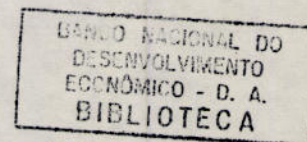


BNDE/MIT JOINT DEVELOPMENT BANK TRAINING
AND RESEARCH PROJECT



JOINT MIT/BNDE PROJECT: AN OVERVIEW

by George Hambrecht

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GRUPO DE TRABALHO MISTO

BANCO NACIONAL DE DESENVOLVIMENTO ECONÔMICO
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

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The Grupo de Trabalho Misto is the working entity carrying on the goals of the BNDE/MIT Joint Development Bank Training and Research Project. The Project was created in 1967 with the support of a Ford Foundation grant. It is providing training, technical assistance, and action research designed to increase the capability of development finance institutions serving as BNDE financial agents in Brazil. The members of the Grupo de Trabalho Misto are:

Banco Nacional do Desenvolvimento Econômico

Dr. Hélio Schlittler Silva, BNDE Director and Co-ordinator
Dr. Roberto Félix de Oliveira
Dr. João Lourenço Corrêa do Lago Filho
Dr. Tarcísio B. Arantes
Dr. Juvenal Osório Gomes
Dr. Luiz Carlos Borges Fortes

Massachusetts Institute of Technology

Professor J. D. Nyhart, Co-ordinator and Chief Investigator
Professor George F. Farris
Professor Thomas Hill
Professor John F. Rockart
Dr. Heinz E. F. Luzny, Senior Representative, Resident in Brazil
Dr. D. Anthony Butterfield, Senior Representative, Resident in Brazil

PROJECT HISTORY: SIGNIFICANT DATES

- November, 1965 - Initial contact between Professor Nyhart and Ford Foundation, Brazil.
- January, 1966 - Nyhart fact-finding and feasibility study trip to Brazil.
- March, 1966 - MIT conclusions on project-feasibility sent to BNDE for consideration.
- January, 1967 - Goals agreed upon - Collaboration and interaction between MIT and BNDE begins. Trip to Brazil.
- February, 1967 - Official beginning of project.
- April, 1967 - Grupo de Trabalho Misto Created
- July, August, 1967 - Field visits to state and regional banks by MIT personnel.
- September, 1967- Dr. Luzny begins work on the project in Brazil
- January, 1968 - Professor Nyhart and Professor Farris visit Brazil with results of MIT research.
- January.,Febr. 1968 - CAPIDE, the first basic training course, given
- Mr.-Apr.,1968 - Work on conception of SIPEME begun
- July, 1968 - Dr. Butterfield begins work in Brazil. MIT working force in Brazil is complete.
- Jan., 1969 - BNDE-MIT-Ford Foundation retreat at Petrópolis to define plans for second phase of project.
- February, 1969 - Survey feedback program on organizational development begins. Original grant expires.
- Mar.-May, 1969 - CAPIDE, the second basic training course, given.
- October, 1969 - Grant renewed for 18 months retroactive to February, 1969

INTRODUCTION

On February 3, 1967 the Banco Nacional do Desenvolvimento Econômico (BNDE) and the Sloan School of the Massachusetts Institute of Technology (MIT) officially embarked upon a comprehensive program of development bank training and research. This program was conceived with the hope that it would contribute significantly to Brazil's economic growth and was given financial support by the Ford Foundation. This contribution was envisaged as being particularly extensive since it could produce discernible benefits at two distinct, but interacting, levels of the economic system. On the one hand, the ability of the nation's public development finance institutions to use the available development credit facilities and to develop new methods of coping with the inadequacies of the present system would be improved. On the other hand, bankers and borrowers would be introduced to the fundamental concepts and skills of management as well as directed and assisted in their practical application.

The basic rationale behind this project is that both the institutions which allocate and disburse financial resources and the entrepreneurs who receive them are vitally important components of economic growth. Development finance institutions are among the primary allocators of capital. Moreover, because they work directly with entrepreneurs and managers in private industry, they can perform a significant educational function. The concern for the capability of institutional and human resources falls within the area of the management of development rather than the economics of development. This concern is embraced in the joint BNDE/MIT effort. The acquisition, use, and dissemination of such skills and concepts by the men who manage and staff the regional and state

banks throughout the country will increase the overall human and institutional capability in ways and places not reached by the traditional educational programs.

GOALS

At the confluence of two rivers there is an intermingling and combining of the two separate flows into one. Consider the goals, objectives, and interests, of MIT and BNDE as being two distinct flows and the joint project as the confluence. Since MIT and BNDE differ significantly in their cultural, geographical, and institutional perspective, it is realistic to assume that at the outset each institution could not be completely responsive to the goals of the other and would attempt to pursue a course of action in line with their own perspective. The Grupo de Trabalho Misto (GTM) was formed to minimize and alleviate the effects of these differences.

