

Savings and the Co-operative Sector Case of Sri Lanka

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Before the advent of the colonial plantation economy, Sri Lanka's economy specially at the village level was based on barter and exchange of mutual services. Money was known from around the 5th century B.C. but money played only a marginal part in the economy. Savings at the village level during the time of the barter economy was basically in the form of kind, in that agricultural surplus was stored for future use. The amount and nature of savings cannot be quantified except to say that savings itself was tied to the surplus extraction process of a feudal society.

Significant changes in the Sri Lankan economy began with the advent of the Portuguese in the 16th century and the increased importance of trade specially in the Western centre. The European incursion which was for purposes of shipping cinnamon and other spices collected from the hinterland to European markets gradually began to take a qualitatively different turn with the coming of the Dutch and finally the British. The Portuguese contended themselves with collection and trans-shipment of spices that grew mostly naturally. The Dutch on the other hand experimented with plantation type crops and the British turned this into a significant distortion of the economy by introducing large-scale plantations into the country.

Introduction of Plantation Industry and its Impact on the Economy

The British who took total control of the country in 1815 introduced coffee planting in the 1840s and with the collapse of coffee due to disease, introduced tea in the latter part of the 19th century. The plantation system as opposed to the earlier subsistence agriculture was based on wage labour, factory type operation of large estates and production for a foreign market. It was based initially

on a small dose of foreign capital and the industry was similar to the class of extractive industries that sprang up all over the Third World in the 19th century to supply the European centre. The subsequent growth of the economy after the initial dose of foreign capital was by the large surplus generated in the country itself. The surplus was sufficient also to provide handsome dividends to more than compensate for the nominal investment.

These changes resulted in the economy of the country being completely rebuilt around the activity of plantation. The foreign banks that were established early had the sole function of financing this industry and large-scale profits arose from this. Engineering firms and workshops grew up to service the engineering needs of the plantation factory. For the maintenance of railways and roads, government engineering establishments came into being.

Thus with the introduction of the classical plantation economy in the late 19th century the country's economy suffered a classical dualistic split. The enclave, so-called modern sector, had its main interaction with the external world and very little interaction with the traditional economy within which a large part of the population lived. By the end of the 19th century, the enclave sector employed about 40% of the Sri Lanka labour force and the traditional sector 60%. In terms of this magnitude, the bulk of trade in the country was between the enclave sector and the outside world and few goods and services flowed between the traditional sector and the enclave or for that matter between the traditional sector and the external world.

The introduction of the plantation economy had a serious deleterious effect on the traditional sector. Not only was the main patronage and eco-

The mobilisation of savings is an important prelude for setting the development process in motion. The co-operative sector works at a grass-root level and its use as an instrument of savings mobilisation could be vital for development. In this article Sri Lanka's experience in this area is surveyed by Mr. R. D. de Livera, the General Manager of the People's Bank.

The first part of this article, published in this issue, traces the history and development of Co-operative savings and Co-operative Credit in Sri Lanka upto the re-organisation of the Co-operatives in 1957 and the establishment of the People's Bank in 1961 as an integral part of the reorganisation effected in 1957. Part II deals with the role of the People's Bank in the consolidation that followed and shows how the activities of the People's Bank in the savings field has, at a micro level, been a very important instrument in the re-distributionary function in the economy.

nomic activity of the government denied to the traditional sector, but the introduction of the plantation meant that the traditional sector was dislocated. In the central highlands where the plantation economy grew, land which belonged to the part of the village economy and demarcated for grazing and potential village expansion was subject to virtual *de facto* expropriation. This was done largely by the notorious Waste Lands Ordinance whereby the British declared all lands, to which no formal ownership could be proved, to belong to the Crown. By this device large areas of common pastures where cattle grazed and forest areas which were an important and integral part of the village economy and ecology were sold at ridiculously low prices by the British Crown to British planters. This incursion into the peasant economy was further aggravated by the Grain Tax, whose main effect was on the peasantry to the exclusion of the land-owning classes.

The pauperised peasantry were often unable to pay this tax and sold their land and the negative effects of the colonial economy on the traditional sector was to echo in the years to come in the growth of rural indebtedness among the masses of the peasantry.

