A Foucauldian analysis of development banking lending practices: a case study of the Fiji development Bank (FDB) 1967-1997

Hemant Narayan Deo
University of Wollongong
NOTE

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CHAPTER 8: CONCLUSIONS.

A Quotation on Myths:

A myth tells what one should desire ... and how to get it; the way people are and how they should be; the reasons why things happen the way they do, especially when they go wrong; in short, myths provide values and meaning and ideas and plans and stratagems and alternative forms of social organisation. Only through a myth does one see the 'real' world. A myth is a form of pretence, an oversimplified representation of a more complex reality

(Bailey, 1977, p. 7).

This research focused on the development banking practices of the FDB during the period 1967-1997. It applied the concepts of archaeology and genealogy. These brought out the discursive formations within the period that were intertwined with the concepts of power and knowledge that provided truth effects to justify a historical appreciation of development banking (lending) within Fiji.

In using a subjective interpretation of “reality”, the research fits into what Burrell and Morgan’s (1979) sociological framework characterises as research within the interpretive paradigm. This enabled the researcher to view the enormous amount of development banking literature over the past thirty years (1967-1997).

Traditionally, both in the accounting and/or banking disciplines, research has been undertaken from a viewpoint that has been termed mainstream, positivist or a scientific approach and has failed to take into account the social, political and human factors which shape the phenomena studied. In doing so, the actual validity (outcome) of such research can only be questioned.

To bring out and to appreciate the importance of the social factors, especially for a research case study in development banking (lending) operations, the work of Foucault provided the researcher with a clearer view of actually evaluating the thirty years of data. This enabled the banking (lending) analysis and potential outcomes to be interpreted more fruitfully.
The idea of an agricultural and industrial credit institution was first mooted in the early 1950's. It began with the formation of the AILB which operated during the period 1952-1966. The AILB provided lending, in relation to the agricultural and lending sectors, within the Fijian economy but in the long term the Board, due to its limited resources in finance and manpower, could not cope with the lending demands encountered within the Fijian development banking system.

The emergence of this new force in the development banking area, ultimately led to the establishment of the FDB in 1967. The FDB now assumed the loan responsibilities of the AILB, which could be viewed as part of a historical discursive formation process, and from then onwards the FDB was seen to provide a constant disciplinary surveillance to the farmers (loan takers from the Bank). It was also assumed that the Bank (FDB) had both the power and knowledge to foster growth in relation to the development banking (lending) activities within Fiji.

Another feature, in relation to the Bank, was the implied fact that the development bank was seen as a non-bank financial institution which was unique in its functions and operations. When compared to other non-financial (FNPF) and financial institutions NBF, for example, the FDB non-financial institution which received government subsidies to foster the government’s long term development objectives also incurred the liability of many risk undertakings with minimal security backing.

The Bank was not too greatly concerned with obtaining adequate securities. It was willing to accept any security pledged to it, as part of the loan, or for that matter it was careful in its lending operations, as long as particular development projects were serviced. Its emphasis was on being able to finance most projects. Other institutions were more cautious, due to the in-built risk factors of such projects, in providing finance to agriculture and special loans to Fijians.

The central theme running throughout the FDB’s development (lending) operations was that of land issue. This is considered significant since, within the Fijian context, land is both socially and culturally important. This can be seen through the Fijian social
structure that was based on community development. The village chief had to consult with his people on land and cultural issues. The cultural traditional custom such as the drinking of the ‘yaqona’ or ‘grog’ was seen as a function where people could sit down, discuss, and iron out potential problems within a communal village setting and is one such example of this.

This attitude to the solving of land issues is unique to the Fijians, who as owners of the land, regard it as a very important commodity which they should safeguard. In the historical sense it was seen that traditionally tribes fought for land, and the chief that acquired the most was considered to be a paramount chief. The land issue was also of great concern when Fiji was ceded to Great Britain and colonial rule began. The colonial government also tried to put into place mechanisms, such as the NLTB, which provided a platform from which the Fijians could negotiate the terms and conditions of various land lease agreements.

The Indians were brought as indentured labourers or (girmir) to cultivate the farms, especially the sugar-cane. An important feature of this was that in the long term, the Indians began to occupy a dominant position within the sugar industry which was considered the back-bone of the Fijian economy. The Indians were normally given land lease agreements through the ALTA. Thus, from a Foucauldian perspective, the ALTA agreements were very powerful disciplinary surveillance mechanisms. The indigenous Fijians would normally under this agreement lease out their land to the Indians for a thirty year period.

