

BEGINNING AND 25 YEARS OF PROGRESS

PEOPLE'S BANK BEGINNINGS AND 25 YEARS OF PROGRESS

Clarence Fernando

Mr Clarence Fernando was a former Editor, Ceylon Daily News and Reuters Correspondent in Sri Lanka and for several decades has been a regular commentator on Sri Lankan events.

The People's Bank, which began business in unpretentious "hole-in-the wall" offices in the Y.M.B.A. building and in Duke Street in Colombo's Fort 25 years ago, can pat itself on its back modestly on the giant strides it has taken to become the largest and most influential bank in the Island handling over 60 percent of all Sri Lanka's commercial bank customers including peasants, workers, industrialists, private and public organisations, co-operatives and state corporations.

Today from its elegant 15-storeyed building on the banks of the Beira Lake in Sir Chittampalam Gardiner Mawatha, which puts to shame some of the high-rise monstrosities that are mushrooming around it, the People's Bank takes its business to the people in all parts of the country through a network of 300 bank branches, and over 900 branches of rural banks, the largest network operated by any bank in the country.

Of course, the trek to the Bank's Headquarters building in Sir Chittampalam Gardiner Mawatha in 1977 runs from the crowded offices in the YMBA building and Duke Street through its offices in Rutnam's building in Union Place from 1962 and the G.C.S.U. building in Sir Chittampalam Gardiner Mawatha from 1965. The trek has been long and arduous for, in the formative years, the Bank had to go through a scorching purgatory of fire when it had to face a Public Commission of Inquiry, appointed by Governor-General, William Gopallawa in 1965, on the working and administration of the Bank in its first four years. The Commissioner's first con-

clusion (para 203) was "The People's Bank has carried out the intention of the framers of the Act that the commercial business of the Bank should be used as a source for financing the co-operative sector".

However, the general conclusion the Commission reached on an overall review of the position on its first term of reference, that is the extent to which the Bank has, during its first four years, carried out or failed to carry out the purposes for which it has been established - was: "While the extent to which the purposes of the People's Bank cannot be determined with any mathematical exactness, in the first two years it is apparent that they were enthusiastically borne in mind by the Board of Directors and the General Manager, but thereafter in the process of expansion they tended to be lost sight of, and the powers conferred on the Bank to transact commercial banking business in order to carry out the purposes became the dominant objective rather than the purposes in themselves. A more balanced view of the scope and powers of the Bank appears to be now prevalent".

The Commission also made the point that in the second Annual Report of the Directors for the year ending 30 September, 1963, it was reported that small industries, especially those that were just beginning to find their feet, were given facilities, having in mind the role they had to play in the economy. It will be observed that from the latter half of 1963, this objective seems to have been displaced by the more ambitious

aim of making large profits by financing big industry".

The Commission also noted that the Bank had not given any financial or other assistance to any approved society or cultivation committee during the period under review. Indeed no society had been approved by formal order of the Minister to receive such assistance under the provisions of the Act, nor had any assistance been rendered by the Bank to cultivation committees, according to the evidence placed before the Commission by officers of the Bank.

"To that extent at least, it must be held that the Bank has failed to carry out in full the purposes as set out in Section 4 of the Act, i.e. to provide financial and other assistance to co-operative societies so as to develop the co-operative movement in Ceylon; to extend rural facilities in rural areas, and, in particular, furnish financial and other assistance to approved societies, cultivation committees, and other persons engaged in, or intending to engage in a small-scale agricultural, industrial or business undertaking in such areas; and generally to promote the economic development of rural areas".

The People's Bank commenced operations in July 1961. It was established under the People's Bank Act No. 29 of 1961 by dissolving assets and liabilities of the Co-operative Federal Bank.

Conception of the Bank

Before one goes further to talk about the new bank, it behoves one to ask why the Co-operative Federal Bank was liquidated.

Philip Gunawardena the MEP leader, who was Minister of Agriculture in the cabinet of Prime Minister Solomn Dias Bandaranaike, provides the answer to this question in the draft Co-operative Development Bank Bill, which he presented to the government

in April, 1959.

Commenting on that draft Bill he makes these points:

"One of the first and most important problems which engaged my attention when I took charge of the Ministry of Agriculture was the problem of rural credit.

