THE ORIGIN OF THE PEOPLE'S BANK AND ITS FOUNDING FATHERS

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Introductory

Poverty and indebtedness have always been with us in Sri Lanka and their incidence has been most widespread in the rural areas where the vast majority of the people live. The suppliers of credit to these people have been, and continue to be, mostly non institutional sources, and since a good proportion of these comprises undesirable sources, rural idebtedness has brought much hardship resulting in turn in low levels of agricultural production.

For these reasons successive governments have in the past shown much concern and sought ways of institutionalising rural credit and providing assistance to the small farmer. The first official initiative and action in this regard in modern Sri Lanka were instituted with the enactment of the Co-operative Societies Ordinance in 1911. This was a time when chronic poverty and indebtedness had assumed intolerable proportions in the country. The solution decided on by the then Colonial government was the organisation of the farming community in associations based on the co-operative principle of self-help and mutual-help. Government provided financial assistance to these new societies at the outset and in course of time the movement developed its own co-operative banking system.

The next major official initiative we are concerned with in this essay was the Agricultural Plan of 1958 originated by Philip Gunawardena[1], Minister of Agriculture and Food. This Plan attempted to implement a comprenensive programme of action to ensure the sustained growth of the agricultural sector; it surveyed, inter alia the performance of the Co-operative Movement in the preceding 47 years and concluded that its contribution to the institutionalisation of rural credit had been minimal. The Plan therefore, set out to look for fresh solutions.However, the organisational design decided upon was again a co-operative structure but with a different ideology. The concepts of "self-help" and "mutual-help" were not considered enough by themselves in a developing economy like Sri Lanka's.In such a context self-help and mutual-help required the active support and participation of the state. The co-operative structure envisaged was to span the entire country with the mass of the farming community participating. Each village was to have its own society constructed on multipurpose lines and geared to be the centre of socio-economic activity in the village. A structure of this magnitude needed the support of a financial institution specialised to serve it and possessed by resources to match. The Plan therefore provided for the setting up of a new and strong Co-operative Development Bank to replace the existing co-operative banking system which was considered inadequate for its purposes.

The case for a new apex bank to serve the Co-operative Movement had been taken up quite independently 4 years earlier in 1954 by the Central Bank of Ceylon. The Governor of the Central Bank of the time, Sir Arthur Ranasinghe, was a strong advocate of the idea. It was he who along with Philip Gunawardena and their respective officials eventually prepared the draft of the constitution of the proposed Co-operative Development Bank. While it is true that these two men were its principal architects the Co-operative Development Bank established with the title People's Bank in 1961, was in a very real sense the logical outcome of an evolutionary process which went back 50 years to 1911 when the Co-operative system was formally installed in this country. The movement, to be sure, had small beginnings and the first generation co-operatives, namely the co-operative credit societies of the colonial era made little impact. But susequent historical developments induced changes which broadened the scope of the movement. The growth of an island-wide co-operative consumer network during the Second World War and the Co-operative Agricultural

Production and Sales Societies (CAPS) in its aftermatch brought large numbers of people within the co-operative fold. There were also the dry zone area land settlement schemes creating new farming communities which found in the co-operative a suitable form of organisation to serve their economic needs. This continuing expansion of the movement was accompanied by a corresponding growth in the demand for funds which the movement's own co-operative banking system found it increasingly difficult to meet. This naturally led the movement to search for a strong apex financing institution. The Co-operative Federal Bank established in 1949 as the apex bank of the movement had proved abortive because its constitution was restrictive debarring it from engaging in any lucrative commercial banking business. An apex authorised to engage in such lucrative commercial banking business was the obvious next step. This was precisely the rationale of the new Co-operative Development Bank which Philip Gunawardena and Sir Arthur Ranasinghe proposed.

Origins

The evolutionary process culminating in the establishment of the People's Bank in 1961, as we have said, went back 50 years to 1911. This was a time when the life of the village people had sunk to a level which the colonial government could no longer ignore. The cumulative effects of successive foreign inroads beginning with the Portuguese in the 18th century followed by the Dutch and ending with the complete conquest of the country by the British in 1815 had caused considerable disruptions in the traditional economy. The super-imposition in the course of the 19th century of the modern factory based plantation industry caused further dislocations affecting particularly the peasents living in the central hills. Large masses of the peasants in this part of the country were dislodged by the new plantations from lands which they had enjoyed in common for centuries. There were also the inequities of the Grain Tax, the incidence of which in particular districts had even caused starvation and death. K.M. de Silva in his History of Sri Lanka cites the annual administration report of 1888 of the Assistant Government Agent, Nuwara Eliya which records that 1049 villagers died of starvation between 1882 and 1886 as a result of evictions from their lands due to non payment of this tax. De Silva sums up the distress and the rural poverty of the period in the following passage in his History of Sri Lanka:"Throughout the last quarter of the 19th century and the first decade of the 20th there are frequent references in published official documents to famines, conditions of near-famine, chronic rural poverty, destitution and, above all, starvation in many parts of the country, especially the dry zone. After a century of rule, the British Colonial administration had not succeeded in improving the living standards of the rural population, in most parts of the country. Peace and stability they certainly had brought, but they had alleviated little of the hardships of the Sinhalese peasants".