The supply of labour into the new plantations was not by the use of indigenous labour but imported Indian labour (so-called indentured labour). The resulting strain on the economy in feeding this new influx of labour also had serious distortion effects on the country.

The position of savings in the country; which sectors provide the bulk of savings; and which institutions channel this are governed by the macro historical conditions discussed above. In fact, the classical dualistic split overrides the entire area of savings.

The Beginning of Savings

Because of the structural split in the economy the generation of savings in the two sectors, namely the enclave and the traditional, take different qualitative dimensions. The enclave sector had been generating considerable surpluses from its inception and had fed the banking system which was oriented basically to this sector. Generation of savings in the traditional sector was neglected and weak. The generation of savings is intimately tied to the credit institutions in the country and no description of the savings system can

be done without description of the credit system. The normal suppliers of credit in the village economy were landlords, traders, richer relatives and in more recent times professionals like school teachers etc. Although no precise data exists on the extent of indebtedness in the early British times, it has been established that by the end of the 19th century, the traditional farmer was tremendously in debt to the private money lenders. The rates of interest were high and at the turn of the century representative figures for loans by paddy cultivators were as follows :

20 to 30 per cent per annum on a mortgaged loan and an annual rate of 150 to 300 per cent on other advances.

An estimate in 1906 of the total indebtedness for the country puts it at a minimum of Rs. 80 million at interest rates varying from 80 to 60 per cent. It was apparent that by the turn of this century small farmers in the traditional sector were heavily in debt to private money lenders. It is in this context that extension of credit through Co-operatives was introduced in the early decades of the century.

The first Co-operative Credit Society was inaugurated in 1906 in Dumbara in the central highlands with 66 shareholders. A few other Credit Co-operatives were also started, but they could not spread substantially to the rest of the country. A significant step towards the alleviation of rural indebtedness was the setting up of the Agricultural Banks Committee in 1909. The Committee

was required to inquire into conditions existing in the traditional agricultural sector and how Agricultural Banks would be suited to conditions in Ceylon. The Committee found that most villagers were indebted not so much to the landlords, but to money lenders and that the villager was obliged to "buy his money dear and sell his produce cheap". The Committee recommended the establishment of Co-operative Credit Societies enabling the farmer "to borrow at a reasonable rate of interest for his agricultural needs, while offering him an inducement to invest money in his lands, in manure, improving agricultural machinery etc. all of which could bring a return more than commensurate with the expenditure incurred".

Co-operative Societies Ordinance

The recommendations of this Committee came to fruition with the enactment in 1911 of the Co-operative Societies Ordinance. This legislation was the beginning of organised credit to small farmers in the country. The first Co-operative Credit Society was registered in 1912. The early credit societies registered were of unlimited liability and modelled on Raiffeisen lines, where the members were individually and jointly liable for the debts of the Society. Credit societies of limited liability and Co-operative Thrift and Savings Societies were two other types of Co-operatives founded in this early period. Credit societies of limited liability were first formed

TABLE I
COMPARATIVE GROWTH OF CO-OPERATIVE SOCIETIES AND
POST OFFICE SAVINGS BANKS 1913-30

POST OFFICE SAVINGS BANKS				CO-OPERATIVE SOCIETIES					
Date	No. of offices P.O.S.B.	No. of Accounts	Total Amount to credit of depositors Rs.	Date	No. of Societies	No. of Members	Paid up Capital Rs.	Deposits Rs.	Reserves Rs.
Year end 1913 ...	176	106,669	4,170,000	31st March 1914	37	1,820	8,200	29.74	23.05
Year end 1930	415	308,506	12,300,000	30th April 1930	459	22,416	471,223	245,331	108,482
Difference between two periods	239	201,937	8,100,000	Difference between two periods	422	20,596	463,023	245,301	108,459
Deposits per head arose from Rs. 38.97 in 1913 to Rs. 40.20 in 1930 when there were 415 P.O.S.B. offices				Shares, Deposits and Reserves rose from Rs. 4.53 per head at the end of March 1914 to Rs. 40.06 as at 30th April 1930 when there were 459 registered societies.					

