

CO-OPERATIVE RURAL BANKS: New ideas for Development

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The CRB and Its Setting

Co-operative Rural Banks (CRBs) which now function under Multi-purpose Co-operative Societies (MPCSs) were set up in 1964 to cater to the financial needs of the rural population. At present every one of the 282 MPCS have one or more CRBs. It is believed that about 85 percent of the need for rural banks is now satisfied with this network of banks. The CRBs are managed by the MPCSs through an officer called the Bank Services Manager (BSM) to whom the CRB managers report. The Bank Services Manager, who also may sometimes be called upon to handle other functions such as paddy purchasing, reports to the General Manager. All MPCSs will have in addition to the Rural Banking Division, a Consumer Division and a Transport Division. Some MPCSs will have other commercial activities as well such as rice mills, printing presses, cinemas, milk collection centres and channelled consultation chambers. With such numerous and diverse activities it is quite possible that at General Management level and at board level the rural banking activities do not receive the attention they need.

In spite of many obstacles, the CRBs have shown a remarkable growth in collecting rural deposits; although the granting of project oriented lending has not been so impressive. The growth in pawning advances is also significantly high, indicating the usefulness of the CRB pawning facility, if not for which this business would have fallen into the hands of the informal sector which may have caused more hardship to the rural poor. However, growth alone cannot be used as an indicator of the satisfaction of the financial needs of the rural population nor can it be used as a means of assessing the future needs that require fulfilment.

A long tradition exists in the supply of rural credit on a co-operative basis, commencing with the first co-operative credit society in 1906 in Dumbara. There are several landmarks in rural credit such as the Co-operative Societies Ordinance of 1911, the establishment of

the Co-operative Federal Bank in 1949 and the establishment of the People's Bank in 1961. At the same time the co-operative movement too went through some major changes such as the setting up of a large number of consumer societies during the War, the MPCS scheme in 1957 and the Re-organisation of 1971. Hindsight reveals many incorrect assumptions which influenced these changes. The present situation is that Co-operative Thrift and Credit societies under the apex Co-operative Thrift and Credit Union is one stream while the CRBs under the MPCSs is another.

Life Cycle of the CRB

While analysis of performance of CRBs is important I believe that it is time we looked at CRBs from another angle; a Marketing one. In the case of a consumer product the producer is always concerned about the life cycle of his product. In the same manner we must attempt to determine the stage at which the CRB concept is in its life cycle. A product life cycle goes through four stages: Introduction, Growth, Maturity, and Decline. It is easy to determine the Introduction stage and the Growth stage, but the Maturity and the Decline stages are difficult to see. A correct understanding of the concept of Product Life Cycle is important so that Maturity and Decline can be identified when it takes place so that a new growth period is introduced with new development strategies. With the rapid and far reaching changes in the banking sector and the rural economy it is therefore advisable to constantly monitor performance trends, and attempt to chart the Life Cycle of the concept of the CRB.

In the flow of a consumer product from the manufacturer to the consumer three factors predominate in importance: the product concept must be right and must be available at the right price, the actual product must have the required quality and required reliability, and the product must be promoted. We must question whether the CRB concept caters to the wants of people at the right price, whether it is being adequately promoted for customers. Answers to

these questions will lead to various strategic and operational plans hopefully leading to an extended life cycle for the CRB concept.

CRB as a Marketable Service

Every organisation or a distinct division of an organisation has a declared Mission which stems from the purpose for which the organisation is in existence and from its principal values. In order to fulfil its mission an organisation may embark on one or more strategies some of which may not directly result in the fulfillment of the mission. For example, a particular mission may emphasise subsidies to poorer sections of the population while one or more strategies will deal with providing some product or service to higher income groups. This strategy will be purely for the purpose of generating surpluses which can be used to grant the subsidies envisaged. Many traditional co-operators are reluctant to embark on activities that service more affluent segments of the population even as an income generating strategy for fear of being branded anti-co-operators and capitalist supporters. This has been one of the principal reasons for the poor economic performance of co-operatives; the failure to separate the mission from strategies.

There is no reason therefore why CRBs should not provide services to segments of the population other than members and the rural poor. Through the process of SWOT analysis (analysis of Strengths, Weaknesses, Opportunities and Threats) improved and new services could be developed to cater to enlarged or new customers.

The growth sector analysis technique as shown in Fig. 1 is a useful tool to generate new ideas for increasing the customer base as well as types of services provided.