Agricultural Banks Committee 1909

It was in this situation that the Governor Sir Henry McCallum, who according to Wickremaratne (History of Ceylon Volume. 3) "was more alive to the problems of rural indebtedness and credit than his predecessors had been", appointed a special committee known as the Agricultural Banks Committee to inquire and report on these problems. The terms of reference were, "to inquire into the agricultural conditions in Ceylon, the relations between landlord and tenant, the extent of indebtedness of the cultivator, whether he stood in need of assistance, and if so what form this assistance should take, and whether agricultural banks on the model introduced in India were suited to conditions in Ceylon". (Report of the Co-operative Commission - Ceylon Sessional Papers 1970). The Agricultural Banks Committee "recommended that an Ordinance be enacted on the lines of the Co-operative Credit Societies Ordinance (1904) of India". This meant the introduction of the Raiffesen system of Co-operative Credit Societies and in pursuance of these recommendations the Co-operative Societies Ordinance of 1911 was enacted. The establishment of these Co-operative Credit Societies did help to some extent in the monetisation of the traditional economy and the mobilisation of savings but its impact on the lives of the village people was minimal. Although the terms of reference to the Agricultural Banks Committee gave the impression that an in-depth inquiry was intended and that the government was conscious of the complexities of the problems, the actual remedy suggested "of pinning its faith entirely on the principle of Co-operative credit" was totally inadequate. Moreover, in contrast to the government's claim that these co-operatives were "a voluntary peoples'movement developing its own dynamics and leaderships", it was in fact a guided movement in which the Registrar of Co-operatives was the supreme arbiter. The Report of the Co-operative Commission 1970 confirms that during the period 1926 - 1942 the Registrar was the dominat figure in the movement. He believed in "slow and steady growth", and "he did not consider co-operatives as institutions for all people but only for select persons considered worthy of admission". In such an elitist set up there was no room for the ordinary masses of the peasantry and it is reported that even at the highest point of their growth societies catered to less than 10% of small farmers. Tables 2 and 3 of the Report of the Co-operative Commission of 1970 reproduced below giving particulars of growth in memebrship and loan transactions from 1926 to 1942 illustrate the relatively modest nature of their size and performance.

Diversification

We have seen how during the Second World War and its aftermatch the co-operative movement broke out of the narrow confines of the co-operative credit system and branched into consumer business, production credit, and marketing activities. Consumer co-operatives had increased in number from 38 in 1942 to 4004 by 1945 while CAPS societies had a total membership of 217.123 by 1955.

Despite the significant expansion of the movement shown by this data it was found in a survey of rural indebtedness conducted by the Department of Census and Statistics in 1957 that non-institutional sources continued to predominate. The combined contribution of Government, commercial banks and co-operatives amounted to a meagre 7.8% of the total wheareas the co-operative contribution taken separately was only 4.1%.

Multi-Purpose Co-operatives

If Sir Henry McCallum's Agricultural Banks Committee of 1909 recommended the introduction of Co-operative Credit Societies, Philip Gunawardena's Agricultural Plan of 1958 debunked the system. It characterised the co-operative Societies Ordinance of 1911 as "a scissors and paste" piece of legislation transplanting a system wholesale from abroad without taking into account local socio-economic factors and without any desire to extend it to the vast masses of the farming population. The Report rejected the orthodox co-operative ideology of "self-help" of "God helping those who help themselves" as being inappropriate in a developing country like Sri Lanka. It held that the movement's role in such a country was to be an active partner of the state in the task of national development.

The Report also rejected the single- purpose Co-operative concept which was in vouge at the time and argued instead for Co-operatives organised on Multi Purpose lines. Philip Gunawardena told the House of Representatives that "it was useless wasting the energy of those talented people in the villages in a number of societies. It was much better to get them into an organisation, one single society, the Multi-purpose Co-operative Society. All the economic and other activities of the village can be mobilised and served by a multi purpose society"(Hansard 11 May 1961). The Agricultural Plan of 1935 spelled out the multi purpose concept in the following terms, which in restrospect after the sobering experience of the last 20 years sounds idealistic, to say the least.

"It is intended that the multi purpose societies will institutionalise all rural credit, plan and execute schemes of agricultural development, undertake minor irrigation projects and construction work in the village and organise agricultural marketing and the distributive trades, promote industries, provide utilities, ensure full employment, and in other ways make the villages a closely knit economic organisation for the purpose of establishing complete economic democracy at the village level".

Agricultural Plan 1958

The restructuring of the Co-operative Movement on Multi-purpose lines was one of the three main elements of the Agricultural Plan of 1958. These were popularly referred to at the time as the "Tripod" supporting the Plan, the other two legs of the Tripod being the Paddy Lands Act and the Co-operative Development Bank. The Plan itself was orchestrated by