Source: "Co-operation—Its Rise and Growth in Ceylon", G. Kurukulasuriya

in the 1920s. They were also known as urban banks and served mostly the small traders and artisans. Co-operative Thrift and Savings Societies were formed mostly by public servants. By 1942 there were 100 societies of the limited liability variety with a membership of 4,479 and in the same year there were 164 co-operative thrift and savings societies with a membership of 15,661 and their savings totalled Rs. 1.4 million. Promotion of savings was the main object of the co-operative thrift and savings societies but loans were granted up to 75% of their savings. By 1968 they had a membership of 69,292 and savings of Rs. 15.6 million. In later years there was a trend for the co-operative thrift and savings societies of public servants to be transformed into societies of limited liability so that they could expand their loan business by removing the restriction of loans to a percentage of the savings held. By 1968 deposits in credit societies of limited liability totalled Rs. 6.1 million and as at end December 1974, deposits were Rs. 15.01 million.

Co-operative Credit Societies

In the early decades co-operative credit societies of unlimited liability were the most numerous type and they catered to the rural population. Apart from introducing organised credit for the first time to the farmer, the establishment of co-operative credit societies also signalled the entry of a new institution to encourage thrift and savings at the village level. Up to that time the only institutions available to the small saver were offices of the Post Office Savings Bank. Table I, on the previous page, gives the comparative growth in deposits of the Post Office Savings Bank and the Co-operatives in the early period from 1913 to 1930.

In the years following 1930 and right up to the late 1950s these credit co-operatives continued to increase in number, membership, shares, deposits and reserves. It can be said of the credit societies of unlimited liability that throughout their active life span of over forty years they embodied in a very real sense the basic co-operative philosophy of self-help and mutual-help. Admittedly, they could not support their loan operations adequately on the basis of their

own resources. This was not possible taking into account the impoverished state of the rural economy. They had to depend, therefore, to a considerable extent for funds on external sources. In the early period of the credit society movement, government granted loans direct to these societies up to an amount equivalent to 3/4 of the paid up share capital. In 1916, government established the Local Loans and Development Fund which granted loans up to three times the paid-up share capital and reserves in the case of a society of unlimited liability and up to an amount equivalent to the paid-up shares and reserves in the case of a society of limited liability. Subsequently, with the co-operative movement setting up its own banking system, beginning with the Co-operative Central Bank of Jaffna in 1929, and the establishment thereafter of similar banks in other provincial and district centres, the borrowings of the credit co-operatives from the Fund progressively diminished while their borrowings from the new banks correspondingly increased.

Although the co-operative credit societies sought funds for their lending operations on these lines, their own resources comprising share capital, deposits and reserves consistently supported a substantial proportion of their lendings. The figures in Table II showing the percentage of share capital and member deposits to total loans outstanding between 1953 and 1967 illustrate this position.

TABLE II

Year	Total Loans Outstanding Amount in Rs. thousand	Percentage of Share Capital and Members' Deposits to total loans outstanding
1953	6,133	49.6
1954	6,882	47.1
1955	7,562	47.3
1956	8,578	46.6
1957	9,095	49.2
1958	9,450	51.7
1959	8,631	55.9
1960	10,425	56.5
1961	10,794	57.9
1962	11,213	58.1
1963	11,793	56.9
1964	12,108	59.3
1965	n.a.	n.a.
1966	13,251	61.7
1967	13,771	61.4

It must be stated however, that even at the highest point of their growth credit societies catered to less

than 10% of small farmers in the country, and a survey of rural indebtedness in 1951 showed that in spite of active government intervention in the credit programmes, the credit societies accounted for only 7.4% of rural indebtedness.

The co-operative credit societies were not intended to solve all the problems associated with rural credit and indebtedness. The societies were constituted of small groups of persons known to each other and the loans issued were small sums generally under Rs. 100/- for duration of one year or less. Loans were chiefly for production and the farmers essential consumption needs were not provided for. Further, they were not geared to provide the medium and long-term credit needs of the farmer.