It was clear to me that from the outset that productivity of village agriculture could never be substantially increased unless we provided adequate credit facilities in the rural areas. No purpose was served by advising the villane farmer to apply more liberal doses of fertilizer or to purchase improved agricultural implements if we do not at the same time provide him with the means with which to do it.

The Ministry carried out a number of studies on the rural credit problem. Another study was the survey of Rural Indebtedness carried out at the request of the Ministry of Agriculture by the Department of Census and Statistics:

This survey revealed:

- (1) That fully 54 percent of all village families were in debt;
- (2) that the total debts of the rural population amounted to over Rs 500 million.

The survey also revealed the startling fact that of this debt only 2.6 percent was due to the government and 3.9 percent to the co-operative societies sponsored by the government.

The remaining debts were due to private persons, the majority of whom were landlords, boutique keepers, itinerant traders and professional money lenders.

In short, a disturbing fact the surveys showed was that the existing co-operative credit structure of the country had failed to touch even the fringe of the problem. It showed that whether a peasant requires credit for cultivation, for the marketing of his

produce, for consumption expenditure between harvests or for any other purposes, he was compelled to place himself at the tender mercies of greedy landlords, boutique keepers and professional money lenders.

It also showed that unless the peasant could be released from the clutches of these exploiters, all schemes for village uplift and all plans for agricultural development were doomed to failure.

The experience of Japan and India had shown that the credit needs of rural farmers could best be met through a strong and efficient co-operative credit movement to make it both efficient and effective.

The proposed new islandwide network of multi-purpose co-operatives, one of which was eventually to be established in every village of the Island, would provide a firm "foundation" for the new co-operative credit structure. At its apex had to be a strong and efficient new Co-operative Bank.

It is for the purpose of establishing such a Bank that the Co-operative Development Bank Bill, placed before the cabinet in 1959, had been drafted.

The Central Bank working quite independently of the Ministry of Agriculture had come to this same conclusion, namely that the existing co-operative credit organs in Ceylon were inefficient and inadequate and that they should be completely reconstituted. In fact on 29 May, 1956, the Governor of the

Governor of the Central Bank, Sir Arthur Ranasingha in a personal note to Mr Gunwardena, Minister of Agriculture, had made this comment:

"As it is now organised, the Co-operative Federal Bank does not appear to be of much use to the Co-operative Movement or to the public.

I would therefore wish to see that this bank is so reconstituted as to be an efficient institution not only to attract deposits but also to serve their credit requirements. If you agree that the Co-operative banking system needs re-vitalization, officials of the Central Bank can meet officials of your Ministry to draw up the constitution for a new bank to take over the Co-operative Federal Bank and the Co-operative Provincial and District Banks".

In October 1956 the officials of the Central Bank and the Ministry jointly prepared a Memorandum setting out the proposed constitution of the new Co-operative Bank together with its objects, powers and functions and in October 1957 it was considered by the Cabinet and unanimously approved. A point of much significance is that the Central Bank, in this Memorandum presented to the Cabinet, had strongly urged that the new Bank should be a "mixed Bank", which would undertake "not only purely cooperative banking functions but also the more profitable functions of a commercial bank".

But it was from around this stage that the draft proposals for the setting up of the new Co-operative Development Bank ran into stiff opposition from the Finance Ministry, Lands Ministry, and by sections of the press.

The Finance Minister took up the position that the provision of credit was his function and not the function of the Ministry of Agriculture, 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 Credit Corporation (AICC).

The argument most frequently used by critics of the draft bill was that the powers and functions of the proposed new bank were too wide and that those powers and functions encro-

ached on the preserves of other ministers, and in particular, on the preserves of the Finance Minister, to whom the subject of commercial banking had been assigned by the Prime Minister

In summary form the powers set out on the draft bill were:

The power to grant loans to co-operative societies and to individuals, including loans for building purposes and for financing small-scale agricultural, industrial and business undertakings as well as loans for consumption (for example, to farmers between harvests); the power to carry on the business of a normal commercial bank and the power to carry on the business as a pawn broker.

The critics of the Bill contended that the proposed new bank should confine itself purely to the grant of small loans to co-operative societies for agricultural and marketing purposes.