Table 1. Progress of the Co-operative Movement 1926 – 1942

Year	No. of Credit Societies Unlimited	No. of Credit Societies Limited	No. of Thrift and Savings Societies	Total No. of Credit and Thrift Societies (2)+(3)+(4)	Total no. of Societies including other types	Total Membership	Total Working Capital Rs. '000
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1926	288	27	N.A.	315	315	41,164	N.A.
1927	281	22	N.A.	303	303	35,112	N.A.
1928	338	22	N.A.	360	360	33,057	N.A.
1929	366	17	N.A.	383	383	27,970	N.A.
1930	423	36	N.A.	459	459	22,416	N.A.
1931	513	28	18	559	600	24,068	1,859.1
1932	589	19	22	630	655	24,415	2,175.7
1933	680	23	29	732	779	26,719	2,213.8
1934	735	29	48	812	897	30,277	2,307.3
1935	854	27	60	941	1,005	35,358	2,814.1
1936	847	27	71	945	1,008	39,055	3,236.9
1937	930	41	70	1,041	1,117	46,040	4,035 7
1938	1,051	58	96	1,205	1,299	55,726	4,519.6
1939	1,201	78	104	1,383	1,512	66,397	4,738.6
1940	1,302	93	119	1,514	1,659	71,929	5,158.0
1941	1,431	97	149	1,677	1,852	80,743	6,087.8
1942	1,519	103	164	1,786	2,036	91,988	6,988.8

Table 2. Loan Transactions of the Co-operative Movement 1926 – 1942

Year	Loans granted Rs. '000	Loans received Rs. '000	Loans due Rs. '000	Loans over-due Rs. '000
1926	444.0	328.2	601.7	200.0
1927	593.6	424.6	760.7	N.A.
1928	722.5	696.4	786.8	N.A.
1929	738.3	695.3	829.8	177.4
1930	992.6	792.5	1,029.9	168.6
1931	1,242.6	872.6	1,399.9	161.1
1932	1,298.3	1,065 0	1,633.2	188.5
1933	1,366.9	1,371.1	1,629.0	229.8
1934	1,627.3	1.556.2	1,700.1	230.3
1935	1,817.8	1,679.8	1,838.1	N.A.
1936	2,009.0	2,228.4	1,618.7	N.A.
1937	2,359.1	2,173.3	1,804.5	N.A.
1938	2,630.5	2,428.6	2,006.4	N.A.
1939	2,822.5	2,631.1	2,197.8	N.A.
1940	2,972.1	2,855.4	2,314.5	N.A.
1941	3,023.3	2,957.8	2,380.0	N.A.
1942	3,596.6	3,651.5	2,325.1	N.A.

Philip Gunawardena as Minister of Agriculture and Food with a team of outstanding public officials among whom was Ronnie De Mel the present Minister of Finance and Planning. He was the Commissioner of Co-operative Development at the time.

Philip Gunawardena's main focus was on the traditional farmer engaged in the production of foodstuffs and the goal was increased production through increased productivity with the emphasis on the latter. The optimum exploitation of cultivable land was his credo. He believed that with existing acreage of cultivable land the entirety of the nation's essential foods could be produced and he dismissed what he called the Robinson Crusoe methods of previous Ministries. In the traditional sector his talk was the identification and elimination of the contraints that stood in the way of the optimum exploitation of cultivable land. The constraints were identified as poverty, indebtedness and feudal relationships, and he saw the need for credit facilities, marketing facilities, scientific techniques and crop insurance. The farmer had to be provided with a package of these inputs to be administered by the farmers themselves through the multipurpose co-operative structure.

Paddy Lands Act 1958

The ending of what he termed the feudal relationships between the landowner and the tenant cultivator was high in the Minister's priorities. This he set out to do through the Paddy Lands Act of 1958. By providing an estimated 300,000 tenant cultivators in the island with security of tenure and by limiting the rent which the landowner charged him Philip Gunawardena aimed not only at stimulating production but also, as he put it, "at raising the stature" of the farmers. It was a controversial piece of legislation as it overturned centuries old socio-economic relationships and deprived landowners of privileges they had enjoyed. It created fears and alarms among them and its author's reputation as a self-proclaimed Marxist revolutionary only confirmed their worst fears. Although in the immediacy of the post-1956 political climate its passage through the legislature was assured, these fears lingered and manifested themselves later in 1959 when the same Minister get out to establish the Co-operative Development Bank as the third leg of the Tripod.

(Note: The Paddy Lands Act was subjected to a protracted rear guard action by landowners in the course of its implementation. The Government Department responsible for its implementation had received approximately 27,000 complaints of evictions upto 2nd January 1966 by resisting landlords. The Department commented that "the dimensions of the problem of evictions and threats to tenant cultivators are such that it will not be possible for the implementing Department alone to undertake the task of affording the necessary protection to the tenant cultivators. Steps are therefore being taken to secure the assistance of the Police Department so that the Police could take action in the instances where rights of tenat cultivators are being interfered with"- Agricultural Development Proposals 1966-1970).

Co-operative Development Bank

The Co-operative Development Bank was the third leg of the Tripod in the Agricultural Plan. Philip Gunawardena states the following in his publication, "Truth About the Bill": "The new islandwide network of multi-purpose co-operatives, one of which will be eventually established in every village of the Island, will provide a firm foundation for the new co-operative bank. The Central Bank of Ceylon, working quite independently of the Ministry of Agriculture had come to the same conclusion, namely that the existing co-operative credit organs in Ceylon were inefficient and inadequate, and that they should be completely re-consituted. In particular, the Central Bank was of the view that a strong and efficient co-operative development bank should be established to take the place of the weak and inefficient Co-operative Federal Bank which is now in existence". It will be useful at this point to examine why the existing co-operative banking system was considered inadequate.