The FDB was considered the financing institution which provided loans to the agricultural farmers, based on their individual lease agreements. It was observed here that the FDB, while financing agricultural loans, was not being safeguarded against bad debts. Two reasons were apparent: firstly, an agricultural loan in most cases, was a risky venture. The risks were compounded further, since the actual land title of the financed project belonged to the land owning unit. Secondly, the security to safeguard the Bank, in the case of loan failure, was in fact worthless.
For example, the Bank supposedly took its security over the crop lien or structural development such as building or farm house that was in fact built on land leased through the ALTA agreements. The Bank, if it decided to call in its security, had to rely on the ALTA agreement's validity, and on securities, the buildings and equipment, but if they were removed the actual valuation of the farm was substantially reduced.

When Fiji gained its independence in 1970 there was a greater need for the government to export its produce. Sugar, was and still is, the primary export of Fiji and the Indians were the major farmers of sugar-cane. The government, through the FDB, gave policy directives (political pressure) and subsidies (incentives to the Bank) to encourage the indigenous Fijians into the commercial sector (environment).

The FDB was seen to provide financial assistance and establish branches as the necessary infra-structure to accommodate those farmers in the Western part of Viti Levu, for example, Sigatoka, Nadi, Lautoka, Rakiraki and Ba. Northern branches were established in Vanua Levu, for example at Labasa and Savusavu. There was a particular emphasis on the Seaqaqa Branch that was established to cater for the large Seaqaqa cane growing area and to encourage Fijian farmers into the sugar-cane growing sector.

The agricultural lending that was provided by the FDB was based on volume. The Bank would consider most development (lending) applications, as this would ultimately lead to the Bank's increased portfolio. This lending philosophy however changed dramatically when the Bank introduced its corporate plan in 1994. The FDB moved from the concept of quantity to quality lending, to increase its profitability and long term growth within the Fijian development (lending) banking sector.

In Foucauldian terms other disciplinary surveillance structural mechanisms existed, such as the powerful Central Bank or RBF. It appeared to provide a form of disciplinary surveillance in relation to the various bank operations that operated within the Fijian banking system. It was seen to incorporate the various rules and regulations that were required to be followed by banks or non-bank financial institutions.
Other major government-backed players such as the FNPF (a superannuation fund body) provided short term funding loans to the FDB and the NBF. The NBF was the only local commercial bank which was set up by the Government of Fiji to encourage Fijians to save and also to borrow small commercial loans. Its activities included, for example, setting up a small shop or purchasing a taxi and home loans. All this was in direct competition with the activities of the FDB and its development (lending) operations. There was intense competition, for example, for lending products and offerings, which in the long term highlighted the immense pressure that was placed on the FDB’s development (lending) based activities. This pressure was compounded because, when the FDB undertook a comprehensive lending review process of its entire lending portfolio, it found that although it had a large agricultural lending portfolio the portfolio itself was basically unproductive. This had led to large bad debts. The Bank needed to find new directions for its long term objectives of financing loans of this nature.

Again, from a Foucauldian perspective, taken from a historical context, the signs of discursive formations within a disciplinary lending regime (FDB) are evident and the intertwined relationships of the power and knowledge concepts that also operated within its internal structure are evaluated.

The Bank’s main lending activities were agricultural and industrial. Agricultural lending included loans for sugar-cane, root crops, livestock, fishing and poultry. Industrial lending, included real estate (housing), tourism, wholesale and retail, manufacturing, transport and communication and large construction projects (factories). Special loans to Fijians include real estate, transport and communication, tourism, manufacturing and infrastructure construction. The latest new products lending division, for example, added leasing, letters of credit and working capital finance to the bank’s lending portfolio.

The Bank’s enormous drive can be seen in the various bank and government policy documents, such as development plans. The Bank also provides so-called soft finance,
for example, fewer equity contributions or security backings to encourage the indigenous Fijians into the commercial sectors of the Fijian community.

The issue of great concern here is that, although the government and the FDB were trying to encourage Fijian participation in the commercial sectors, there were internal conflicts between the Fijian traditional culture that relied on the concepts of the kerekere philosophy. This philosophy allowed the Fijian to take a loan say, from a Fijian shop owner on the pledge (promise) that the loan would be paid back at some later date, but in some cases it was not repaid at all. The FDB used a great deal of time and money in providing training, management advice as well as the ultimate finance, to encourage and set up Fijian shops under the Bank’s EIMCOL. The end result of the scheme was failure. This was the result of poor and unsound financial management by the Fijian shopkeepers.

Again, what is seen here, is the conflict of the Fijian traditional culture versus the need for commercial advancement. From a Foucauldian perspective, this is through a historical interpretation and as a result of discursive formations, with the interplay of power and knowledge relations, that were experienced within the development banking (lending) environment.

The Bank also underwent a huge structural and motivational change through the introduction of its corporate plan. This gave it a completely new organisational structure in 1994. This structure, from a Foucauldian perspective, is seen in this context to provide a form of disciplinary surveillance, maintaining the Bank’s development (lending) operations.

