

BANKING AS A TOOL FOR DEVELOPMENT

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Banking has come to be regarded as an instrument for development in most Third World countries today. One such example is the case of India where with its massive population, general capital scarcity and underdeveloped state of its economy, commercial banking policy is being given a development-orientation and there have been great expectations from the banks as development agencies. T. S. Roy, the chief officer in the State Bank of India's Planning Department, discusses here the rationale behind this trend in his country and argues that banks may supply initiative and enterprise, as well as finance, for the creation, transformation and expansion of productive ventures. He maintains, that unlike in the developed countries where banking has been a requisite for development, the new philosophy, at least for the developing countries, is that it is a prerequisite, a requisite and concomitant, all taken together.

In India, banks have been consciously used as an 'engine of development'. The State Bank of India, in particular, was the first to be brought into being by statute specially for playing a development role in an overpopulated, capital-starved, underdeveloped economy. Since then, and especially since the bank nationalisation in 1969, the commercial banking policy in this country has acquired a strong development-orientation. We have already had considerable experience of what we should like to call the 'development inducing' and 'development-sustaining' role of commercial banks for the last several years. Over these years, commercial banks, especially the State Bank Group, have not only helped in the process of economic development (through the mobilisation of resources and deployment of credit) in line with national plan priorities but have also played, in very many cases, a significant role in triggering off economic development.

Concept Enunciation

'Banking' for our limited discourse will mainly comprise what is done by banks accepting deposits from the public (including bodies corporate and other juridical persons) and employing the funds so garnered, in conjunction with 'created deposits', as credit to those who need it or should be better off with it.

By 'development', we shall mean economic development, without implying at all that positive changes in other areas—*pari passu* or otherwise—do not constitute 'development'. In fact, 'development' as a generic term concerns the whole social welfare function of the total set of variables in which the economic ones constitute but a small, *albeit* very important, sub-set. Following Cameron and Patrick, we shall understand by 'development' a sustained increase in per capita output accompanied by substantial structural changes in the economy, especially in the field of occupational distribution. To these criteria, we should like to add a greater balance in the income distribution and removal of poverty.

By a 'tool', we shall mean a wherewithal that does 'work' in the sense in which the term 'work' is used in mechanics, for getting an objective subserved. By definition, a 'tool' is an input term, essentially precedent in temporal sequence, adding leverage to the effort through an analogue 'mechanical advantage'. One basic attribute of a 'tool', therefore, has to be that its proper use aids the activity and the results are better than those achievable without using it.

However, a tool, although it can be optimally programmed, has to be activated, at least for a start, by an external impressed force. After that, with appropriate monitoring and course correction from the control tower, it can work on its own along the course set.

Banking as a Prime Mover

In the case of banking, it is a dynamic tool (that is why we call it an 'engine', rather than a 'tool'), involving speed(s), direction(s) and acceleration(s). It must function as part of, and fit in with, the overall system of national planning and its priorities. Time is of particular essence and the use of the tool has to be adjusted to the 'temporal compression' desired. Fundamentally, development in our context connotes development at a rate much faster than what would take place 'naturally' if matters were allowed to take their own course. National economic plans today have set pretty high targets, seeking to achieve—in, say, five years—a development step-up that had taken decades in other climes in the past. Every one of the engines used must, therefore, develop maximum thrust, care being of course, taken to avoid any overheating.

It was Schumpeter who first established an explicit linkage between financial institutions (of which banks are a sub-set) and economic development in a functional sense. Cameron and others have done a considerable amount of substantive research in a historical perspective

regarding banking in the early stages of industrialisation in several economies which are now in the 'developed' category. Throughout all these (except to an extent in the case of Japan), two basic premises seem to stand out:

- A. Banking has, by and large, been a concomitant to economic development, responding to emerging demands, with hardly any demand creating or 'latent demand developing' role. In other words, banking has been business and little else.
- B. Economic development has been viewed as being almost synonymous with industrialisation. As a result, the primary focus has been on the secondary sector, to the extent of relegating agrarian development to a backseat as a component of the development process.

Current thinking, and action based on that philosophy in the developing economies, deflect significantly from both these.

First, we do not any longer view banking growth solely as a concomitant to economic development, even though in several traditional commercial banking activities concomitant banking developments are continually occurring on business considerations subject to such constraints as national regulatory policy imposed from time to time having regard to the public interest. In these activities which include overseas operations, banking is not seen as a tool for development, within the ambit of our definitions.

Secondly, especially in the kind of situation in India, economic development has necessarily to be seen as a much wider spectrum, in which industrialisation—as commonly understood—is only one of the bands. As a tool for development, banking in such situations is required to reckon seriously with the agricultural sector and help elevate it, through the provision of finance, from its subsistence to a commercial level. Agricultural development for optimal productivity, with a view to generating surpluses, thus gets added on to industrialisation as an activity concerning commercial banks.