Financial Structure of Co-operative Movement

Parallel with the growth of the co-operative societies we also see the growth of a supporting co-operative financial structure. At the outset the colonial government provided financial assistance to the new societies in an amount equivalent to three quarters of the paid up capital of each. In 1916 Government set up the Local Loans and Development Fund which provided loans amounting to three times the share capital and reserves of societies with unlimited liability and loans amounting to the paid up share capital of societies with limited liability.

Beginning in 1929 we see the emergence of the Movement's own banking system, Co-operative Provincial and District Banks. These Banks were formed by the affiliation of primary co-operative societies. They accepted savings and term deposits both from the co-operatives and the public but they accepted demand deposits only from the co-operatives. In 1949 an apex co-operative bank known as the Co-operative Federal Bank of Ceylon Ltd., was established.

The co-operative banking system succeeded in providing the co-operative credit societies with their fund requirements. It was even able to meet the financial needs of the islandwide structure of consumer co-operatives that arose during the Second World War. It was however, unable to meet the financial needs of the CAPS Societies which came into being in the aftermath of the Second World War. CAPS Societies were formed to provide cultivators with production loans and marketing facilities and it was felt that the risks involved in cultivation loans were beyond the capacity of the co-operative banking system. This necessitated the entry of Government directly into founding primary co-operative societies for re-lending to their members.

(Note: It may be noted that Government funding of cultivation loans continues to this day except that it is now done through the Central Bank re-finance facility extended to commercial banks for re-lending to cultivators or through their co-operatives).

The demand on the Co-operative Banking System increased further with the Multi-purpose Co-operative Societies expansion programme of the late 1950s. The following extracts from the Report of the People's Bank Commission of 1966 are illustrative of the growing problems:"On 31st December 1960 there were 13,990 registered Co-operatives of all types with a membership of 1,555,212 and a working capital of Rs.218,780,000. On September 1964 there were 14,834 registered Co-operative Societies with a membership of 1,665,398 and a working capital of Rs.269,798,000. It is obvious that finance on an extensive scale is needed by these Societies in their activities.

Provincial or District Co-operative Banks were expected to provide the credit requirements of Credit Societies in their respective areas. The Co-operative Federal Bank financed its affiliated Banks to the extent of its resources. At the time of dissolution, i.e. on 30th June 1961 it had deposits amounting to Rs.23.3 million, while its advances aggregated Rs.13.1 million, the ratio of advances to deposits being 56.3% but these advances, which included short term marketing loans were wholly inadequate to stimulate production or afford financial relief to members".

Co-operative Federal Bank

The Co-operative Federal Bank suffered from congenital weaknesses. Its business was confined to Co-operative banking. It could accept demand deposits from the public but it could lend only to Co-operatives and as a result it could not benefit from the lucrative areas of Commercial Bank lendings. It had no authority to open Branches. The Co-operative Provincial and District Banks were not its branches, they were separate independent entities. The Co-operative Federal Bank did lend to Co-operative Banks for re-lending to Co-operative Societies and they in turn their memebrs but the intervention of these intermediaries only increased the interest costs charged to the ultimate borrower. The Co-operative Federal Bank was also called upon by Government to engage in high risk agricultural activities without any Government guarantees. The Bank was initially granted a Government loan of Rs.2 million which gave Government a first charge on its assets and because of this liability the Bank was precluded from raising funds from Commercial Banks. It could not also raise funds in debentures in the absence of Government guarantees. It was expected to act as a balancing medium for the surplus funds of societies, but it was unable to obtain the co-operation of the Co-operative Banks in this regard. Some of these Banks preferred to do their banking business with Commercial Banks rather than with the Co-oprative Federal Bank and there were others which even opposed affiliation with the Co-operative Federal Bank.

Central Bank Proposal for a New Co-operative Bank

Following an examination of the Co-operative Federal Bank in 1954 Sir Arthur Ranasinghe the Governor of the Central Bank advised both the Minister of Finance and the Minister of Agriculture and Food of the need to effect a drastic re-organisation of the Co-operative Federal Bank. Consequently officials of the Central Bank and the Ministry of Agriculture and Food respectively, held discussions and arrived at agreed proposals. Thereafter the Central Bank wrote a letter dated 22 March 1985 to the Ministry of Agriculture and Food embodying these proposals, (A copy of this letter appears as Appendix IV in the Report of the People's Bank Commission - Ceylon Sessional Papers 1965).

The letter proposed the setting up of a new Co-operative Bank by an Act of Parliament and not as a registered Co-operative Organisation. It was to be empowered to operate as a Commercial Bank and open Branches in rural areas. The powers and objects of the New Bank as set out in Para 7 of the letter read as follows: "The new Bank would be given all the powers now given to the Bank of Ceylon. Its special role in the Co-operative field will be emphasised in its objects. In all other respects it will operate as a Commercial Bank and conform to all the normal standards of good commercial banking. If the Minister so approves, the new institution could be empowered to deal in foreign exchange from the date of the establishment of the new institution or from such date as he may appoint".

Note: (It may be of interest to note in passing that as far back as 1934 the Ceylon Banking Commission or the Pochkanawala Commission named after its Chairman Sir Sorabji Pochkanawala, a well known Indian Banker proposed in regard to the Co-operative Societies in operation at the time, that they should be linked to a strong Commercial banking system and not to an apex Co-operative Banking institution).