Medium to Long-Term Credit

This gap in the medium to long-term credit needs of the small farmer was a matter which engaged the attention of officials and co-operators from the early days of the co-operative movement. Besides the problems of the small farmer there was in the 1920s and 30s an on-going public debate on the banking and credit needs of all classes of indigenous agriculturists outside the enclave economy. Particular attention was focussed on the need for loan facilities on medium to long-term against security of landed property. In 1920 a government-appointed Committee in their report styled State Banks for Agriculturists, had commented on the fact that the existing exchange banks did not provide loans on the security of landed property or against growing crops. In 1929 the report of another government-appointed Committee recommended the establishment of a Bank to provide long-term loans against the mortgage of landed property. This Committee also advised that co-operative credit societies should confine themselves to short-term loans.

Based on the recommendations of this Committee the State Mortgage Bank was established in 1931. The Bank had no authority to accept deposits and it obtained the funds for lending by the issue of redeemable debentures guaranteed by Government. It was expected that the

TABLE III

Number of Societies

Period	Number of Societies			Total amount of loans outstanding from societies to members	Loans to societies from Govt. through L.L.D.F.	Loans to societies from the Paddy Bank (Eastern Province) outstanding	Loans to societies from other outside sources outstanding
	Agricultural	Non-Agricultural	Total				
1913-14 ...	34	1	35	3266.00			
1914-15 ...	53	1	54	15310.00			
1915-16 ...	54	1	55				
1916-17 ...	68	3	71	27618.60	2908.00		
1917-18 ...	89	3	92	50209.44	3897.00		
1918-19 ...	100	3	103	70605.45	9186.00		
1919-20 ...	132	4	136	99949.69	13100.00		
1920-21 ...	149	5	154	143907.84	21212.00	7995.00	
1921-22 ...	161	8	169	192333.06	23573.32	14670.00	
1922-23 ...	195	13	208	291606.00	31754.98	84987.58	8500.00 (a)
1923-24 ...	205	17	222	417906.44	49562.24	132884.86	
1924-25 ...	237	20	257	484604.94	63984.30	125512.49	
1925-26 ...	290	25	315	601715.83	125376.96	144361.00	
1926-27 ...	280	23	303	760791.34	158208.62	168772.95	
1927-28 ...	341	19	360	786892.16	150121.61	127478.30	250.00 (b)
1928-29 ...	352	31	383	830301.05	206726.63	113055.85	400.00 (c)
1929-30 ...	418	41	459	1029956.29	286349.69	114997.75	350.00 (c) 62792.00 (d)

(a) From G.A. or A.G.A. (b) From one Society to another (c) From Government's profit in handling rice, (d) From the Jaffna Co-operative Central Bank

new Bank would provide long-term loans for all classes of agriculturists including the small farmer. In actual practice however, the small farmer found it extremely difficult for several reasons to obtain such facilities from the new Bank. It was located in the capital city of Colombo and

had no branches in the rural areas. Its minimum loan was Rs. 2,000/- and until 1955 the Bank lent only up to 50% of the value of the mortgaged property. After 1955 it was raised to 75%. The average value of property per rural family was estimated at Rs. 2,765/- according to the eco-

conomic survey of rural Sri Lanka conducted by the Department of Census and Statistics in 1950/51. Of this total value, land and buildings accounted for Rs. 2,197/- whereas to qualify for even the minimum loan of Rs. 2,000/- the value of land and buildings had to be a minimum 2,750/- Add to this the costs of valuation, examination of title and supervision, plus the fact that the Bank applied strict standards in valuation and in examination of title, and it will be seen why the Bank's loans were beyond the capacity of the average small farmer. Attempts at establishing co-operative land mortgage banks intended for the small farmer were made in the early 1930s. Two such banks were in fact started, one in Negombo in 1931 and the other in Kandy in 1933, but their existence was short-lived. In the circumstances co-operative credit continued to be confined to short-term operations. The progress of these loan operations from 1913 to 1930 is given in Table III.

