

Rediscovering development banks

The agenda to set up a development bank is a welcome initiative, but questions remain on its design



Finance Minister Nirmala Sitharaman's press conference on August 23, announcing a slew of measures to boost the economy and financial market sentiments, had an interesting idea. It was about setting up a development bank.

Ms. Sitharaman said: "In order to improve access to long-term finance, it is proposed to establish an organisation to provide credit enhancement for infrastructure and housing projects, particularly in the context of India now not having a development bank and also for the need for us to have an institutional mechanism. So, this will enhance debt flow toward such projects." The announcement could have far-reaching implications for India's financial system. This article explains why.

What are development banks?

Development banks are financial institutions that provide long-term credit for capital-intensive investments spread over a long period and yielding low rates of return, such as urban infrastructure, mining and heavy industry, and irrigation systems. Such banks often lend at low and stable rates of interest to promote long-term investments with considerable social benefits. Development banks are also known as term-lending institutions or development finance institutions. To lend for long term, development banks require correspondingly long-term sources of finance, usually obtained by issuing long-dated securities in capital market, subscribed by long-term savings institutions such as pension and life insurance funds and post office deposits. Considering the social benefits of such investments, and uncertainties associated with them, development banks are often supported by governments or international institutions. Such support can be in the form of tax incentives and administrative mandates for private sector banks and financial institutions to invest in securities issued by development banks.

Development banks are different



"The political and administrative leadership should carefully weigh in past lessons in designing the institutional structure." FM Nirmala Sitharaman addressing a press conference in New Delhi on August 23. ■SANDEEP SAXENA

from commercial banks which mobilise short- to medium-term deposits and lend for similar maturities to avoid a maturity mismatch – a potential cause for a bank's liquidity and solvency. The capital market complements commercial banks in providing long-term finance. They are together termed as the Anglo-Saxon financial system. Historically, in the U.K. and the U.S., such a debt market took root to fund expansion of the market economy and colonial investments in the 19th century, such as financing of railways worldwide. This market was mostly sweetened by fiscal sops to promote Britain's global political and commercial interests.

Industrialisation of continental Europe and Asia was, however, financed under the aegis of German-type universal banks (providing long- and short-term credit) and state-sponsored (or guaranteed) development banks underwriting the risks of long-term credit. For instance, the earliest and ubiquitous saving institution, namely the post office bank (mostly government-owned and managed), mobilised national savings and channelled them into development banks for long-term investments whose social rates of return were higher than the assured interest rates for depositors. Alexander Gerschenkron, a Ukrainian economic historian at Harvard University, famously theorised that the greater the backwardness of a country, the greater the role of the state in economic development, particularly in providing long-term finance to catch up

with the advanced economies in the shortest possible time.

In the context of the Great Depression in the 1930s, John Maynard Keynes argued that when business confidence is low on account of an uncertain future with low-interest rates, the government can set up a National Investment Bank to mop up the society's savings and make it available for long-term development by the private sector and local governments.

Following foregoing precepts, IF-CI, previously the Industrial Finance Corporation of India, was set up in 1949. This was probably India's first development bank for financing industrial investments. In 1955, the World Bank prompted the Industrial Credit and Investment Corporation of India (ICICI) – the parent of the largest private commercial bank in India today, ICICI Bank – as a collaborative effort between the government with majority equity holding and India's leading industrialists with nominal equity ownership to finance modern and relatively large private corporate enterprises. In 1964, IDBI was set up as an apex body of all development finance institutions.

As the domestic saving rate was low, and capital market was absent, development finance institutions were financed by (i) lines of credit from the Reserve Bank of India (that is, some of its profits were channelled as long-term credit); and (ii) Statutory Liquidity Ratio bonds, into which commercial banks had to in-

vest a proportion of their deposits. In other words, by sleight of government hand, short-term bank deposits got transformed into long-term resources for development banks. The missing capital market was made up by an administrative fiat.

However, development banks got discredited for mounting non-performing assets, allegedly caused by politically motivated lending and inadequate professionalism in assessing investment projects for economic, technical and financial viability. After 1991, following the Narasimham Committee reports on financial sector reforms, development finance institutions were disbanded and got converted to commercial banks. The result was a steep fall in long-term credit from a tenure of 10-15 years to five years. The development of the debt market has been an article of faith for over a quarter-century, but it has failed to take off – as in most of Europe and industrialising Asia, where the bank-centric financial system continue to prevail.