Change of Government 1956

There had been no response to the Central Bank's letter of 22 March 1956 from the Ministry of Agriculture and Food, so when a new government came to power in 1956 the Governor Sir Arthur Ranasinghe lost no time in taking the initiative again to press his case. He wrote a personal letter on 29 May 1956 to the new Minister.

"As it is now organised the Cooperation Federal Bank does not appear to be of much use to the Cooperative Movement or to the general public. I would therefore wish to see that this Bank is so constituted as to be an effective institution not only to attract deposits of the rural population but also to serve their credit requirements.

If you agree that the Co-operative Banking System needs revitalisation and expansion the officials of the Central Bank can meet the officials of your Ministry to draw up the Constitution of a new Bank to take over the Cooperative Federal Bank and the Cooperative Provincial and District Banks." TRUTH ABOUT THE BILL -- 14 April 1959.

Philip Gunawardena's response was prompt and by October 1956 the officials of the two institutions had prepared a memorandum setting out in detail the proposed constitution of the new Cooperative Bank and its proposed objects, powers and functions. "A copy of this memorandum was sent to the Ministry of Finance on 28 December 1956. Philip Gunawardena states that after nearly five months the Permanent Secretary of the Ministry of Finance replied on 21 May 1957 confirming that the Minister of Finance had agreed to the proposals in the memorandum "subject to four minor amendments". The memorandum was thereafter presented to the Cabinet of Ministers which approved it on 28 October 1957. The Cabinet had also decided that a Bill should be drafted to reconstitute the Co-operative Federal Bank in accordance with the proposals set out in the Memorandum. A draft memorandum for legislation was prepared by the Central Bank and this is reproduced as Appendix V of the Report of the People's Bank Commission 1966. The Report also recorded that further discussions were continued on the basis of a draft Bill prepared by the Legal Draftsman. However no finality was reached till more than three years later regarding the presentation of the Bill to the legislature for enactment.

In 1959 a controversy erupted between the Minister of Agriculture and Food, Philip Gunawardena and some of his ministerial collegues over the Bill which eventually led to the resignation of Philip Gunewardena from the Government. In his pamphlet "Truth About the Bill" of 14 April 1959 issued by the Ministry of Agriculture and Food, Philip Gunawardena gives his version of the controversy that arose. He states among other things, that "the establishment of a Co-operative Development Bank had been approved earlier both by the Finance Minister and the Central Bank, which is the Government's principle source of expert advice on monetary and banking matters. Now, nearly two years later, the Finance Minister discovers that the provision of credit is his function and not the function of my Ministry, that the establishment of a Co-operative Development Bank is totally unnecessary and that all the credit needs of the rural sector can be met adequately by existing institutions like the Agricultural and Industrial Corporations".

In July 1960 a new government had come into power and T.B.Illangaratne, the new Minister of Commerce, Trade, Food and Shipping resuscitated the Bill more than three years after the first Cabinet conclusion. An amended Bill redesignated "the People's Bank Bill" was approved by the Cabinet on 2 December 1960.

People's Bank Act 1961

The People's Bank Bill was presented to the House of Representatives by T.B.Illangaratne on 9 May 1961. It was substantially the Co-operative Development Bank Bill which Philip Gunawardena and Sir Arthur Ranasinghe had sponsored. In fact Philip Gunawardena conceded that it bore a family resemblance" to his Bill. He told the Minister in the ensuing debate, "Perhaps you need not have spent more than half an hour to introduce the words you have introduced in order to change it from being the Co-operative Development Bank Bill to the People's Bank Bill". In more serious vein he charged that the present bill had " to a very large extent deviated from the co-operative idea", and he objected to the change of name.

There is no doubt that to Philip Gunawardena the retention of the co-operative identity of the proposed Bank was of fundamental importance. To him the Bank was an integral part of the Agricultural Plan of 1958, and an integral part of the co-operative structure projected in the Plan. The commitment of the Plan was to the co-operative form of organisation and specifically to its multi-purpose form. In the thinking of the men who formulated the Plan it was the co-operative form of organisation that was "admirably suited for the implementation of national plans of production, distribution, marketing, rural credit and essential public services."

T.B.Illangaratne obviously had no such commitments either to the Agricultural Plan of 1958 or to the Co-operative form of organisation. He did see the significance of the co-operative set-up in the village economy and he did accept "that credit should be given mainly through Co-operatives rather than directly to individuals in the rural areas." But his approach to the Co-operative movement was pragmatic rather than doctrinaire. His sponsorship of the Bill arose largely from his realization of the urgent need for a new institution to fill very wide gaps in the banking system of the time. He told the House that "the commercial banking system (consisting of foreign banks) of the country was geared to finance only trade, internal, wholesale and export-import". He found that the only indigenous bank, the Bank of Ceylon also followed in the traditions of the foreign banks and "confined itself to the financing of the commerce of the country" while "agriculture, which is the livehood of the vast majority of our people, has been scarely noticed by our Banks".

Regarding the change in the name to "People's Bank" the Report of the People's Bank Commission has this to say: "In July 1960, a new Government had been voted into power, proclaiming its intention to make an onward march to progress and democratic socialism in this country". There is no doubt that it was in pursuance of this intent that the change in name was decided upon. The title "People's Bank' has, of course, a democratic and socialist appeal, and it made it clear that the new instituion was being established "not merely to furnish financial assistance to co-operative societies but also to provide the credit needs of those outside them"

Commencing Business

The two key men who were initially entrusted with the management of the Bank were Vincent Subasinghe and Wilmur Solomons as Chairman and General Manager respectively. The former was a leader of the Co-operative Movement with a reputation for the creative work he had done at Sandalankawa. The latter was a top executive of the Bank of Ceylon with a reputation as an aggressive and innovative banker whose inherent talents apprently had not much room for expression in the very conservative atmosphere that prevailed in the Bank of Ceylon at the time.