The 1930s were difficult years for Sri Lanka. The world-wide depression of the early 1930s resulted in the collapse of the prices of the country's export crops tea, rubber and coconut, and a devastating epidemic of malaria in 1934 cost the country thousands of lives. Despite these difficulties how-

TABLE IV
CO-OPERATIVE CREDIT SOCIETIES OF UNLIMITED LIABILITY
1930 TO 1942

(1) Year	(2) Total of all Societies exclusive of Co-operative Unions	(3) Number of Credit Societies of Unlimited Liability	(4) Number of members in (3)	(5) Working capital Rs. Lakhs	(6) Deposits Rs. Lakhs	(7) Loans granted Rs. Lakhs	(8) Loans recovered Rs. Lakhs	(9) Percentage of overduss
Data for All types of Societies								
1930-31 ...	585	540	24,068	18.6	5.0	12.4	9.5	11.5
1931-32 ...	643	587	24,415	21.8	7.6	13.0	13.0	12.4
1932-33 ...	753	680	14,643	21.4	8.9	13.7	16.5	15.3
1933-34 ...	865	762	16,165	23.1	9.6	16.3	18.3	13.6
1934-35 ...	971	853	16,963	28.1	11.5	18.4	12.0	12.8
+ Data for Credit Societies of Unlimited Liability								
1935-36 ...	975	947	17,434	14.3	1.8	15.0	12.2	15.5
1936-37 ...	1,085	930	21,303	15.2	2.5	17.1	14.7	15.8
1937-38 ...	1,264	1,051	25,741	16.2	2.4	18.3	16.5	19.8
1938-39 ...	1,464	1,201	30,959	17.3	2.5	19.4	17.2	19.3
1939-40 ...	1,608	1,302	34,404	18.0	3.1	18.9	18.1	23.0
1940-41 ...	1,799	1,431	37,982	19.2	2.9	20.9	19.4	21.0
1941-42 ...	1,977	1,519	41,217	20.3	3.7	24.3	25.5	24.0

Source: Administration Reports on the Working of Co-operative Societies

1 Lakh — Rs. 100,000

+ In the year 1934-35 there were 853 Credit Societies of Unlimited Liability and only 26 Credit Societies of Limited Liability.

ever, the co-operative credit system maintained its steady growth during this period. Table IV, on the previous page, illustrates the growth of co-operative societies from 1930 to 1942. It will be seen that credit societies of unlimited liability had maintained their predominance in this period.

Co-operative Banking System

An important feature of this period was the development of the Co-operative Banking System which commenced as we have seen with the first Bank of its kind established in Jaffna in 1929. The entry of co-operative banks marked a significant step in the consolidation of credit societies and in the strengthening of the movement's financial resources. These Banks were secondary level societies registered under the Co-operative Societies Ordinance and formed by the affiliation of primary credit societies. They accepted savings and term deposits both from co-operatives and the public but they accepted demand deposits only from co-operatives. They provided credit societies with advances and at later stages they extended facilities to other types of co-operatives as well. In 1949 an apex co-operative bank namely the Co-operative Federal Bank of Ceylon Ltd., was established under the Co-operative Societies Ordinance. Co-operative banks as well as other co-operative societies were eligible to be shareholders of the apex bank. By 1961 when the People's Bank was established to take over the Co-operative Federal Bank, as we shall discuss later, there were 17 co-operative district and provincial banks. Given below in Table V is a sector-wise analysis of the deposits held by co-operative banks from 1950 to 1961.

Banking Commission of 1934

In 1934, only 3 years after Sri Lanka had gained a measure of internal Self-Government, a Banking Commission appointed by the Government subjected the island to a survey of its general economic and financial situation, the co-operative movement being a significant aspect of their study. Their study broadly reveals that the British Exchange Banks dominated in the enclave economy. They had partiality towards British nationals and companies and more Sri Lankans consequently had to make do with Chettiers and private lending agencies and informal money lenders like boutique keepers and pawn brokers. The co-operative credit system stood within that as an Island of refuge to the Sri Lankans although it catered only to a very small strata of society. The Banking Commissioners agreed that the Co-operative Movement had developed at a good rate and on sound lines. It was their view that the co-operatives had accommodated their members fairly liberally and that the system was ideally suited for land-owning cultivators. With respect to credit policy in the co-operatives the Commissioners felt that the Registrar's very inelastic credit limits were not necessary in the case of societies of unlimited liability. They agreed that although more Co-operative Central Banks could be set up they were of the view that an All-Island Apex Bank for the Co-operatives was not necessary. Instead they suggested that the co-operative banks deal directly with the State aided Bank which they proposed. The Banking Commissioners Report had a considerable impact on the country as a whole stimulating a high degree of