GTM is the working entity of the joint project and is comprised of the senior Brazilian and North American personnel. The participating members from BNDE have been: Dr. Hélio Schlittler Silva, BNDE Director and project coordinator; Dr. Roberto Félix de Oliveira; Dr. Ezio Távora dos Santos; Dr. João Lourenço Corrêa do Lago Filho; Dr. Waldomiro Rocha; Dr. Tarcísio B. Arantes; Dr. Juvenal Osório Gomes; and Luiz Carlos Borges Fortes. The participating members from MIT are: Professor J. D. Nyhart, project coordinator and chief investigator; Professor George F. Farris; Professor Thomas Hill; Professor John F. Rockart; Dr. Heinz E. F. Luzny; and Dr. D. Anthony Butterfield. Drs. Luzny and Butterfield are the MIT representatives in Brazil and work directly with BNDE through the mechanism of GTM.

The initial disparity between the goals and interests of MIT and BNDE can be attributed to the former's interest in research and the latter's interest in implementation. The project was conceived as an engine for transferring technical assistance from MIT to BNDE. The goals of the project as determined by GTM were not altered but re-defined in light of what MIT and BNDE thought feasible and operational in terms of the project's resources and time horizon. As a result, MIT's efforts were shifted away from pure research and emphasis was placed upon implementation. In like manner the concept of building an integrated national development banking system gave way to the operational goal of facilitating its development through training courses and SIPEME (Sistema de Informações para Pequena e Média Empresa)¹.

The final delineation of the goals of the joint project falls into four specific, but interrelated, categories: (1) A viable information and control system that will operate on and through three levels - BNDE, state or regional banks, and borrowers. (2) An organization, information, and decision development program that is designed to improve the interpersonal and intraorganizational relationships that are complementary to the information and control system. (3) The development and enlightenment of a cadre of people in BNDE and the state and regional banks who possess the capability and capacities of a coordinator. Minimally, this goal implies that these people will perform effectively in their immediate appraiser/control roles. Optimally, it enables these people to pursue a career in the field of development finance because they have been trained to do so. (4) The establishment of a national system of public development finance institutions that incorporates the benefits to be derived from the preceding goals.

The means of attaining these broadly-defined goals are called program components. In reality, these components indicate areas of concentration and are so used in the allocation of financial resources. The five components are: (1) Building the National system; (2) Training personnel in the system: courses and materials; (3) Creating information and control system to service the system's members and clients; (4) Instituting organizational development within the banks; (5) Analyzing the process by which the national system has been built and the role technical assistance plays in the project's successful completion.

ACTIVITIES

The first project year, February, 1967 to February, 1968, concentrated upon planning the paths to be followed by GTM, redefinition of the project goals in terms of operational objectives and implementation, and investigation of and research into the status of the existing system and its institutions. For all intents and purposes, this effort began in earnest with the creation of GTM in April. During the month of May Professors Nyhart and Farris visited Brazil and laid the groundwork for a planned summer visit by a large MIT contingent comprising three professors and four research assistants.

(1) SIPEME is an integrated control system for the administration of FIPEME (Fundo de Investimento para Pequena e Média Empresa).

Throughout July and August these men made extended field trips of a week or more to four state banks. They examined the organizational and control practices used and tried to determine the efficiency and effectiveness with which the banks functioned. The four banks were selected as being representative of the different types of agents included in the national network. Besides observations made by the investigators that were the product of their experience in a particular discipline, a detailed questionnaire was administered to the management and technical staff of these institutions in the hope that the underlying attitudes and opinions of the development banker with regard to his work and his institution might provide additional insights into the problem areas of development finance institutions in Brazil. In September Dr. Heinz E.F. Luzny took up residency in Brazil and began an intensive investigation into the feasibility and design of an information and control system between BNDE, the member bank, and the borrower.

The planning and research of the first year culminated in the offering of the first Curso de Aperfeiçoamento para Técnicos de Instituições Financeiras de Desenvolvimento (CAPIDE). The course lasted six weeks from January 3, 1968 to February 23, 1968 and attracted 42 participants from 20 development finance institutions, including BNDE itself. For the most part, the participants occupied technical positions in their respective institutions; consequently, the 325 class hours of this first CAPIDE concentrated upon the basics of project appraisal and control, the economics and management of development finance institutions, and the role of the professional specialist in development finance. All the members of GTM

actively participated in the preparation and teaching of CAPIDE.