Purposes of the Bank

Any attempt at an evaluation of the respective contributions of these two pioneers of the Bank must take into account their differences in background, and certain ambiguities in the pharsing of the vital Section 4 of the People's Bank Act No. 29 of 1961 which sets out the purposes of the Bank. These ambiguities lent themselves to varying interpretations resulting sometimes in differences in approach and attitudes. Section 4 reads as follows:

"The purposes of the Bank shall be to develop the co-operative movement of Ceylon, rural banking and agricultural credit, by furnishing financial and other assistance to Co-operative Societies, approved Societies, cultivation committes and other persons."

The Report of the People's Bank Commission 1966 records that "many and divergent opinious reflecting various interpretations of the phraseology of Section 4 were expressed by witnesses". The Report attempts to sort out these various interpretations and these are listed below.

1) The development of the co-operative movement in Ceylon is the prime resposibility of the Bank, and this responsibility should be discharged not merely by providing financial assistance to co-operative societies but also by furnishing other assistance to propagate the creed of co-operatives, etc.
2) The development of the co-operative movement in relation to the purposes of the People's Bank can mean no more than the strengthening of the financial structure of the co-operative movement.
3) The development of rural banking should be effected by the establishment of a network of rural banks, by which would be meant branches of the People's Bank in rural areas as well as Banking facilities provided by co-operative societies located in the countryside assisted by the People's Bank.
4) The development of agricultural credit would include the grant of financial assistance to the individual farmer who is not a member of a co-operative.
5) The Bank can be called upon to finance enterprises for the development of whole areas which would normally fall within the sphere of Local Government.

Contrasting Personalities

Vincent Subasinghe was a man dedicated to the co-operate philosophy and his commitment to the movement was total. He was not blind to the many weaknesses in the management of individual societies but he held firmly to the first of the interpretations listed above. He believed that it was the Bank's responsibility not only to finance co-operatives but also to provide them with managerial and operational assistance designed to improve performance. In his mind the Bank was strictly a co-operative development Bank. The Bank's commercial banking function was to be treated as a supporting arm, as a means of mobilising sufficient resources for the promotion of its basic task. He feared that any excessive weightage to the commercial banking function would result in the Bank straying away from its assigned goal. For this reason, he deprecated any aggressive competition for commercial banking business and any involvements in financing big business.

On the question of branching particularly in rural areas he believed in developing the capacities of village level co-operatives to handle the simple banking needs of their own members. He was not averse to opening the Bank's own branches in rural areas but he believed that in the development of rural banking the most penetration could be achieved through this strategy. He believed that the village level co-operative had certain advantages as compared with a branch of the Bank, with their intimate local knowledge, lower costs and easy accessibility. He believed therefore that the Bank should actively promote this strategy by lending the societies its banking expertise in addition to its funds. This was the rationale of the Rural Bank Scheme of 1964 introduced by the Bank and which is still making good progress.

While Vincent Subasinghe was dedicated to the co-operative philosophy, Wilmur Solomons was an aggressive commercial banker imbued with the competitive spirit. But he was no conservative. He was appreciative of the fact that in a developing country like Sri Lanka, the rigid application of the canons of commercial banking would be counter-productive and lead to stagnation. He believed in expanding and popularising commercial banking and making it accessible to the ordinary man while at the same time competing aggressively with the other commercial banks for big business oppourtunities. He built a strong and innovative International Divison making foreign exchange business the main income-earner of the Bank, but at the same time he was prepared to assist the rising classes of indigenous industralists who were unable to obtain banking facilities from the existing banking systems. He went further and introduced loan schemes to benfit urban workers and village level small business enterprises.

But he was deeply sceptical of the co-operatives and their potential to develop into efficient organisations. He was resigned of course to continuing the extension of the routine banking facilities co-operatives had been receiving from its own banking system in the past, bearing in mind the Bank's statutory obligations. But in the interpretation of Section 4 of the People's Bank Act regarding Co-operatives his implied position conformed to the second of the interpretations listed earlier. His opposition to the Rural Bank Scheme inaugurated by the Bank in 1964 was typical of his attitude to the co-operative movement.

Branching Programme

The People's Bank can claim to be the pioneer in popularising banking in the country. We have already referred to the innovative skills of Vincent Subasinghe in extending rural banking through the media of village level co-operatives and Wilmur Solomon's readiness to provide credit schemes for people at the low income levels. Nevertheless in the public mind the most spectacular demonstration of the

Bank's dynamism was its branching programme.

Prior to the advent of the People's Bank branches of commercial banks were exclusively urban centered. S. Rajalingam (Staff Studies Central Bank of Ceylon Publication 1971) has commented that until the establishment of the People's Bank, branch expansion was not of much significance, as the other banks had been setting up branches mainly in Colombo and the large provincial twons. It was in the area of branching that Wilmur Solomon's organisational skills were seen to their best advantage. The pace set by the People's Bank from the outset can be gauged by the fact that between July 1961 and December 1969 of the 106 new branch banks opened, 83 belonged to the People's Bank.