public interest in the financial and economic spheres and resulted in the formation in 1939 of the first successful Sri Lankan commercial bank named the Bank of Ceylon. However, the Bank of Ceylon did not link directly with the co-operatives as suggested; the co-operative credit system extending in due course and setting up its own Apex Bank, as we have seen in the Co-operative Federal Bank of Ceylon Ltd. However, one fact that clearly emerges from these developments is that the co-operative movement, despite the limited scope of its credit operations had grown into a significant force in the economy. We have seen earlier how in the period 1911 to 1930 co-operative credit societies had developed along with the Post Office Savings Bank as the only financial institutions available to the population outside the enclave economy. It is interesting and instructive to see how these two institutions continued to develop after 1930. Table VI, on the following page, gives the growth of the Post Office Savings Bank from 1930 to 1945.

The data in this table illustrates the parallel growth of co-operative institutions during the same period 1930-1945. In 1930/31 there were 600 Co-operative Societies. By 1945, the Credit Societies of unlimited liability by themselves alone were 1,697 in number and had a membership of 49,638 and a working capital of Rs. 2,777,307/-. All the societies together numbered 6,388 with a membership of over 1.1 million.

Impact of World War II on the Co-operative Movement

With the onset of the Second World War the Co-operative Movement took a qualitatively different dimension with the Movement being called upon to establish a nation-wide network of consumer co-operative societies. Co-operatives which were hitherto limited largely to credit societies now found a different focus of emphasis. Government, faced with the problem of food shortages arising from the war situation and the need to distribute the limited local and imported foodstuffs equitably pushed through the establishment of co-operative consumer societies to take over the responsibility

TABLE V
DEPOSITS OF CO-OPERATIVE BANKS

Year	Individual	Co-operative Institutions	Government	Others	Total
1950-51	1,414,000	3,842,000	4,480,000	1,847,000	11,583,000
1951-52	2,083,000	7,156,000	7,260,000	1,362,000	17,861,000
1952-53	792,000	11,890,000	797,000	775,000	14,254,000
1953-54	305,300	11,487,500	3,115,000	1,039,700	15,947,000
1954-55	688,200	11,000,800	1,523,700	1,567,400	14,780,100
1955-56	911,500	14,400,800	1,472,800	1,608,800	18,393,200
1956-57	1,090,100	18,877,500	979,600	965,100	21,912,300
1957-58	864,400	24,670,400	821,900	2,276,800	28,633,500
1958-59	1,367,900	20,380,300	825,500	3,343,500	4,300,100
1959-60	—	26,813,600	212,300	3,432,300	30,458,200
1960-61	—	29,906,000	900,000	3,496,000	34,302,000

Source: Administration Reports on the Working of Co-operative Societies

TABLE IV
GROWTH OF THE POST OFFICE SAVINGS BANK 1930-45

Year	No. of offices	Average Balance per Account	Amount to the credit of depositors Rs. m.	No. of Savings depositors	
1930	...	415	39.75	12.3	308,506
1931	...	401	36.52	11.9	324,651
1932	...	398	35.09	12.1	344,633
1933	...	396	33.73	12.6	374,032
1934	...	400	35.32	14.2	401,983
1935	...	403	34.05	15.4	451,290
1935-36*	...	410	34.70	17.2	494,410
1936-37*	...	437	36.52	19.2	527,163
1937-38*	...	451	32.83	15.6	594,770
1939	...	460	30.28	19.3	637,030
1940	...	456	25.60	17.1	666,177
1941	...	456	23.46	16.0	687,891
1942	...	458	15.69	13.7	696,404
1943	...	460	25.30	21.5	734,190
1944	...	496	43.58	35.6	817,078
1945	...	512	68.09	64.7	950,000

of distribution throughout the country. Consumer co-operatives which numbered only 38 in 1942 increased to 4,004 by 1945. The distribution function entrusted to the Co-operative Movement under this scheme it should be noted, introduced a significant new element into the relationship between Government and the Movement which was to develop further in subsequent years, namely, that of principal and agent.

