often been large and unwieldy for effective decision making and made up of family members who are major shareholders and senior executives. The reforms introduced should make company directors accountable for gross negligence or other failures to perform their functions. Company law should set out clearly the duties of the directors and the recourse that shareholders have in the event that these are not performed adequately. More professionals could be appointed to the boards of companies. Technical assistance could be provided to assist the countries achieve these changes.

30. The staff of companies should be chosen on the basis of ability and integrity and be free of potential conflicts of interest that may interfere with their responsibility to ensure the efficient and profitable operation of the company. Adherence to sound commercial practices should be the ultimate criterion by which their performance is judged. If the promotion of larger social objectives is necessary - as may be the case in a state owned company - it should be achieved by explicit subsidies from the budget and other measures that do not interfere with the pursuit of sound business practices.

31. Over the years, non-bank financial institutions have become an important segment of the financial system in many developing countries. These institutions have concentrated primarily on consumer finance such as car purchases, leasing of industrial and agricultural equipment and property lending. They have also acted as brokerage and investment houses in some countries. Consequently, the totality of these activities blurred the distinction between these institutions and commercial banks and their growth could, in part, be attributed to efforts to circumvent the prudential norms of the banking sector.

32. Banks and non-bank financial institutions carrying out financial intermediation to domestic borrowers with foreign funds faced interest rate, exchange rate and asset quality risks[14]. Profitable lending opportunities in the domestic economy encouraged banks to borrow abroad thereby increasing their exposure to foreign exchange risks. Often the maturity structures were mismatched. Even if regulations placed limits on such foreign exchange borrowings, lending to domestic entities which do not earn foreign exchange results in the banks taking implicit foreign exchange risks which could arise due to shifts in asset quality. Limits on the intermediation of foreign capital by the banking system could be an appropriate policy

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[14] Private Market Financing for Developing Countries, Chapter VI, International Monetary Fund, November 1995.