The adoption of that proposal would have certainly ensured the quick liquidation of the proposed new bank as the failure of the Co-operative Federal Bank had proved that small-scale loans to co-operative societies were among the most risky forms of credit.

The Co-operative Federal Bank had failed because it confined itself to such loans and did not extend its activities to the more lucrative and profitable field of commercial banking.

That is why the Central Bank in its Memorandum to the Cabinet strongly urged that the new bank should be a mixed bank which would undertake not only purely co-operative banking functions but also profitable functions of a commercial bank.

The Central Bank specifically stated that the new bank should be able to lend not only for agricultural purposes but also for consumption expenditure. These were the considered views of the government's banking experts.

But the Finance Minister took up the position that if the Bank was to undertake commercial banking it should come under his control and not

under the control of the Ministry of Agriculture.

There was opposition on the Bill from the Minister of Lands whose main point was that it was quite unnecessary to set up a new Co-operative Development Bank because the existing one was quite adequate to meet the credit needs of the rural sector. The Lands Minister also maintained that the Co-operative Federal Bank had powers wide enough to meet the credit needs of the co-operative societies and their members. The Minister also maintained that the Bank had discharged its duties efficiently with the funds placed at its disposal by the government during the previous eight years. The Lands Minister's statement was quite contrary to the position taken by the Central Bank which had carried out through examinations each year of the working of the co-operative bank.

Year after year, the Central Bank's reports had indicated that the affairs of the Co-operative Federal Bank were in a mess, that the bank was being run inefficiently and that the Bank was not achieving the objects for which it was set up.

The Minister of Agriculture Mr Gunawardene listed as many as seven more reasons why the Co-operative Federal Bank had failed.

In April 1959, when the MEP component was still in the Cabinet, Philip Gunawardena made a strong case for his stand on the Cooperative Development Bank Bill in the course of which he spelled out in his own way not merely the need for the Bank but also his ideals and the philosophy behind its founding and placed this institution in a historical perspective. He said: "The existing banking institutions of the country, with the possible exception of the Post Office Savings Bank, have not extended their activities beyond the principal urban centres. The Post Office Savings Bank, though it ope-

rates in some rural areas, has acted merely as a repository for rural savings. It has not made and is incapable of making a dynamic effect to mobilize rural savings for national development. Such an effort can be made only by a revitalized co-operative movement of the type I envisage - with the village multipurpose co-operatives at the base and the new Co-operative Development Bank at its apex. This, then, is another reason for establishing the new Co-operative Bank. It will be a first step on the road to "bringing banking to the million"

The People's Bank Act

"The new Cooperative Bill like the Paddy Lands Act aims at sweeping away the semi-feudal credit system which still prevails in the villages of Ceylon and thereby releasing the Ceylon peasant from the clutches of the village boutique-keeper and the professional money-lender"

It is an irony of fate that although it was Philip Gunewardene, Minister of Agriculture in the government of Prime Minister Solomon Dias Bandaranaike who prepared the ground for the setting up of a new bank; in the face of stiff opposition from his Cabinet colleagues, notably the Minister of Finance, the Minister of Lands, and also from sections of the press; it was T.B. Ilangaratne Minister of Commerce, Trade, Food and Shipping in the government of Prime Minister Sirima Bandaranaike, who presented the Bill as the People's Bank Bill of 1961, which led to the setting up of the People's Bank on July 1, 1961.

The original proposal was made by Mr Philip Gunawardena in his draft bill to set up a Co-operative Development Bank after dissolving the Co-operative Federal Bank. However, the new Bank which was set up on the ruins of the Co-operative Federal Bank by Mr Ilangaratne was named the People's Bank.

At the time the Co-operative Federal Bank was dissolved there were 5 Co-operative Provincial Banks and 12 District Banks. A large number of Co-operative Banks amalgamated with

the People's Bank on their own accord. Later the People's Bank took over a number of Co-operative Provincial and District Banks.

Two other important aspects in the People's Bank Act were:

"To develop the cooperative movement of Ceylon, rural banking and agricultural credit, by furnishing financial and other assistance to cooperative societies, approved societies, Cultivation Committees and other persons"

The share capital of the People's Bank was Rs 6 million of which one half was given to co-operative societies and the other half to the government.