During the same period Government pressed with the need to step up local food production created another co-operative organisation styled Co-operative Agricultural Production and Sales Societies (CAPS). This too was essentially a government agency although organised on co-operative lines. In 1948 Government introduced a guaranteed price scheme with fixed prices for a number of agricultural commodities offered for sale by cultivators. The new CAPS societies were the commission agents of government for the purchase of these commodities. Besides functioning as a marketing agency these societies were also used by government as a medium for channeling loans to farmers for cultivation. Between 1948 and 1955 the number of CAPS societies had risen from 193 to 842. Total membership at the end of 1955 amounted to 217,123. Despite this active government participation however, the CAPS societies too like the credit co-operatives succeeded in reaching only a small segment of the small farmer population. It has been estimated that

CAPS society membership did not amount to more than a tenth of the small farmer population.

In comparison with the old co-operative credit societies the classical co-operative concepts of self-help and mutual help were hardly evident in the new CAPS societies. Very little attention seems to have been paid by them to induce members to save. This was only to be expected in a set-up organised hurriedly by Government to meet the exigencies of the war and its aftermath. This was not a situation which allowed much time for disseminating the co-operative education necessary for members to identify themselves with their societies and to appreciate their responsibilities as members.

It would not be incorrect to state that the CAPS society was viewed by the membership as a medium through which a benevolent Government provided them with a number of welfare services. In fact the entire post war experience right up to the early sixties shows an indifference on the part of the movement to the aforesaid self-help and mutual-help philosophy. In his report on the co-operative movement for 1962-63 the Commissioner of Co-operative Development lists the lack of stress the movement places on the building up of its own funds by attracting savings from its membership, as one of the important factors obstructing the expansion of the movement.

Because of the war boom and full employment, the business of credit

societies slackened whilst Thrift Societies increased their business and their working capital. It is interesting to note that during the war period the purposes for borrowing from the unlimited liability societies were as follows:

For cultivation 43.8%; 24% for trade; 6.1% for land leasing or improvement and 5.2% for buying cattle. Only the residual category of 4.3% went for what may be described as "unproductive" loans.

During the war and the immediate period afterwards credit societies of unlimited liability were relatively inactive because the war boom induced incomes among the people. From 1945 to 1949 these societies increased from 1,696 to 1,891 only. But by 1955 they were to be more numerous than the distribution societies and by the end of 1957 they numbered 3,581.

Decline of Co-operative Credit Societies

However, the operations of the new CAPS societies and the introduction of multi-purpose co-operative societies (MPCS) in 1957 were having their effects on co-operative credit societies. Large sums for cultivation purposes which would normally have been lent by credit societies were now being made available by CAPS societies and MPCSS. By 1959 it was clear that credit societies were gradually losing ground. Whilst in 1956 the total of credit societies loans was 106% of total CAPS societies loans, the percentage in 1959 had dropped to 72.8%. By 1969, it was reported that out of 3,570 credit societies as many as 2,010 were inactive.

Multi-Purpose Co-operatives (MPCS)

A major turning point in the co-operative system in Sri Lanka was the reorganisation in 1957. The reorganisation was preceded by a survey of rural indebtedness. It revealed that 54% of rural families were in debt compared with 30% in the period 1950-51. The average debt per family had risen during the period from Rs. 263/- to Rs. 750/- and the total debt was estimated at Rs. 516 million. The survey also revealed the extent to which the rural people were indebted to non-institutional sources. Of the outstanding

debts the contribution of institutional lenders comprising government, commercial banks and co-operatives amounted to a meagre 7.8%. But, most disappointing was the fact that the co-operatives despite four decades of co-operative credit had contributed only 4.1% to the total debt. The sources of rural credit in 1957 are seen in the table below :

TABLE V

Source	Percentage of total debt
Government	2.6
Co-operatives	4.1
Commercial Banks	1.1
Relations and friends	44.2
Landlords	8.0
Professional Money-lenders	15.55
Traders and Commission agents	11.
Others	13.0
	100.0

Source: Department of Census & Statistics Survey of Rural Indebtedness in Ceylon 1957.

