F.B.D.B. Special Feature

Development Banking and the Case of Canada

by Michel Naggar

Historians of world economic development have recognized four distinct phases of alternating higher and slower growths that have occurred in the so-called advanced capitalist nations (ACN), of which Canada is one. The first phase started shortly after 1870 and lasted until 1914. It came to be called *la Première Belle Epoque* (Herman Kahn), during which much of the modern industrial world emerged. The second phase which started in 1914 and ended around 1947 was really — by contrast — *la Mauvaise Epoque*: it saw two world wars of devastating effect, the Great Depression, the rise and fall of fascism in two great European nations, two major communist revolutions and the emergence of two superpowers. During that phase, the international economy and the international power system were managed badly. The third phase, *la Deuxième Belle Epoque*, has very likely just ended. Despite its considerable failings and blemishes, the period following World War II was highly successful. For the first time, the Third World joined in the process of rapid economic development. The fruits of the industrial revolution trickled down from the original ACNs and the Soviet Union.

It is not a coincidence that the establishment in 1944 of the Industrial Development Bank (IDB), predecessor of the present Federal Business Development Bank (FBDB), coincided with the end of the *Mauvaise Epoque* and the beginning of the *Deuxième Belle Epoque*. If this was to mark the beginning of development banking in Canada, it was also the time when the World Bank was established to provide loans for the reconstruction of Europe and Japan and (secondarily) for the developing world. The major powers that came away victorious from the Second World War were concerned about political security for themselves and were anxious to set up a framework for world finance and trade that might ensure that the evils of the preceding phase would not occur again. Consideration to the real needs of developing countries in terms of breaking the main constraints of development and a driving sense of mission emerged only with the MacNamara leadership. And it was during this phase that development banking became a global phenomenon.

Europe was to be rebuilt almost from scratch. France and Germany, to take only two examples, went about the task with typical cartesian logic, creating different financial institutions for different development purposes, but all well-integrated within the banking system. Britain was slow to rebuild since it had not collapsed entirely. In all cases, although less so in Britain, a remarkable sensitivity to the concerns of small and medium business was characteristic of this period. Almost every developing nation created its own development bank with considerable help, both financial and otherwise, from the World Bank and its respective central bank. Sometimes these development banks were conceived and nurtured as institutions isolated from the rest of the financial sector and their subsequent weaning from official, concessional sources of finance — which allowed them to consider projects with a large development content — was to bring forward the crucial problem of mobilization of financial resources and the temptation to reorient their activities to shorter horizons, involving more profitable less developmental operations in order to meet their cost-recovery criteria. The more the proportion of their resources came from the market, the more they selected bankable projects using criteria closer to those of a private bank under similar conditions. Economic progress did materialize in these countries and the emphasis was shifted from large infra-structure projects to small and medium size business enterprises that satisfy real needs rather than artificially created needs. The World Bank always stood behind them acting as a Development Agency, providing guidance as well as suitably priced financial resources.

The case of Canada as an advanced capitalist nation has been different. There was no major reconstruction to be undertaken, only readaptation to a peace-time economy. Development as a process of change in attitudes and institutional structures that makes possible the attainment and continuation of growth had already taken place. The perceived need was to ensure sustained growth through proper financing. Canada's sophisticated banking system was still under legislative constraints that discouraged term lending which is the main instrument of project financing. Furthermore, Canada was a true democracy dedicated to the free enterprise system, a dimension that had to be given very serious consideration in drafting the IDB Act and determining the degree of government intervention or participation in the process of development. Canada's concern at the time was the promotion of economic welfare, not industrial development per se. The preamble of the IDB Act stated from the very start that the Government of Canada intended to promote the economic welfare of Canada through *ensuring the availability of credit* to industrial enterprises. Government involvement was based on

---

Mr. Michel Naggar is responsible for International Relations at the Federal Business Development Bank. He is a graduate of Engineering and Commerce.