The purposes of the Bank as defined in Act No 25 of 1961 (Sec 4) were:

After the Bank had commenced operations no co-operative society could deposit their funds in any other Bank or maintain a current account without written permission from the Commissioner of Co-operative Development.

No co-operative society could obtain a loan from another commercial bank, except from the People's Bank, without the written permission of the Commissioner of Co-operative Development.

These provisions made it clear that the activities of the co-operative societies were limited to the People's Bank.

Introducing the legislation in Parliament. Minister T.B. Illangaratne asserted that the People's Bank Bill was designed to set up an institution which would be of tremendous assistance to the vast majority of the People of this country and play an important part in transforming the rural economy.

He observed that it was "another step in the government's policy of assisting the rural peasantry who form

the backbone of this country". Mr. Illangaratne further declared that the new Bank would "not only grant loans to co-operative societies, but even to approved mutual aid or community development societies". He envisaged that credit would be given "mainly through co-operative societies rather than directly to individuals in rural areas".

Bank Branch Expansion

A fundamental objective of this new institution was that it should cater to the needs of the rural economy and the resolve with which the Bank pursued this objective is best seen in the manner in which it spread its activities through branches located in the heart of the countryside. In its first six months of operation seven branches were opened in Polonnaruwa, Hingurakgoda, Hambantota, Anuradhapura, Puttalam, Matale and Kandy. The next year 17 more branches were opened in Amparai, Ambalangoda, Badulla, Bibile, Chilaw, Gampaha, Gampola, Galle, Hanquranketha, Kalmunai, Kankasanturai, Kuliypitiya, Kurunegala, Minuwangoda, Matale, Mullaitivu, Negombo and Welimada: bringing the total number of the Bank's outstation branches to 24 at the end of 1962, which included 9 existing Cooperative Provincial Banks that were taken over.

By the end of 1965 the Bank had a total of 50 offices. In 1965 new branches had been opened at Horana, Kekirawa, Padaviya, Mannar, Embilipitiya, Yatiyanfota and Kilinochchi.

Apart from the branches already mentioned were those branches set up in 1963 and 1964 located at Avissawella, Balangoda, Bandarawela, Dehiwala, Embilipitiya, Homagama, Jaffna, Kalutara, Kahatagasdigiliya, Kegalle, Ragala, Talawakelle and Vavuniya covering the remotest rural regions; as well as semi urban and urban areas where the demand for

banking services was growing. Branches had also been set up in Colombo at Bristol Street, Queen Street, Main Street, Union Place and the Secretariat premises.

These were followed soon after with branches in Borella, Kelaniya, Maho, Nawalapitiya, Warakapola, Peradeniya, Mahiyangana, Polgahawela, Morawaka, Tissamaharama, Wellawaya, Akkaraipattu, Sammanthurai, Kattankudi, Trincomalee, Tangalle, Monaragala, Mawenella, Ambalantota, Elpitiya, Wattegama and Matugama. This spread of branches continued till the hundredth branch of the Bank was opened on 16.8.1971 at Marandagahamulla in the Gampaha District. Six years later on 9.5.1977 the two hundredth branch was opened at Kollupitiya and only five years after this the three hundredth branch of the Bank was opened on 6.8.1982 at Ingiriya.

Meanwhile, a scheme of Rural Banks was initiated by the People's Bank in 1974 as part of the programme for mobilising rural savings for rural credit through the Cooperative Movement. These Banks were the banking and credit departments of the Multi Purpose Cooperative Societies and mobilised savings by accepting Savings Deposits from members and non members alike. In 1965 there were 8 such banks and by 1971 the number had reached 100. Today there are over 900 branches of these rural banks supplementing the services of the 300 People's Bank branches spread throughout the country.

The growth and spread of this network upto the end of 1984 may be seen clearly in these two illustrations below from the Bank's annual report for 1984.

At the end of its first 20 years, in 1981, the Bank had a branch banking system of 290 branches and had firmly established itself as a state sector

commercial bank. The bank population ratio for the 290 branches at that time was 52,000.

Several districts appeared to have a better spread of branches than in Colombo District (according to a note prepared by S.L. Tilakasiri of the Bank's Research Department) in October, 1981.

Polonnaruwa had one branch per 37,600 population, Badulla one per 37,800.

