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CO-OPERATIVE RURAL BANK CREDIT

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There are several Co-operative Rural Bank loan schemes which provide credit facilities to meet the needs of the rural community. In the initial phase of the Rural Banks, namely from 1964 to 1974, credit was approved as and when

it was deemed necessary for various purposes. From 1973 a more effective credit scheme, called the Comprehensive Rural Credit Scheme, was introduced. Obtaining loans and advances under this scheme was more convenient for members of rural banks. Members were no longer subject to delays and difficulties they underwent earlier while guarantees

for credit were also now less demanding. Loans were given for both production and consumption.

As seen in the table below, from 1980 the maximum amount of credit available to a member of the Co-operative Rural Bank was Rs. 15,000/-. This maximum applies to advances for production and construction. The upper limit for loans under personnel guarantee is Rs 5,000/-; while loans to a limit of Rs. 15,000/- were possible by obtaining security of property as a guarantee (Mortgage). Provision has been made in the case of mortgages to secure undivided property as security mainly due to the convenience of obtaining inherited, undivided property which is available in the rural areas.

Loans are issued by the Rural Banks for a number of purposes and may be categorised under;

Production, including Industries, Agriculture, Animal Husbandry, etc.,

Consumption-Long Term (for purchase of items like Sewing Radios, Cycles etc.) and Short Term (for purchase of Food, Clothes etc.)

Also, Construction (houses, factories, stores, etc.); Trade, Debt Redemption; Electrification (houses, factories, etc.) and Emergencies.

Loans for debt redemption are given to redeem mortgaged properties and pawned properties and pawned articles and loans against promissory notes. Consumption loans are given for the purchase of necessities and consumer durables. Assistance for illness and funeral expenses constitute loans in emergencies. Advances for installing electricity were commenced in 1967. Details are given in the table.

Credit has continued to expand over these 20 years with a particularly rapid growth over the last decade. Between the period 1964-67 total short term advances amounted to about Rs. 2 million; and this amount grew approximately by Rs. 1.05 million annually upto 1971. In the year 1973 there was a heavy annual increase in advances and from that year onwards credit has grown by about Rs. 8 million annually till 1979. In 1980 once again there was a heavy increase of almost Rs 17 million and in 1981 an increase of Rs. 21 million. From less than Rs. 1 million in 1966 value of advances rose to over Rs. 37 million in 1975 and Rs. 137 million by 1983.

Maximum Loan Limits per Purpose and Individual and the Maximum period of Repayment 1965 - 1980

Purpose	1965	1968	1973	1980	Maximum Period of Repayment
Production	2,500	5,000	7,500	15,000	1-5 Years
Housing	2,500	5,000	7,500	15,000	3-5 Years
Debt redemption	2,500	5,000	5,000	5,000	5 Years
Consumption	500	500	1,000	5,000	1 Year
Emergencies	200	200	200	500	1 Year
Electrification	-	600	1,000	3,000	5 Years
Trade	-	-	1,000	2,000	-
Maximum loan limit per individual member	3,000	5,000	7,500	15,000	

Source: People's Bank

PEOPLE'S BANK PROPOSALS FOR RELIEF TO DEFAULTED BORROWERS IN THE RURAL FARMING SECTOR

The problem of defaulted borrowers, particularly in the rural farming sector, has engaged serious attention of all authorities concerned. In 1983 the Rural Credit Advisory Board, consisting of representatives of major institutions involved in the area of rural credit, gave close consideration to proposals of People's Bank. According to these proposals existing outstanding past due crop loans could be converted into a financial asset by the Government, in order to strengthen the capital base of the lending institution concerned.

The People's Bank has recognised its statutory obligations to provide credit to the rural sector and also the urgent national economic need to expand the coverage of credit facilities to this sector; while emphasising that financial prudence necessitates a pragmatic approach to the implementation of a scheme for the rehabilitation of past due borrowers. The proposal emphasised that these objectives could be achieved by overcoming identified weaknesses in rural agricultural and ensuring the continued financial viability and strength of the lending institutions.

Among the suggestions for expanding credit immediately to the rural sector without eroding the financial structure of the institution were that the government should offer the People's Bank a long term non-encashable bond upto the value of cultivation loans unrecovered/written-off which have been made out of Bank funds.

The Central Bank to set up a stabilisation Fund to provide for irrevocable balances of future loans to farmers whose defaulted loans have been rescheduled.

The People's Bank in turn would undertake rescheduling of outstanding cultivation loans of farmers cultivating viable units which are capable of producing adequate marketable surpluses to repay these loans. It would also inturn write-off the interest due and reschedule the principal due.

The scheme will be implemented by way of direct advances by the Bank and through credit-worthy Multipurpose Co-operative Societies. The Bank will reserve the right to select Co-operative Societies which could be allowed to undertake this operation. Funds of the Co-operative Development Fund will be used to rehabilitate the Multipurpose Co-operative Societies in order to strengthen them to carry out these responsibilities.