China's development banks – the Agricultural Development Bank of China, China Development Bank, and the Export-Import Bank of China – have been at the forefront of financing its industrial prowess. After the global financial crisis, these institutions have underwritten China's risky technological investments helping it gain global dominance in IT hardware and software companies. Germany's development bank, KfW, has been spearheading long-term investment in green technologies and for sustainable development efforts requiring long-term capital.

In this light, the Finance Minister's agenda for setting up a development bank is welcome. However, a few hard questions need to be addressed in designing the proposed institution. How will it be financed? If foreign private capital is expected to contribute equity capital (hence part ownership), such an option needs to be carefully analysed, especially in the current political juncture. The design of the governance structure is fraught with dangers with many interest groups at work. One sincerely hopes that the political and administrative leadership carefully weigh in the past lessons to lay a firm foundation for the new institution.

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Cooking with gas, not wood

Under the PM Ujjwala Yojana, rural areas that still rely on solid fuel can be encouraged in three ways to use clean fuel



AASHISH GUPTA & SANGITA VYAS

When we introduced ourselves to Kishan Kumar Dubey, he remembered that we had visited his home four years ago. Mr. Dubey was a respondent in our study conducted on solid fuel use in 1,550 households between August and December 2018. Wearing glasses, Mr. Dubey sat on his bed in a pucca house with green stone flooring. He was thin and coughed often. On the shelf above him were books neatly wrapped in saffron cloth.

Preference for the chulha

Mr. Dubey had recently received an LPG cylinder and stove through the Pradhan Mantri Ujjwala Yojana. His family could afford to hire labourers to cut wood, and they used the gas stove only to make tea. Dal, sabzi, roti and rice were made by Mr. Dubey's daughters-in-law on the *chulha* (earthen/ brick stove). Mr. Dubey believed that food cooked on a *chulha* was healthier and tastier. In contrast, rotis cooked on gas cause indigestion, he said. He thought that cooking with solid fuels was healthy for the person cooking too: fumes purified the eyes because they caused tears, and in blowing into a traditional stove, a woman did *kasrat* (exercise). Clearly, Mr. Dubey had never cooked on a *chulha*.

In another part of the same village in Madhya Pradesh, Rajni Bai, a Dalit woman, had also received LPG through the same scheme. Ms. Rajni's household did not own any land or animals. She did not have access to dung or agricultural produce to burn in a traditional stove. She appreciated the cylinder and the gas stove. The cylinder lasted her two and a half months. She had used it "carefully", supplementing it with wood collected from the forest. But when we interviewed her, the cylinder had been sitting empty for 15 days. Ms. Rajni could not afford a refill. The rains had made the wood wet and harder to burn, but she made all the food on her traditional stove made from mud.

Ms. Rajni and Mr. Dubey are at opposite ends of the wealth spectrum, but it would be hard to see this by looking at their cooking fuel. They are not unique. In our survey conducted in 127 villages across four States – Bihar, M.P., Rajasthan, and Uttar Pradesh – we found that the rich were less likely to use a *chulha* for cooking compared to the poor, but not by much: more than 60% of the richest households had used a *chulha* yesterday. Using cleaner fuels such as LPG is essen-

tial to reduce rural air pollution and improve health. What can policymakers do to achieve exclusive use of clean fuels in rural India? Three strategies could work: communicating the harms of solid fuels and the benefits of cleaner fuels; reducing the cost of LPG cylinder refills in rural areas; and promoting gender equality within households, particularly in cooking and related tasks.

Using clean fuel

Like Mr. Dubey, 92% of the respondents in the survey said food cooked on a *chulha* tastes better than food cooked on gas, and more than 86% believed that food cooked on a *chulha* is healthier. Fortunately, only 22% agreed with Mr. Dubey that cooking food on a *chulha* is better for the health of the cook than cooking food on gas. Even among those who believed that cooking on a *chulha* harms health, the harms most often invoked were not respiratory, but to the eyes of the person cooking. A large anti-tobacco style campaign communicating that solid fuels harm respiratory health may change these beliefs. Similarly, advertisements that food cooked on gas can be as tasty and healthy as food cooked on a *chulha* would be helpful.