One hundred and eighty three (i.e. 68 percent) of the 271 branches in operation in 1980 had started business during the preceding ten years. Of them as many as 117 had been opened between 1975 and 1980.

Thirty-eight percent of all branches in 1978 came under the rural sector. Due to the expansion of Bank branches which occurred in the subsequent years, 72 per cent and 83 percent of those opened in 1979 and 1980 respectively were in the rural areas.

By 1980 the number of branches in the rural areas had grown by 47 percent.

In certain areas as many as two-thirds of the branches belonged to the rural areas with Badulla 71 percent and Anuradhapura 61 percent.

A significant factor in the Bank's expansion over these 25 years is that the majority of branches opened were located in remote unbanked areas in keeping with its policy of spreading the banking habit and monetizing rural areas.

There are several indicators by which the growth and progress of the Bank may be measured but perhaps the most apparent to the public was its expansion of branches and the more spacious offices it kept acquiring as business grew over the years.

By 1965 the need had arisen to shift the Bank's Head Office from Union Place to more spacious premises in the new G.C.S.U. Building at Sir Chittampalam Gardiner Mawatha; and soon after the Foreign Branch, which was providing much of the sustenance for other work of the Bank, was moved into more spacious premises at Bristol Street. Meanwhile, negotiations with the Government to obtain a block of land for construction of a building to house its Headquarters met with success in 1966 when the present Head Office site was granted to the Bank; although it was almost ten years before this building was completed and occupied.

It is interesting to note that the foundation stone for the present head-quarter building, which covers a floor area of 199,794 sq.ft., was laid by the then Prime Minister, Dudley Senanayake in July 1969. However, it was Mrs Sirima Bandaranaike, who opened it in January, 1977 when she was Prime Minister.

The Current Forced Sale Value and Insurance Value of the building, designed by architect Frank S. Peris and built by the State Engineering Corporation, is Rs 300 million.

The continuing expansion of its activities resulted not merely in an increasing need for space but also in the need to improve the physical image of the Bank by construction of new and modern branch offices, and by the end of 1972 the Bank had constructed 13 of its own branch offices in places such as Welimada, Hambantota, Balangoda, Kalmunai, Vavuniya and Maho. With a greater awareness of the importance of providing modern, well appointed branch buildings that facilitate business trans-

actions and servicing of customers as well as providing a more pleasant working environment for the staff nearly 60 more buildings were constructed by the Bank over the years 39 in the 1981-1985 period to accommodate its branches. Today nearly one quarter of the branches are housed in the Bank's own buildings. This aspect of growth and expansion is best seen in quantitative terms in the rapid increase in value of the Bank's Fixed Assets, the major component of which is premises. Fixed Assets which were only Rs 1.4 million in 1962 and Rs 2.9 million in 1965 went up to Rs 10.1 million in 1970 and Rs 30.1 million in 1972. By 1982 the value of Fixed Assets had more than trebled to Rs 97.9 million and by 1985 had reached Rs 179 million. This and other monetary indicators of growth over these 25 years, given in the table below, tell their own story.

The increasing number of branches and buildings to house these offices provided the Bank with a solidly growing asset and are clear indications of the Bank's progress in its first 25 years. But still another useful indicator is evident in the Bank's growing workforce which manned these offices and who were responsible for the tremendous impact the Bank has made on the country in these two and a half decades. From a mere 149 employees in 1961 the workforce grew to 1,347 by 1965 and 3,841 by 1975. By 1985 the total number of employees stood at 10,041.

Here once again the figures reveal the picture of growth more explicitly, (see diagram) though it may be noted that the unusual rate of growth in numbers from around 1978 was necessitated by the worsening security situation in the country.

