14.7	—	67.8	25.2	34.7
4. DEG, West Germany (mDM, y/e 31.12.81)	27.7	0.3	21.1	30.6	174.1
5. FMD, Netherlands (mDfl, y/e 31.12.82)	6.37	9.9	( 7.4)	0.31	144.0
<i>II. The World Bank Group, y/e 30.6.82 (US\$ m)</i>					
1. IBRD	290.1	2,461.9	597.7		6,373.8
2. IDA	193.4	—	( 82.2)		2,564.3 (2)
3. IFC	39.3	43.3	44.0	22.4	245.9
Sub total:	522.8	2,505.2	559.5	22.4	9,184.0
<i>III. Regional Development Bank</i>					
1. African Development Bank (mUA, y/e 31.12.81)	13.3	37.0	6.2	—	88.7
2. African Development Fund (mUA, y/e 31.12.81)	14.1	—	35.7	—	86.5
3. Asian Development Bank (mUS\$, y/e 31.12.81)	27.9	157.7	161.0	—	518.0
4. Asian Development Fund (mUS\$, y/e 31.12.81)	25.1	—	25.9	—	149.2
5. Inter-American Dev Bank (mUS\$, y/e 31.12.81)	33.5	160.0	185.9	—	411.1
6. IDB inter-regional capital (mUS\$, y/e 31.12.81)	18.8	84.6	53.0	—	433.7
7. IDB special funds (mUS\$, y/e 31.12.81)	75.2	—	50.9	—	556.1
Sub-total US\$m: (at US\$ 1 = 0.86 U.A.)	212.4	445.3	525.4	—	2,271.8
<i>IV. Private Sector Institutions</i>					
1. CDFC, UK (£m, y/e 31.3.82)	1.27	1.58	1.67	0.27	3.42
2. EDESA, Luxembourg (UK\$m, y/e 31.12.82)	1.10	2.12	0.95	0.40	N/A
3. SIFIDA, France (US\$m, y/e 31.12.81)	1.33	1.59	1.19	0.51	3.96
<i>V. Arabic Development Banks</i>					
1. BADEA, Sudan (US\$m, y/e 31.12.81)	5.93	—	79.9	—	76.0 (2)
2. Islamic Development Bank Saudi Arabia (IDm, y/e 8.11.80)	7.56	—	—	—	146.6
* cumulative number, 1967-81.					
(1) Includes revenue derived from short-term investments					
(2) Approvals.					



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#### Notes on sources

The financial data is drawn from the Annual Report and Accounts of the relevant agencies, as follows:

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## LES DILEMMES QUI SE POSENT DANS LES OPÉRATIONS BANCAIRES DE DÉVELOPPEMENT

### RESUME

*Le principal dilemme auquel les banques de développement sont confrontées est la nécessité d'associer des coûts administratifs bas avec l'octroi des prêts représentant une contribution utile aux pays en voie de développement. Une banque de développement doit être efficace, ce qui implique qu'elle maintienne ses taux d'intérêt à un niveau aussi bas que possible et ceci en même temps qu'elle exerce un contrôle rigoureux en ce qui concerne ses coûts administratifs. Cependant une forte proportion*

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*des coûts d'évaluation et d'administration d'un prêt sont fixes, indépendamment de sa valeur réelle. Par conséquent, une banque de développement a la possibilité de faire des économies considérables grâce à des coûts dégressifs. Une étude portant sur 19 institutions financières internationales de développement met en lumière la conclusion importante qu'il y a une relation inverse entre la valeur moyenne de prêts accordés par des banques de développement et leur frais généraux administratifs proportionnels. Il en ressort qu'il existe un critère économique minimal pour des opérations de prêts (celui-ci est estimé à 4-5 m. US\$ pour le panel de 19 banques de développement analysées).*

*Il se pose un problème du fait que des prêts accordés correspondants à des projets d'une telle valeur économique minimale conviennent seulement à des opérations d'envergure et ponctuelles comme par exemple des centrales hydroélectriques, des usines, des hôpitaux et des mines. Il se peut que le flux de l'aide financière au développement soit détourné des projets de moindre importance qui ont globalement une valeur aussi grande, sinon plus, que les grands projets.*

*L'article examine également des techniques de prêts qui pourraient éviter cette contradiction. La conclusion en est qu'il devrait y avoir un changement dans la procédure d'octroi, vers des prêts accordés pour les programmes non définis à l'avance, plutôt que vers les projets strictement déterminés. L'accent serait alors mis sur le développement des institutions auxquelles de tels prêts liés à un programme seraient accordés, pour que celles-ci puissent effectivement les utiliser pour la réalisation d'une série de petites opérations, au fur et à mesure de leurs besoins.*