It must also be mentioned that it was the People's Bank's initiative in the matter of branching that altered other local banks also of the need to expand. The Report, of the Bank of Ceylon Commission- Ceylon Sessional Papers 1968.comments on this aspect. It records that between 1939, when the Bank of Ceylon was established, and 1960 it had established only 28 branches, 08 of which were located in Colombo. During 1961-1967 however the Bank of Ceylon had established 16 more branches "from which it would appear that the Bank has accelarated the rate of opening up of branches within the later period. Possibly this was to meet the competition offered by the People's Bank which had opened a considerable number of branches during this period".

In the popularisation of commercial banking another pioneering effort of the People's Bank which was even more far-reaching than its branching was the introduction of Sinhala and Tamil for use in transactions and this was one of Vincent Subasinghe's major contributions. Prior to this change the general public had no means of doing business with the commercial banks except through the medium of English. The older generations will recall that in that era non-English speaking customers were subjected to the indignity and to the risks of being required to have their signature on blank cheque leaves attested by Bank Officers prior to the issue of cheques.

Original Conceptions and Today's Realities

In any evaluation of the Bank's performance in the 25 years of its existence there will be unanimity that it is one of the two leaders among the local commercial banks, and that it has been the pioneer in popularising the banking habit. There will also be general agreement that it has played a major role in the redistributory function of transferring resources from the surplus to the deficit sectors. However, if one were asked the questions about its performance in the tasks of co-operative development and institutionalisation of rural credit as envisaged by the Founding Fathers, one can only hazard a few generalisations in an essay of this nature.

Much water has flowed since the late 1950s when Philip Gunawardena and Sir Arthur Ranasinghe strove hard to establish what they held was an urgent need-a strong and efficient Co-operative Development Bank. Confidence in the co-operative movement as an instrument for the resurgence of the rural economy was still strong and the relevance of a powerful financial institution to support it seemed obvious. The bank which was eventually established as a result of their labour bore a different name - People's Bank- but in the early years of its existence there was a perceptible sense of commitment and a lively interaction between the Bank and the Co-operative Movement. Today, 25 years later, the People's Bank has achieved distinction in another sphere, in the commercial banking sphere, sharing the top berth with the Bank of Ceylon. The predominance of its commercial banking operations is such that to describe it as a Co-operative Development Bank would seem fanciful except to those who have taken the trouble to trace its origins.

These years have also witnessed the Multi-Purpose Co-operatives drifiting in ways which would have been further from the minds of the man who so hopefully mapped out a course for them in the Agricultural Plan of 1958. The drive they initiated in 1958 to establish a society in each village, approximately 12,000 in the short term, petered out before long. They never came near to achieving their targets. Most of the societies formed were found to be too small and non-viable, and a good proportion of them was multi purpose only in name. The Co-operative Commission of 1970 recorded that there were over 5000 societies with the classification 'multi-purpose' which was misleading. "Over 1200 of them were engaged only in consumer distribution and only about 2,700 were engaged in two or more functions and thereby deserved to be classified as multi-purpose. The Commissioners therefore argued that, "what ever may be said of the social values of small co-operatives, and it cannot be denied that they were often great, the economic benefits were often slight and of short duration". They therefore recommended "that the number of primary societies be greatly reduced and that the first general objective of a new structure should be a much smaller number of large primary societies."

The Co-operative Reorganisation of 1971 adopted these recommendations and a series of amalgamations were effected. Today there are 289 large societies each encompassing a number of villages within its area of operation. There was however a government policy change accompaying the Re-organisation which in the result has turned out to be a serious constraint in no far as the development of the multi-purpose goals of these societies is concerned.Prior to the Reorganisation the wholesale business in the supply and distribution of essential foods was the monopoly of the secondary level co-operative unions that existed at the time. The Re-organisation dissolved these Unions and the wholesaling business was entrusted to the new societies. This work involves the maintenance of a large network of wholesale depots and large fleets of lorries as well as a distribution network which had to be increased from 4000 to 9000 outlets approximately to meet the needs of consumers. As a result almost the entire time and energies of the Boards of

Directors and Managements of these societies have to be devoted to the maintenance of this vast supply and distribution complex, leaving them little time to promote the societies' multi-purpose objects. To all intents and purposes therefore consumer trading both wholesale and retail is the primary business of the societies, and the other activities are secondary including the rural banking activity. Fortunately, for the societies however their rural banking activity is being maintained at a reasonably satisfactory level on account of the close and active supervision maintained by the People's Bank and Department of Co-operative Development.