Proceeding on the findings of this survey government decided on the setting up of an islandwide network of multi-purpose co-operative societies with the object of promoting, inter alia, rural credit on a comprehensive basis. We have seen that CAPS societies were established so that a single society provided both credit and arranged sales. The MPCS was considered to be a natural development of this. The multi-purpose form, it was held, by combining credit, marketing, provision of consumer goods and other services was more suitable to the village than the single purpose form of co-operatives. The principal emphasis in this organisation was that the co-operative movement would not in Sri Lanka conditions grow out of its own resources, but State intervention had to actively nurture its development. The MPCS reorganisation had also a wide variety of aims. The MPCS was to operate as a village bank providing credit and mobilising savings, as a development unit undertaking village development and so forth.

People's Bank Established

The establishment of the People's Bank in 1961 was an integral part of the reorganisation effected by government in 1957. For the realisation of the objectives of the reorganisation a

strong development-oriented bank to finance the Movement was deemed necessary. The then-existing co-operative banking structure consisting of the Apex co-operative Federal Bank and the Co-operative Banks at provincial and district levels were considered inadequate. Their constitution as separate unit banks and the restriction of their banking business to co-operatives were held, inter alia, to be factors which inhibited them. The aim, therefore, was to set up a bank specialised to serve the co-operatives but possessed at the same time of a structure strong enough to supply the movement with adequate finances and absorb the risks that its lending operations would entail. This structural strength was to be provided in the following ways:

- Government participation in the share capital.
- Provision to engage in all aspects of commercial banking.
- Provision to establish a branch network.
- Statutory requirement that all co-operatives should bank with the new Bank so that the limited resources of the movement could be concentrated in one financial institution.

The capital of the People's Bank is owned equally by the Government and the Co-operatives. Its directorate reflects these two interests. Three directors are appointed by the shareholding co-operatives and the Commissioner of Co-operative Development is an ex-officio member. The remaining three Directors are nominees of Government.

The objectives of the new Bank were spelt out in the Act 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 committees and other persons".

With this objective, the Bank offered to take over Co-operative Provincial and District Banks and turn them into its branches. By September, 1963, 9 of the 17 Co-operative Provincial and District Banks merged with the People's Bank. The remaining 8

Banks were also absorbed in subsequent years.

Today, in addition to its principal role as the banker to the Co-operative Movement of Sri Lanka, the People's Bank acts as the banker to a large number of public corporations and large segments of the commercial and private sectors.

SAVINGS DEPOSITS IN THE RURAL SECTOR

Year	(in Rs. million)			Total
	P.O.S.B.	C.S.B.		
1949 ...	134.9	56.6	88.8%	191.5
1960 ...	343.4	75.5	76.5%	418.9
1975 ...	1,337.5	499.9	80.4%	1,837.4

Source: Review of Economy 1975 (Table 30)

P.O.S.B. Post Office Savings Bank.

C.S.B. Ceylon Savings Bank.

N.S.B. National Savings Bank.

P.B. People's Bank.

Com.Bks. Commercial Banks other than the People's Bank.

Note: The National Savings Bank was formed in 1972 by the amalgamation of the P.O.S.B. and C.S.B.

In order to exploit the savings potential in these segments of the community the Bank's approach has been to evolve appropriate savings mobilisation techniques in keeping with the general characteristics of their market for savings. For example, a contractual savings scheme styled Investment Savings is in operation fashioned specifically to suit the needs of small income-earners. Under this scheme, the depositors contract to save a fixed sum of money monthly, quarterly, or half-yearly for a period of 60 months. The monthly deposit plan is to suit the fixed income earning urban worker while the quarterly and half-yearly plan is intended to attract the seasonal savings of the farming community. This contractual savings scheme is operated not only by the branches of the Bank but also by the Co-operative Rural Banks (CRB) of Multi-Purpose Co-operative Societies. (The nature of these CRBs will be discussed later.)

(To be Concluded)