Reducing LPG prices in rural areas, where residents are poorer and solid fuels are easier to access, would also help. One way is to build on the targeting experience of the National Food Security Act. Under this Act, 75% of rural households are classified as priority households and entitled to subsidised rations. Another 10% of extremely poor households are classified as Antyodaya households, eligible for higher grain amounts at even lower prices. If priority households could become eligible for even higher subsidies in a revamped LPG pricing regime, and Antyodaya households could become eligible for LPG cylinders free of cost, exclusive LPG use would likely be higher.

Finally, public policy must recognise that in households such as Mr. Dubey's, if he was doing his share of the cooking, a complete transition to LPG would have happened already. Our survey asked questions on who cooks food, who makes dung cakes, and who collects wood in rural households. Men rarely cook or make dung cakes in rural households. Current Ujjwala messaging, which focuses on the benefits of clean fuels for women, reinforces this inequality. Advertisements showing that gas is so good that even men can cook with it will challenge both misinformation on LPG and gender inequalities in household tasks.

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Everyday voyeurism in a surveillance state

Privacy is at threat as data gathered from CCTV cameras in cities are being shared online

SERISH NANISETTI

In April, a six-year-old boy sat down on a park bench in an apartment complex in Hyderabad. As it was wobbly, he rocked back and forth on it. In a tragic turn of events, the concrete bench toppled and fell on the boy, killing him. The entire incident, recorded on a CCTV camera, was available on social media within hours. In July, footage of a couple sharing an intimate moment inside the Delhi Metro was uploaded on a pornographic website.

Demand and supply side

As CCTV cameras multiply across Indian cities, there is also a sharp increase in voyeurism. The masses are constantly hooked to surveillance footage. A voraciously hungry social media and lax ethical standards have turned the surveillance experiment into a voyeur's delight. This is the demand side of the equation.

Most Indian metropolises suffer from a shortage of staff for policing. The millions of CCTV cameras that have been installed help the police curb crime and trace criminals, keep cities clean, and ensure the smooth flow of traffic. Haphazardly parked vehicles can be penalised daily to make offenders fall in line. But instead of using the information to bring to heel criminals and create safer cities, some unethical officials have been leaking data meant for only that purpose to satiate baser, voyeuristic instincts. This is the supply side of the equation.

These images cause a lot of pain for the families and friends of those captured, especially when they see these videos on loop on mobile phones and TV channels.

Notwithstanding these facts, more and more CCTV cameras are being installed. For instance, the Navi Mumbai Municipal Corporation plans to install 1,439 new cameras equipped with automatic number plate recognition facility. The Delhi government is installing CCTV cameras in classrooms, apartment blocks and shops. These numbers are official figures and don't include CCTV

cameras in apartment blocks, parks, shops and restaurant kitchens. More than one lakh CCTV cameras are expected to be installed in Hyderabad, a city with a population of more than 68 lakh. Other Indian metropolises are on a similar path as the prices of CCTV cameras and storage devices have plummeted, and the State's greed for information has soared.

Add advanced technology to this mix and the situation turns scary. Hyderabad and Bengaluru are experimenting with Face Recognition Technology in their airports. Some passengers enrolled voluntarily during the trial period of this technology in Hyderabad in July. The Face Recognition Technology allows passengers to walk in without any documents and pass through multiple checks with their face as the only identifier.

At a time when sharing personal details online, including surveillance material, is fraught with the risk of privacy breaches, India is rushing pell-mell into a data-gathering wonderland.