For this purpose a segmentation of members and prospective customers in the catchment area needs to be done. Segmentation can be on more than one factor: segmentation on disposable income; segmentation on trade, profession or vocation; segmentation on cultural habits etc. During the present turbulent times several corporate customers have made use of CRBs for such services as payment of salaries of employees and cashing of cheques. Some institutions even wish to open accounts with CRBs. It therefore seems possible to expand services in both directions: improved and new services and enlarged and new customer base.

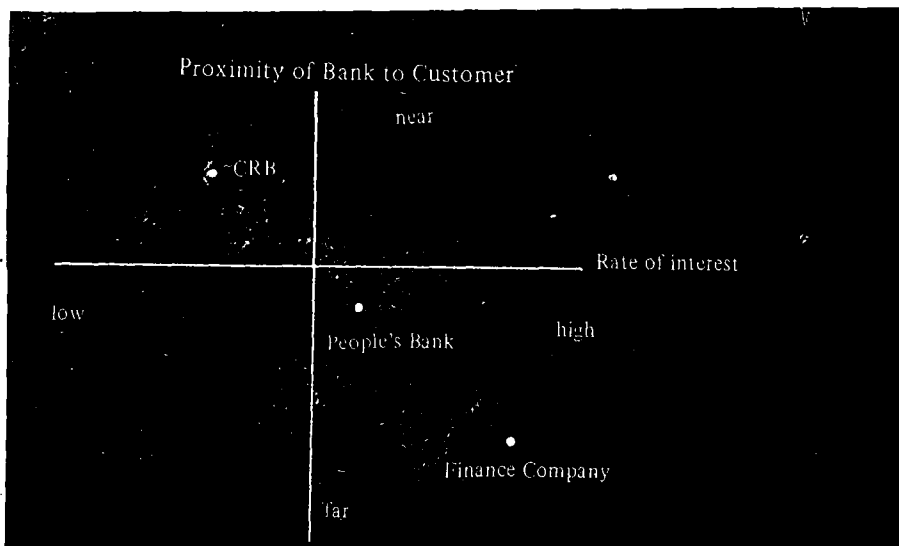


Fig. 2. POSITIONING DIAGRAM SHOWING CRB AND COMPETITORS

In determining the right type of service, another useful technique is the product positioning diagram, which compares (on a two-dimensional grid) the services offered by competitors with your own service. This comparison which can only be done for two attributes at a time is very useful to determine an area not served by the competitors. For example Fig. 2 shows the fixed deposits schemes of different institutions on two scales; proximity of Bank or institution and rates of interest.

This particular diagram (taken as an example only and not a calculated positioning) indicates a good positioning of the CRB as it is not closely positioned to a competitor. A close position would lead to high competition. This technique can be used to modify existing services and determine new services having unique selling advantages. The attempt should be to have innovative thinking free of all artificial restraints so that new and improved services can be thought of.

Efficiency of Operations

After the improved and new services have been conceived the next most important activity is to analyse the strengths and weaknesses that influence the quality and reliability of the services. In order to have high quality and reliability it is necessary for CRBs to operate with efficiency and effectiveness. Some of the major weaknesses in CRB operations are as follows:

- low skills and knowledge of CRB managers and Bank Service Managers.
- low level of motivation of all CRB personnel.
- low level of concern and supervision by General Manager and Boards of Directors.
- low member interest in the supervision and monitoring of CRB activities.

	Existing Services	Improved Services	New Services
Existing Customers		More efficient services	eg. New types of loans New savings schemes New types of account etc.
Enlarged Customer base	More promotion of services	Market segmentation and differentiation of services	New services attracting more member interest
New Customers	Development of new customers (eg. corporate customers)	Extend market of new customers for improved services	eg. New services for corporate Customers

FIG. 1 GROWTH VECTOR ANALYSIS OF CRB'S

- e) inadequate supervision by People's Bank staff.

To overcome these weaknesses many institutions have been providing training and some monitoring but the results have not been very encouraging. Some of the recommendations to improve efficiency are given below.

(i) **FINANCIAL INCENTIVES** – Some MPCs have introduced financial incentive schemes while the majority have not. Some argue that even without incentives CRBs make good profits and therefore incentives are not required. This is due to the misunderstanding of what an incentive scheme is. It is possible to design a multifactor incentive scheme so that not only profits but several other measurable attributes of efficiency can be improved. Also, successful incentive schemes provide rewards up the hierarchy according to the contribution that higher officers can make. This means that the General Manager also must receive an incentive based on CRB performance. Incentive payments on this basis will result in motivating all relevant persons to improve CRB performance.