The new organisational structure brought in the element of a new corporate culture or image, with a huge emphasis on the Bank’s profit component. From a Foucauldian perspective, this profit element can be justified through power and knowledge which is seen to result in the formation of the truth effects.
The organisational structure regarded each lending division as a profit centre. Other operating divisions were regarded as service centres. Cost allocations, with a budgetary domain, were given to each of the divisions so that there could be a greater accountability of the various divisions. The emphasis on the profit centres was to attain specific-agreed upon targets, which were normally established between the respective lending division’s managers. The finance division was seen to provide a way of attaining the long term planning which was profit-based. A five year strategic plan was devised. Revised on an annual basis, this profit element became a vital norm within the Bank’s development (lending) operations.

Each lending division had to attain its set targets within the budget. Each lending division now looked for quality loans, so the traditional lending, which was the backbone of FDB’s development, (that is, the agricultural sector), was now highlighted as its major risk area. The actual viability of various agricultural projects, which further compounded this problem, were the coups in 1987. The Fijian government now questioned the ALTA agreements. These were now expiring and the question in the Bank’s mind was their unlikely renewals. If these ALTA lease agreements were not renewed in the long term, this would have a huge impact on the Bank’s development banking (lending) activities.

The other problem that existed was the concern about the various subsidies, for example, the agricultural subsidies and the special loans to Fijians’ subsidies. The government will not provide these subsidies on a long term basis, therefore, the Bank (FDB) has to maintain lending portfolios that are productive and viable in its operations. The importance of quality lending was reinforced in the corporate plan of the Bank.

The Bank undertook a review process where it reviewed all of its lending portfolios to ascertain which of them were unproductive. Each lending officer was assigned to certain lending portfolios. The promotion or advancement of the officer depended on his or her performing in an efficient and effective manner.
The allocation of lending portfolios to various lending officers can be seen as one of the discursive formations which has in-built power and knowledge relations. The judgement of the loans officer's performance was based on an effective disciplinary surveillance. The officer would be rewarded if the loans were monitored in an effective manner, but if the results showed a decrease in arrears while at the same time maintaining the loans repayments, this would lead to the lending division being profitable.

The PAR report is one such disciplinary surveillance mechanism that the Bank has instigated by means of its organisational structure to provide a surveillance over its employees. The Fijian development banking environment has changed dramatically from the past. It is more dynamic and influences the Bank in its activities. Therefore the FDB can be considered both influenced by the environment and at the same time influencing the environment in which it operates. The profit element can be considered as a major driving force in relation to the Bank using it to increase its market share. Products, such as those of leasing and working capital, are considered important to foster the profit element development.

In the research study it was also seen that there is a considerable amount of interrelation between the various divisions that exist within the Bank's organisational structure. These are the linkages between the lending division's loan documentation flow and its input in relation to the finance servicing division. There is a need for the personnel and administration department to provide adequate manpower planning and training to loans officers within the various lending divisions. The Bank's quality of lending assessment could be improved and at the same time the various cost components could be reduced while increasing the Bank's overall profitability in the long term.

The internal auditing department, can be seen to provide a disciplinary surveillance to ensure that there is internal and external compliance in relation to the Bank's development lending operations. The audit department undertakes random checks and reviews to ensure that the Bank's policy and procedures are adequately followed. The division also identifies potential problems within the lending operations and provides
practical solutions (a Foucauldian power and knowledge to influence the so called disciplinary regime, that is, the Bank), to overcome those identified problems to ensure that there is long term performance attained and productivity and profitability is increased.

The corporate plan, which sets the targets (Foucauldian disciplinary surveillance guidelines) can only be attained through effective monitoring (disciplinary surveillance). This is undertaken both by the finance and planning research and marketing divisions. The planning research and marketing division, can be seen as providing a reconnaissance mechanism which identifies long term strategies that the Bank could undertake, while at the same time, marketing those products that the Bank already has available in the domestic and overseas markets through control mechanisms, such as the internet facilities.

A Foucauldian perspective was seen as an important tool to appreciate the various transformations or discursive formations which were the result of the Bank’s thirty years of development (lending) operations. It formed an interpretation of the various power and knowledge operations, within the Bank’s operations, for example, the role of the FDB to foster development (lending) operations within the South Pacific region or the competition between the various lending departments, to attain the departmental achievement award.

The FDB’s regional focus, seen from the case study, provided a disciplinary surveillance in the form of regional training and development, where the ideas were normally shared and attained through co-operation. This approval will foster and develop the lending portfolio in the South Pacific region. It is hoped that a Foucauldian informed case study of this nature will help the FDB to critically look at its development lending from a non-mainstream approach towards the Fijian banking context and to widen the scope of any enquiry to incorporate the South Pacific region, where research of this type is limited. This will provide enormous potential for further research in the development banking (lending) area.
For the researcher, a Foucauldian perspective provided him with the necessary tools to see development banking and its operations. Hopefully similarly informed research studies will be carried out by other researchers and provide future contributions to enhancing a full understanding of the banking discipline.