An event of particular importance to the success of the joint program took place at the close of the first grant year. It was at this time that BNDE created the Núcleo FIPEME to assume executive responsibility for a funding program made available to small and medium-sized businesses. This Fundo de Investimento para Pequena e Média Empresa has extended US\$ 278,703,000 equivalent in medium and long-term loans since its inception. The Núcleo supervises a network of development banks which act as agents for FIPEME. The work of GTM has become an integral part of the Núcleo by a process through which GTM's ideas, recommendations, and techniques are introduced to the member banks and implemented by the Núcleo.

The second year of the grant is characterized by the continuation and completion of many on-going activities and the implementation of others that had been conceptualized during the first year. Following the completion of the course in March, 1968, the theoretical development of a program in the area of information and control systems gave rise to SIPEME. With the establishment of FIPEME and the resultant decentralization of the lending function the exigency of installing an effective system of control over BNDE's widespread operations became readily apparent. The eventual goal of SIPEME is the creation of an integrated information and control system operating between BNDE and the borrower. The systems that are currently being developed aim at demonstrating the advantages and feasibility of providing prompt feedback at all stages of the lending operation.

In a majority of the agent banks in BNDE it was discovered that planning and control exist only at a rudimentary level. To alleviate this deficiency Dr. Luzny devised a planning instrument called the "exercício" for use in development finance institutions. This tool provides a formal structure for projecting the financial and manpower consequences of alternative banks policies. It is now a required exercise to be completed by development banks prior to authorization of a new line of credit from BNDE. As a part of its control work, the project has also been pioneering the concepts of effectiveness measurement and benefit/cost analysis for development institutions.

In the area of personnel training and materials there was a considerable degree of progress. Drs. Lago and Luzny completed a revised edition of the operational manual for appraisal and control which was used in the second CAPIDE. Dr. Arantes completed a casebook containing pertinent cases and exercises corresponding to the subject matter of the course which had been begun in the first year. Professor Nyhart and Dr. Arantes completed a definitive outline of a basic textbook on development finance. A particularly successful activity of the second year was the completion of the Development Banking Game and its well-received implementation in the second CAPIDE.

The second CAPIDE given from mid-March to mid-May, 1969 was similar to the first basic course in most respects. Evaluation reports on the first CAPIDE identified several ways in which the second course could be improved. Teaching responsibility is now concentrated in a smaller number of BNDE teachers. Case work is emphasized more and materials

have been made more practical in line with a general emphasis to increase the applicability of the course. This emphasis was placed upon the techniques of project appraisal, control and analysis.

In July, 1968, Dr. D. Anthony Butterfield took up residence in Brazil as the second MIT representative. Four working papers written during the second year in the field of organizational development have helped the members of GTM to understand the ways in which the regional banks are managed and have provided the basis upon which an extensive survey feedback program was undertaken. This program began in February, 1969. Dr. Butterfield and colleagues from BNDE will visit each regional bank, obtain detailed description of its operations through interviews and questionnaires, and feed back this information systematically to the banks so that they may improve the conduct of their operations.

In January, 1969, representatives from BNDE, MIT and the Ford Foundation held a conference in the mountain city of Petrópolis, Brazil for three days. The purpose of this meeting was to discuss, examine, and evaluate the past and future activities and plans of the project. The exchange of thoughts and ideas that resulted is especially important in a study of the history of the project for three reasons: First, all the participants were able to voice their opinions on the strengths and weaknesses of the cooperative effort; consequently, movement towards the realization of project goals was enhanced. Second, each participant received a clear statement of the other's priorities with regard to on-going and planned project activities. Third, the necessity of developing a capacity for the institutionalization of the concepts and techniques introduced by the project was underscored and recognized as

being the sine qua non in determining the ultimate success of the project.

CONCLUSION

Examination of the activities in the first two years of the project shows a progressive cohesiveness in the pursuance of the objectives embodied in the program components. The course of action adhered to in the project has been one of research followed by implementation which, in turn, is sustained by institutionalization. For the most part, only implementation and institutionalization remain to be undertaken and completed. The approval of the Ford Foundation for the renewal of the original grant has enabled the realization of this most important phase of the project.

Plans for the future envisage the continuation by BNDE of the basic course, another course for private development banks as well as courses and Seminars in information and control systems and organizational development. It is the intention that BNDE be able to administer the courses themselves after the initial experience in which GTM plays a supporting role. The completion phase will also see GTM participating in the establishment of a central data collection effort by BNDE that will gather industrial information and statistics for dissemination to members of the national system for their use in planning and project appraisal. In keeping with the overall goals of increasing BNDE's capacity and responsibility for program activities, it is expected that the MIT resident representatives in Brazil will leave about August, 1970. At that time BNDE should have prepared for continuing

project administration. Furthermore, all major program activities and training should be completed. Thus, while MIT Cambridge completes its final write-ups of project research and activities BNDE will move forward on its own by expanding and intensifying the implementation and coordination of the techniques imported to them through this joint project.