(ii) **COMPUTERISED DECISION SUPPORT SYSTEMS** – Training in feasibility analysis of projects etc. required for lending decisions have limitations. Techniques such as Sensitivity Tables and Cash Flow Forecasting are time consuming and sometimes difficult for CRB managers with only basic educational qualifications to master. The solution is to have a small personal computer at each MPCs (not at each CRB) where different types of sensitivity models and cash flow models are installed using a simple spread sheet programme so that decisions can be made purely by feeding in the required input data. Also, databases can be created so that information on commercial ventures, such as their profitability and availability of skills and raw materials will be stored for easy retrieval. Demand forecasting by extrapolation and even with co-relation can be carried out very easily by computer.

(iii) **COMPUTERISED MANAGEMENT INFORMATION** – CRB management is poor at present. Sometimes even information on past due loans is also not readily available. With a computerised information system it will be possible even for the General Manager, Bank

Service Manager and the officers of the People's Bank to retrieve information in many useful ways from the data stored in the computer. It will also be possible to generate on a monthly basis financial and other performance indicators which will help officers of the Co-operative Department and consultants of the Sri Lanka Institute of Co-operative Management (SLICM) to more closely monitor the performance of each CRB. Although we are in the age of decentralisation and devolution, centralised monitoring and feedback advice becomes necessary when the required skills and expertise is not available at the peripheral units.

(iv) **ALLOCATING RESPONSIBILITIES TO SENIOR MANAGEMENT AND BANKS** – Recently the Ministry of Finance and Planning has been considering allocating more responsibilities to senior management of state corporations. Regular performance reviews are to be submitted by such officers to the Boards of Directors. Also a structured agenda has been recommended for Board Meetings. A similar system can be introduced in MPCs too so that adequate focus is made on CRB activities. Review of CRB activities in terms of goals set for them could be made a compulsory item on the agenda of Board Meetings. The Annual General Meeting too could highlight CRB activities. The idea is to get the CRB more into focus so that consumer activities do not overshadow it.

Implementation of these is likely to result in increased efficiency and effectiveness. However, there are many other ways – with major structural modifications – through which efficiency can be increased.

The Promotional Mix

The third most important activity is Promotion. No matter how good the type of service offered is or how efficient the operations are the full potential is not usually realised unless the offered services are promoted. In spite of the long years of existence of the CRB and their closeness to the members I do not believe that all prospective customers are aware of the types of facilities offered by the CRBs. In the event of new facilities and attracting new customers such as corporate customers it becomes even more important to promote such facilities.

In the same manner as the promotion of a consumer product, CRB services must also be promoted using the usual promotional mix: personal selling, advertising, publicity and sales promotion.

Advertising is a powerful method for building up awareness of products or services. Even though other promotional methods may be more useful for the comprehension stage and conviction stage of a transaction cycle, awareness of a product or service is a prerequisite. Mass media advertising is unnecessary for individual MPCs but all standard CRB services could be advertised on a national level. Direct mail will be a useful method for creating awareness among corporate customers. Outdoor posters and indoor posters may be useful in creating awareness among the local population. CRBs usually do not have any leaflets or notices within the building giving details of services and eligibility criteria. According to some SLICM consultants, members and other prospective customers could be attracted to avail of CRB services if such information was available more readily.

Publicity is effected through news items on radio, TV and the press and also through other public exposures. It is very advantageous because it is free. CRBs have not made much use of publicity in spite of many newsworthy activities. CRBs can be given a great lift up with a publicity boost; this will help build up confidence in the CRBs.

Sales Promotion is not a useful tool in the case of CRBs. However to a limited extent promotions can be implemented by such competitions as, the lucky depositor of the month, the best depositor of the year, the best loan repayer etc. Success stories of those who obtained project loans and developed themselves can be used to serve as demonstrations.

The foregoing are some suggestions deviating from the traditional path of finding ways and means of developing CRBs. It is intended to serve as 'food for thought' by policy makers and those directly engaged in the provision and development of CRBs. Using a Marketing approach and making use of modern technology to improve efficiency is necessary, for CRBs to grow and make a more useful contribution to improve the standard of living of the rural poor.