

# Banking - Finance

*The countries of the Asian region are gearing their banking systems away from the earlier colonial patterns to what has been called "development banking". In October this year a conference of chief executives of Agricultural Development Banks in the region met in New Delhi to discuss problems of rural development. The statement issued by the Conference, which we reproduce below, is a succinct summary of current thinking on the subject. Sri Lanka was represented at this Conference by the General Managers of its leading banks, the Bank of Ceylon and People's Bank, Mr. M. Moheed and Mr. Donald Kannangara.*

## THE "NEW DEVELOPMENT BANKING"

### Preamble

As the crisis in development deepens in the Asian and Pacific context, the challenge to all institutions is to contribute to the greatest possible extent to achieve a turning point. The crisis lies not only in the fact that development in the past quarter century has not resulted in the betterment of the economic and social conditions of perhaps 80% of the people of this region, who are mainly small farmers and landless poor, but in that their basic human values are being eroded by a fragmented process that by-passes them.

The task before all institutions is to ensure that development is viewed as a whole and involves development of people—their human as well as economic needs—as an evolving process. Man is Asia's greatest asset.

In the Asian and Pacific region, in view of the present stage of development, the land-man ratio and the rate of increase of population, there is little choice, but to encourage a "collective" approach to the problem—an approach which strengthens the individual capacity and exists with his consent and to serve his interests in the long run.

### The Process

The small farming communities are fragmented by individual and social interests working from within as well

as outside these communities. Often tradition of individualism forms part of the value system of such communities. However, we realise that small and marginal farmers can become viable through joint action. It is important to note that hastily formed groups for gaining assistance rather than for action are by the very nature of their objective different from groups that are striving for self-reliance and for community action.

The banks or any other development agency wishing to stimulate formation of self-reliant farming communities would gain if they bear in mind that the initiative for formation and sustenance of the group must emerge from within the group.

Therefore the aim should be to develop communities in a way that joint decision making and action replace individualism of farmers. It may be assumed that decisions taken by these groups would be such that they will be within the capacities of the communities to implement. When these decisions are implemented the group would have taken a step towards self-reliance. Movement to a higher plane of technology will come as a consequence of such effective group actions. The banks and development agencies will have a role to play in up-grading technological levels by a gradual process.

The group decision or aspects of community life will provide the plan

of action for the area. A larger supportive plan may have to be developed by banks and other development agencies to support a number of such groups in the area. Such plans may highlight development prospects that are as yet beyond the imagination of individual groups. The supportive plans may provide a framework for larger action.

## Role of Banks

In the context of what has been stated earlier, the role of banks in the developing economies would have to be re-defined, to enable them to lend support to small farmer development. The institutional capability of the banks to motivate weaker sections is very much more crucial than the mere provision of credit. This the banks are in a better position to achieve by mobilising local savings and ploughing them back for the economic regeneration of the area. The re-cycling of resources would be conditioned by the requirements of the small farmers for their productive operations and their basic consumption needs. The farmers and the family members would contribute the resources which they command viz: the labour and their native expertise.

The banks would bridge the gap in resources. This credit would, by and large, be converted into "agro-services". The banks need not only finance the production cycle of the group, but may need to help the group arrange for the marketing of the produce, their consumption requirements, help the group take up agro-processing activities, so that the benefits accrue to the group. Finally the effort of the financing institutions would be to help the group continually refine and improve the package of practices. This should be in tune with their local ethos and aspirations.

While the initiative for the formation of the groups should be self-generated, the banks may examine if they have some useful role to play in triggering the process of thinking along these lines in areas which may not as yet have been touched by the concept of collective solution to individual problems.

## Re-organisation of the Institutions, Structures and Systems

In order to achieve the goals of group development, the banks on their part may have to re-structure their organisational set-up at the field level and make appropriate changes in the existing loan policies and procedures to suit the needs of smaller farmers. The suggested changes in this regard are the following:—

- (1) the organisational set-up be made more field-oriented with greater emphasis on de-centralised decision making pertaining to the sanctioning of loans and pertaining to the arrangement of services required by farm groups.
- (2) appropriate changes in the eligibility criteria be made so as to enable the group to acquire credit.
- (3) the loan application forms and other related documents be more suited to group lending.
- (4) the security requirements be made such that they incorporate group responsibility as a security for the loan.

With the re-orientation of the national development banks the international financial institutions would also have to re-examine their own approaches and procedures to facilitate the process of change.

## Action Projects

There are a number of interesting and inspiring examples of the new

type of rural development projects. These provide valuable insights into the process of development. Mere observation and static analysis of these efforts is an insufficient basis for learning, particularly as multiplication of these projects at a rapid rate is the prime objective of development institutions. The best way for the banks to learn and to train their personnel in this new kind of development banking is to get involved in initiating such experiments at the ground level in selected areas. These "laboratories" which would combine social action, economic development and sound banking in the right proportions derived through a pragmatic method, would be the proving ground for ideas and people. Analysis of this accumulated experience will create the necessary knowledge which is a pre-condition for massive action at a later stage.

The Conference recommends that each Bank should undertake at least one action project which is based on the spirit of self-reliant development described in this policy statement. The size of project, its nodal thrust and its organisational form may be decided by each institution in conformity with the needs of the area and the philosophy and capability of the banks.

The Asian Development Institute in collaboration with national institutions may provide to the banks such assistance as is necessary for the formulation of the projects. It should also provide a mechanism for the exchange of personnel between the banks and a continuous forum for pooling of experience to accelerate the process of developing a body of knowledge on 'new development banking' to assist the Asian banking community to move forward in unison.