The famous Nurske tautology 'A country is poor because it is poor' highlighting the vicious circle of underdevelopment, provides the keynote to the use of banking as a tool for development. The idea is that banks should serve as the financial armoury for breaking open that

vicious circle by a multi-pronged attack. In this context, the following excerpts from India's First Five-Year Plan would be illustrative of the approach :

"The large credit needs of agriculture and of industry, especially of cottage and small industries, cannot be met, except through a network of credit institutions which will mobilise savings in the rural areas and disburse credit on a large-scale to productive enterprises, individual, co-operative, or joint-stock. In this process of development, the encouragement of larger savings from current income and of a productive use of them . . . will have to play the major part. But, at the same time, judicious credit creation somewhat in anticipation of the increase in production and the availability of genuine savings has also a part to play, for . . . without this kind of an initial push, the upward process may not start at all or may fail to gather momentum.

"The process of economic development, once started, will make new demands on the banking system and this may necessitate changes in organisation and structure . . . For the successful fulfilment of the Plan, it may become necessary to direct special credit facilities to certain lines of high priority . . . The proper discharge of its functions by the banking system will necessitate its operation more and more in the light of priorities for development indicated in the Plan and less and less in terms of returns on capital"

"The banking system . . . will thus have to be fitted increasingly into the scheme of development visualised for the economy as a whole, for it is only thus that the process of mobilising savings and of utilising them to the best advantage becomes socially purposive"

A good deal of reliance on what may be called the 'credit multiplier' is clearly discernible, as also a distinct accent on overall social purposiveness rather than profitability per se.

In the perspective of the history of economic development of developed countries, banking was a requisite for development—not a prerequisite.

The new philosophy (at least in this country), regards banking really as a trinity: pre-requisite, requisite and concomitant, all taken together. In certain situations, the first task is to build up a reservoir of deposits and lay the pipelines of credit. In this sense, banking presence is basic infrastructure. It is, as it were, a question of carrying the tool to the worksite and that is what we have been doing by opening a large number of bank offices at rural and semi-urban centres. The massive expansion effort of commercial banks in unbanked rural areas, and more particularly the national resolve not to leave any large geographical tract devoid of banking services, have to be viewed in that perspective. The task of opening offices at remote centres in difficult terrain has been, and continues to be, an arduous one but the underlying challenge has been one of carrying an essential tool to where it is needed for doing work for the social good.

Establishing banking presence is only half the battle, as the desired social good cannot emerge until the tool is activated. The primary objective of developmental expansion is to provide outlets for credit. For a variety of operational constraints important amongst which is the non-availability or lagged availability of supportive tools in the shape of complementary work by other agencies, many of the commercial bank offices are yet to reach the requisite developmental thrust. Through the District Credit Plans and by other means, efforts are being made to make up the leeway. The banks and the other agencies concerned are also closely monitoring the performance at periodic intervals. Nevertheless, much indeed remains to be done. But that does not detract from the uniqueness of the grand experiment, nor from the worth of what it has achieved against odds that appal bankers in the advanced economies. There have been great expectations in India from banks as developmental agencies. Our constraints, on the other hand, have been very many. On balance, commercial banks in India—and especially the public sector banks—have demonstrated the validity of the thesis that, given appropriate innovations and adjustments, banking can be used as an effective tool for

development without detriment to basic democratic values.

Concluding Remarks

Banking as a tool for development is a multi-purpose tool and, depending upon the value system of the society, its uses are capable of wide variations. Covering the whole gamut of these would require a lengthy essay. We should, however, like to mention one particular function of banking as an agency for development. It is that banks may supply initiative and enterprise, as well as finance, for the creation, transformation and expansion of productive ventures. Schumpeter and others considered this to be antithetical to the very nature of commercial banking. Their perspective was, of course, different. However, as Cameron and Patrick have noted, the use of banking as a tool for development has to encompass such a role and in India this function is being performed by the banking system. In the State Bank of India in particular, we are constantly researching into innovative areas for finding out how we can further help socio-economic development by generating new bankable propositions.

Finally, Credit is a highly potent instrument for economic development and, if used judiciously, its planned use can really work wonders. As with any tool, one has only to know how to use it and how to take care of occasional malfunctioning. However, it would be worth our while to bear in mind the following caution sounded by Crowther:

"Money is the most wonderful of Man's social inventions. But it is his invention, his creation, and Man remains the master . . . If we get away from the idea that there is magic in money, if we can rid ourselves of the idea that happiness and prosperity depend on money alone, if we can reduce money to its proper role as a lubricant for the economic mechanism that Man's ingenuity directs and his labour drives, we shall have taken the longest stride on the road to understanding the monetary system and controlling our economic environment"

His statement that "banking policy will never be sufficient by itself to bring economic Utopia into being" is also worth remembering, for keeping the perspective clear in the use of banking for fostering development.