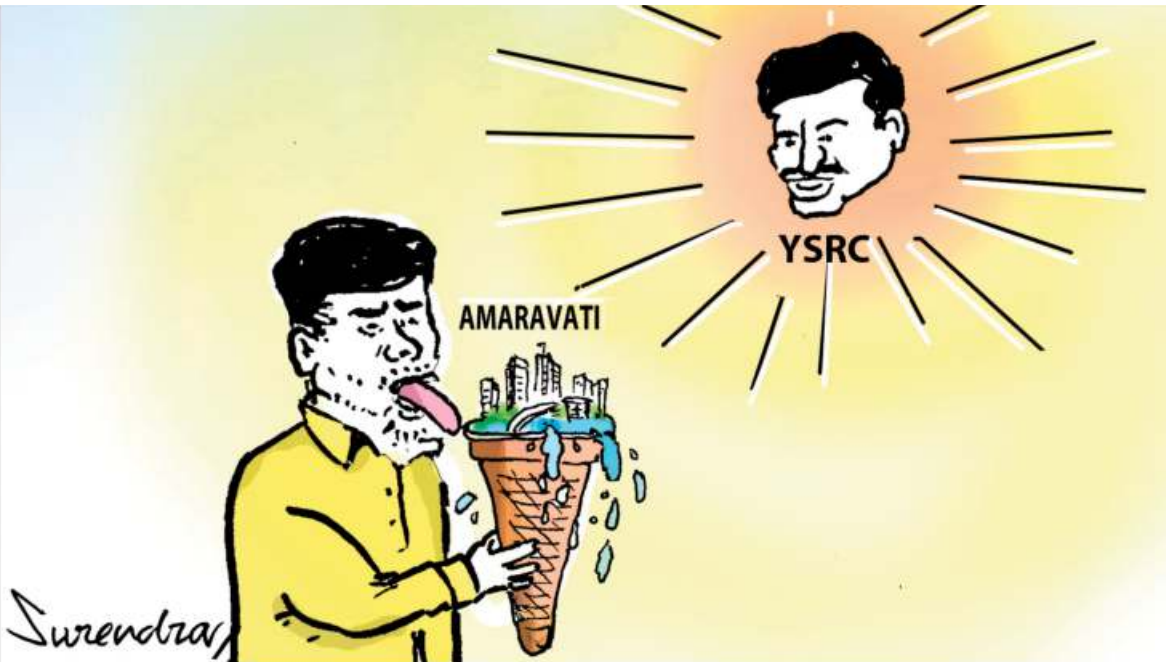
Stronger data protection laws

A few years ago, Google policy wonk Eric Schmidt had said, "High tech runs three times faster than normal businesses. And the government runs three times slower than normal businesses. So, we have a nine times gap... And so what you want to do is to make sure that the government doesn't get in the way and slow things down."