The Bank's fundingof the consumer trading activity does not appear to have been encouraging. A large number of these societies have been operating at a loss for many years and particularly in the post - 1977 period when they ceased to benefit from the monopolies they enjoyed under government patronage in the distribution of rationed food commodities and the purchase of agricultural produce under the Guranteed Price Scheme. These losses have in turn led to defaults on facilities obtained from the Bank and on suppliers' credit extended to them by the Food Commissioner and the Co-operative Wholesale Establishment. Recent Administration Reports of the Department of Co-operative Development have dealt with their problems in detail.In its 1982 Report,for instance the Department has expressed the view that these societies "were unable to adjust themselves to a competitive economy as they depend on the sale of essential consumer goods. Time has come to diversify their services through efficient management systems". A survey conducted by the Sri Lanka Institute of Co-operative Management in 1984 had identified 116 societies out of 273 examined "as societies whose performance was poor and were likely to reach a state of financial embarasement". In marked contrast to the societies' consumer trading has been their record in managing their Rural Banks which the People's Bank originally sponsored and continues to monitor. Successive Administration Reports of the Department of Co-operative Development right up to 1984, have underscored the contribution the Rural Banks have made to these societies by way of profitability. Typical is the following comment appearing in the Adminstrative Report for 1982

"As it was in previous years the co-operative rural banking sections enjoyed the position of the most profitable sections in the multi purpose co-operatives during this year too. It is also necessary to report that the co-operative banking section is the only contribution towards either profitability or at least balancing losses".

The years since 1958 have also seen the most concerted and sustained official efforts undertaken in modern times to institutionalise rural credit in general and agricultural credit in particular. Landmarks in this history of official efforts have been the laying of the multi-purpose co-operative structure beginning in the late 1950's, the establishment of the People's Bank in 1961, the inauguration of the Rural Bank Scheme in 1964, the introduction of the New Agricultural Credit Scheme by Government in 1968 and of the Agricultural Production Centres in the 1970's. The Agricultural Production Centres, among other things, signalled the entry of the Bank of Ceylon at long last into the rural sector, and also the funnelling of government sponsored agricultural credit direct to farmers by commercial banks without the intermediation of their co-operatives. The Bank of Ceylon has since been followed into the rural sector by other banks including a few foreign banks. The latest addition to this formidable reservoir of institutional sources was the Regional Rural Development Banks Act No. 15 of 1985 enacted last year.

Despite this impressive expansion in the number and range of organisations professedly geared to serve the credit needs of persons of limited means the experience has been that these organisations have been lacking either in capacity or inclination to reach down to these classes of the community. There are admittedly a multiplicity of factors contributing to this situation. Surveys and research studies conducted from time to time by organisations like the Central Bank, Agrarian Research and Training Institute, and the People's Bank have revealed much illuminating information. Lack of knowledge of facilities offered and the lack of means to establish their credit worthiness have been factors inhibiting persons of low socio-economic status. Some studies have shown the existence of village-level coalitions of forces which prevent the flow of information and credit to the smaller farmers. The rigidities of loan procedures in both commercial bank and co-operative lending operations as against private money-lenders, have been cited as causes. There is also the convenience for some of borrowing from friends and relatives. All in all the consensus appears to be that institutional credit has so far failed to reach the persons who are in most need of it, the lowest income earners.

This is, for instance, the conclusion drawn by the Central Bank in its Report on Consumer Finances and Socio-Economic Survey 1981/82. In its analysis of the distribution of loans between the institutional and unorganised sources it states that " in all sectors (Urban, Rural and Esatate) loans from the unorganissed sector exceed loans from institutional sources both in the number of loans and value. Only 10 percent of the total number of all island loans and 38 percent of the total value of loans, are obtained from institutional sources. The difference in percentage implies that the loans taken from institutional sources are for comparatively larger amounts".

Regarding the pattern of borrowing of different income groups it states that "the lower income groups rely heavily on money lenders and friends and relatives for financial assistance, a gradual decrease in loans from these sources being evident as income increases. Correspondingly, Banks increase in importance as a source of loans as income increases.This results from two main causes; firstly, the greater familiarity of the higher income groups with Banks and banking facilities and secondly, the ability of these groups to satisfy the criteria for receipt of Bank credit. The highest income group obtains approximately 94 percent of its loans from Banks". Table 7-15 from the Report indicates the pattern of borrowing of income groups.
(Report on Consumer Finances and Socio-Economic Survey 1981/82 -
(concluded on page 43)

(contd. from page 16)

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The experience of the People's Bank's own Rural Bank Scheme indicates that by and large its benefits accrue to certain middle income strata and not to the persons at the lower income levels. An article on "Rural Banks in Sri Lanka" in the Economic Review (December 1983) delves into this and other aspects of the Scheme in some detail. It refers to a case study done by the People's Bank on Rural Banks in the Kandy District, which shows that both (loans) recepients as well as depositors seem to come from the same middle rural stratum. Very probably, the higher rural income groups go to the commercial banks directly, whilst the marginal farmers do not go to the banking sector at all, but have recourse to the informal sector. These broad results have also been borne out in several studies by the People's Bank's Research Department on access to credit through People's Bank branches in the Mahaweli area".

Conclusion.

It will be seen from the foregoing that the Co-operative Development Bank, as originally conceived in the Agricultural Plan of 1958, as the apex of a multi-purpose co-operative structure embracing the entire farming community, never got off the ground. The departure of its principal architect Philip Gunawardena from Ministerial office in 1959 marked the end of the Plan.

Official policy towards co-operatives assumed a more pragmatic approach from this point onwards and this was the prevailing situation when the People's Bank was established in 1961. The very change of title from "Co-operative Development Bank" to "People's Bank" was symptomatic of the new policy. Although the co-operative orientation was retained in the framework of the People's Bank Act No.29 of 1961, the thrust of official policy was to open a wide range of avenues for the Bank's growth.

The Bank's subsequent development has been precisely on these lines, and over the years it has displayed a versatility which is perhaps unique in the local banking industry.