In simple monetary terms, Gross

PEOPLE'S BANK FINANCIAL POSITION

	1962	1965	1970	1972	1974	1976	1980	1981	1982	1983	1984	1985
1. Gross Profit	1.1	5.0	9.6	18.0	45.0	65.1	276.6	210.7	212.6	319.7	236.7	
2. Profit before tax	1.1	3.6	6.8	14.6	40.2	44.2	180.4	149.7	117.2	133.8	125.8	119.2
3. Profit after tax	0.5	1.4	3.3	7.4	22.9	14.2	87.4	73.7	60.0	64.3	70.4	67.0
4. Assets-Current	179.4	376.9	822.5	1753.1	2379.6	2744.0	9135.4	11616.8	11898.6	15659.8	16535.5	
5. Assets-Fixed	1.4	2.9	10.1	16.9	30.1	49.8	68.2	78.9	97.9	129.8	153.4	179.0

Pawning

One of the primary objectives of the Bank's founding fathers was to relieve the rural people from the burden of indebtedness. Many of these people were not in a position to provide proof of their incomes or furnish normal securities against bank loans. The People's Bank initiated many schemes over the years to meet the loan requirements of such customers but perhaps the service that reached down deepest to these people, both rural and urban, was its unique loan scheme based on pawning. The history of this service also provides one of the strongest indicators of growth in the Bank's services.

The Finance Act of 1963 had restricted pawning business only to Ceylonese and the People's Bank hardly 2 years in existence, was quick to grasp this opportunity to open up a number of pawning centres. The growth of this service within a very

short time was 'phenomenal' reported the Bank's Board of Directors in their 2nd Annual Report. In 1964 its Co-operative Rural Banks were also encouraged to undertake lending against pawned articles. Pawning advances grew rapidly in volume and in 1965 Rs 13.2 million had been advanced against 65,152 pledges while in 1966 it went up to Rs 15.9 million being advanced against 79,651 articles. A major attraction was the interest rates charged by the Bank, which was well below those of the private pawn broker. The Bank was encouraged to continue its expansion of this service which it was soon realised satisfied the credit needs of a fairly large section of the public, who but for this special service would have been compelled to depend on more exacting and onerous sources of credit for their urgent needs. By the year 1969 pawning advances had reached as much as Rs 30 million being given to 124,600

borrowers, and this went up further in 1970 to Rs 33.5 million advanced to 158,500 borrowers. Only two years later, by 1972, the sum advanced was twice as much—Rs 65.2 million and given to 285,000 persons; but this number almost doubled in one year and in 1973 the number of persons who availed themselves of this convenient form of loan went up to 462,000 while the amount advanced to them reached Rs 125.7 million.

The People's Bank continued to be the only Commercial Bank providing this 'over-the-counter' facility to those in urgent need of financial assistance and by 1975 the total advanced amounted to Rs 201.7 million while the number of items pawned had increased to 632,246. Pawning certainly proved to be among the most popular of the Bank's services and the best indication of its galloping rate of growth is seen in the fact that it went on to reach 761,564 pawnings and Rs 580.7 million advanced by 1980 and finally topping as many as 1,186,761 pawning transactions and Rs 1,843.1 million in advances by 1985. The diagram on page 3 tells the story more graphically.

In simple monetary terms, Gross expenses which were Rs. 3.1 million in 1962 rose to Rs. 63.6 million in 1972 and Rs. 1,101.6 million in 1982; while gross profits moved up from Rs. 1.1 million in 1962 to Rs. 18.0 million in 1972 and Rs. 212.6 million in 1982. In 1985 the gross profit of the Bank amounted to Rs. 247.4 million with gross earnings at Rs. 2,098.5 million and gross expenses Rs. 1,851.1 million. The table gives details for selected years over the 25 year period.

These are indeed impressive records of a bank's growth and progress, particularly when one considers the issue raised first by those who conceived the original People's Bank Act, then by the Royal Commission in 1965 and ever since by those who pointed out that the Bank was straying from its fundamental purposes. The question agitating the minds of Bankers is: Can the two state banks fulfil govern-

NUMBER OF ACCOUNT HOLDERS OF PEOPLE'S BANK

Year	Current A/C	Saving A/C	Fixed Deposits	Total
1963	24,170	36,647	2,190	63,007
1964	28,971	62,459	3,007	94,437
1965	31,852	97,103	3,722	132,677
1966	34,662	136,121	4,502	175,285
1967	38,364	164,299	3,701	206,370
1968	42,852	200,058	4,626	247,536
1969	45,648	233,517	5,057	284,222
1970	49,254	331,975	5,962	387,191
1971	50,805	414,753	6,648	472,206
1972	51,578	464,079	5,606	521,263
1973	54,169	562,892	5,595	622,656
1974	58,264	725,217	5,169	788,650
1975	59,968	843,466	5,138	908,572
1976	67,242	975,587	5,824	1,048,650
1977	72,659	1,119,085	13,991	1,205,708
1978	81,354	1,277,359	27,076	1,385,789
1979	104,843	1,653,614	60,641	1,819,101
1980	122,253	1,962,316	132,122	2,216,691
1981	132,406	2,147,560	227,511	2,507,477
1982	140,039	2,333,352	245,657	2,719,028
1983	159,398	2,605,444	261,236	3,026,078
1984	173,128	2,839,450	266,676	3,279,254
1985	181,250	3,057,549	332,072	3,570,871