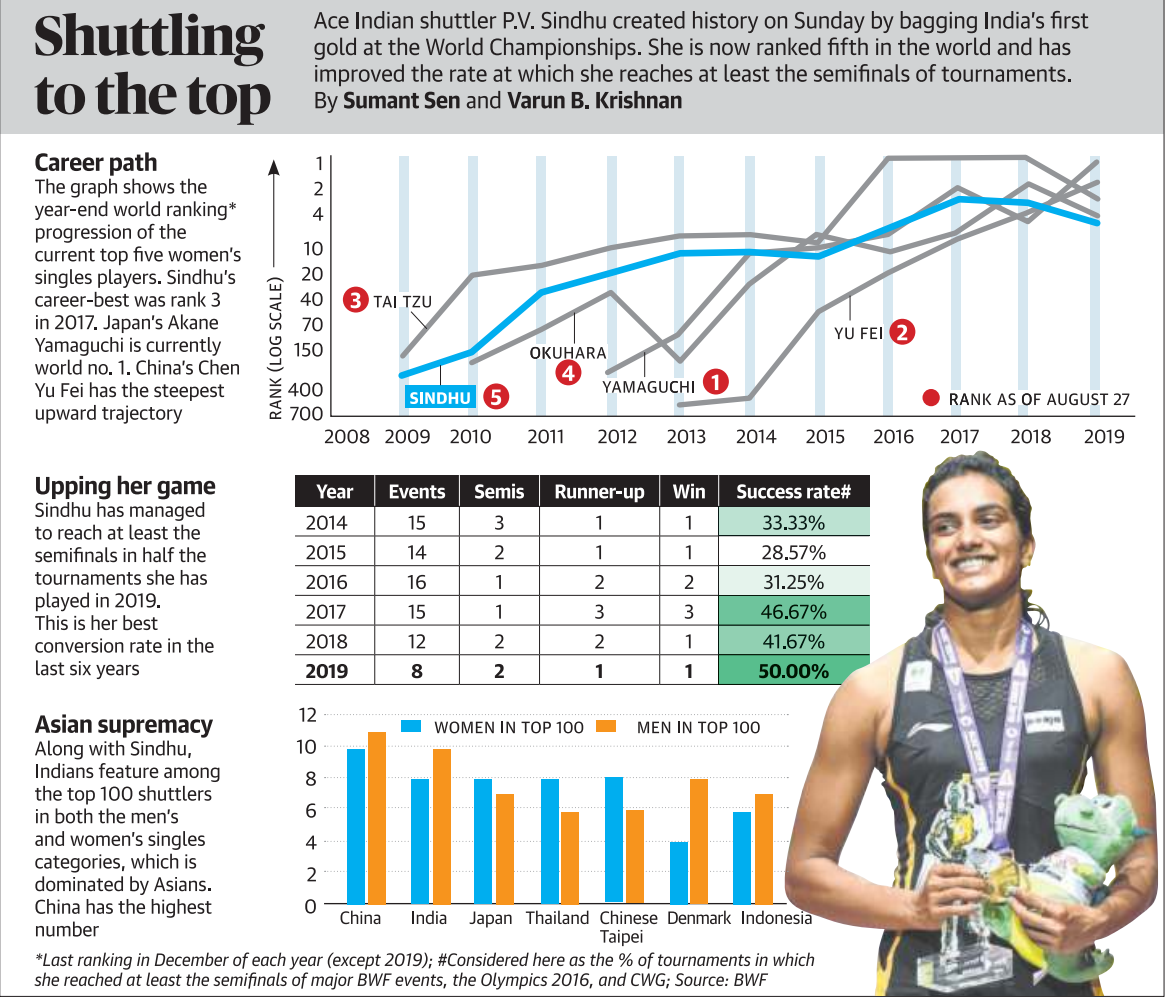
Some data mavens have mapped out the legal boundaries of the Internet so far as information security is concerned. "The online world is not truly bound by terrestrial laws... it's the world's largest ungoverned space," wrote Eric Schmidt and Jared Cohen about digital governance in 2013.

Unless data protection laws catch up quickly with the reality of a pan-India network of CCTVs, we will continue to live in a surveillance state without knowing where this data is going and for what purpose it is being used.

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DATA POINT



The Hindu. FROM THE ARCHIVES

FIFTY YEARS AGO (FROM THE ARCHIVES DATED AUGUST 27, 1969, THERE BEING NO ISSUE ON AUGUST 28)

Congress Leaders relax

There was no evidence of any thanksgiving celebration in the Prime Minister's camp today [August 26, New Delhi] over her spectacular victory in the Working Committee last night, since her principal advisers were still gauging the political temperature of the Congress Party to determine whether there was any fight left in the Syndicate to revive the power struggle.

Otherwise the political atmosphere today was generally relaxed with comparatively little activity on either side without any undue jubilation or bitter recrimination. But nobody was jumping to any hasty conclusion that last night's compromise resolution was the end of the story, although the general impression was that the crisis may not erupt in such a dramatic way again. The Prime Minister wanted to give a dinner tonight to the members of the Working Committee to demonstrate the new spirit of conciliation at the top to the rank and file of the party. But unfortunately the Congress President, Mr. Nijalingappa, was confined to bed with low blood pressure after the severe strain of the last fortnight.

A HUNDRED YEARS AGO AUGUST 28, 1919. Unblissful Ignorance.

The "Independent" writes: –

In judging Mr. Montagu's recent replies in the House of Commons one is reminded of the limit beyond which forbearance ceases to be a virtue. The obviously indiscriminate and profoundly disproportionate panegyrics, which the Moderates have delighted in bestowing upon him, succeeded in hypnotising the country into the belief that so far as the present Secretary of State is concerned, not a word of criticism against his policy or acts should be breathed lest a loyal and staunch friend should be discredited or have his hands weakened. The natural consequence of this assured immunity from just and fair criticism has apparently been to induce in him a lazy indifference towards matters for which he has a direct responsibility, which is threatening to develop into a callous and confirmed ignorance of them. Indeed, it is no exaggeration to say that Mr. Montagu's apparent want of knowledge of recent happenings in the Punjab marks a climax of unblissful ignorance, for which one cannot easily recall a parallel.