ment and public objectives of forceful banking and lending while facing the certainty of being judged in international circles by the profitability position reflected in their annual balance sheets?

In a note entitled "14th Floor to the Treshing Floor" the People's Bank Chairman, Dr S.T.G.Fernando (he was Director of Economic Research, Central Bank before he assumed duties as Chairman, People's Bank) says that "forced" lending can be damaging to the relationships which should be fostered between rural banker and rural customer, between borrower and lender. He also make these points:

when the present government came into power in 1977, there was a relaxation of the eligibility criteria and loans were granted liberally.

Taking advantage of the relaxed criteria certain sections of the farming community-as well as the non-farming community-in connivance with village level institutions (co-operatives mostly) abused these credit facilities, resulting in a disbursement of Rs 420 million and a loan defaulting rate of about 80 percent during the 1977-78 Maha (Main) Season alone;

While a sum of Rs 602.4 million was outstanding as at 30 September 1978 out of loans granted prior to the 1978 Yala season, by 30 June 1981 the bank had succeeded in recovering Rs 41.8 million out of this amount, that is 7 percent.

The data shows the uphill task the two state banks face in getting back their dues, Dr Fernando says and he asks:

Can the banks afford an army of field officers to scour the countryside to collect their dues?

Shouldn't the onus of payment and responsibility be on farmers?

How should wilful defaulters who take cover under political or other patronage be dealt with?

These questions are never answered when raised; they are swept or brushed aside with the comment:

"It's the responsibility of the bank which lends to recover its dues".

The Bank must lend only to viable farmers-

So runs the vicious circle of argument-who induced whom to lend and under what pressures, he says.

He adds: A commercial bank lending to viable agricultural projects and to credit worthy borrowers will find itself accused of a narrow outlook of being too unduly concerned with profit and neglecting its statutory role of being a catalytic force in the development effort".

Dr Fernando sums up saying that the right climate for the spread of the banking habit in Sri Lanka and the development of a trust in institutionalised forms of lending and borrowing can be fostered only when the bor-

rower is made aware of the fact that bank loans are not political handouts and repayment of advances is a contractual obligation.

Despite the debilitating constraints of forced lending the Bank has had to undertake and the fact that in its formative years "the grand design" of the Bank as an instrument for the transformation of the rural economy and the regeneration of the masses was to some extent vitiated, and also notwithstanding that during the rapid expansion of commercial banking the Bank was in danger of losing sight of its real purposes, the People's Bank can be proud of its performance in its first 25 years as the Profit and Loss Accounts for 1985 show:

Condensed Statement of Profit & Loss
Period January 1 to December 31, 1985
Sri Lanka Rupees ('000)
(Before Audit)

Gross Earnings	2,098,495
Gross Expenses	1,851,061
Gross Profit	247,434
Profit before tax	119,244
Profit after tax	67,044
Undivided Profit	67,044

Disbursed to

Dividend 15 percent	7,500
Reserves and other funds	59,544
	67,044
	=====

1985 Sri Lanka Rupees ('00)

Assets	
Current	
Cash and Short Term Funds	3,546,176
Trade Bills	1,386,862
Advances to customers & other accounts	13,451,984
Government securities	564,722
Central Bank securities	446,505
Investments	19,395,249
Fixed	204,853
Premises and equipment	179,042
Liabilities of customers for engagements	12,343,995
	32,123,139
	=====
Liabilities	
Current deposits & other accounts	19,356,889
Final dividend	7,500
Capital Reserves	
Share Capital	49,988
Special, General & Other Reserves	364,777
	414,776
Engagements on behalf of Customers	12,123,139
	32,123,139