

Savings and the Co-operative Sector—Case of Sri Lanka PART II

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The 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 :

- (a) Government participation in the share capital,
- (b) Provision to engage in all aspects of commercial banking,
- (c) Provision to establish a branch network, and
- (d) 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.

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. 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 our last issue, traced the history and development of Co-operative Savings and Co-operative Credit in Sri Lanka upto the reorganisation 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. This part deals with the role of the People's Bank in the consolidation that followed and shows how the rural banks have been a key factor in the rural financial situation over the last few years; and also how the activities of the People's Bank in the savings field has, at a micro level, been a very important instrument in the redistributionary function in the economy.

Far from adversely effecting the services to co-operatives, it is precisely these commercial banking activities that have enabled the Bank to provide the co-operative movement with the necessary funds. The table given below shows how co-operative deposits and co-operative borrowings stood in relation to the total deposits and total borrowings. These figures clearly show the dependence of the co-operative sector on the deposits which the Bank has mobilised from the other sectors.

TABLE VIII
Comparison of Deposits from and Advances to Co-operatives & Others (1975)

	Co-op. Societies Per cent	Others Per cent
Deposits ...	10.57	89.43
Advances ...	29.55	70.45
Advances as percentage of total deposits	35.10	83.69

People's Bank and the Small Income-earner

Besides its role as the co-operative development bank the People's Bank has also pioneered the extension of banking facilities to persons of limited means in both rural and urban areas. The latter are farmers, artisans, small traders and urban workers, who are served by co-operatives as either consumers or producers. In its 'branching' programme the Bank has given considerable weightage to the rural areas. Out of its existing branch network of 169 offices as many as 134 are located in rural areas and a number of its branch offices have been sited in areas with heavy concentrations of low-income urban workers. These segments of the community obtain their loan requirements from the Bank and in fact as much as 91.65 percent of the number of loans in the Bank's portfolio are for small loans below Rs. 5,000/-. At the same time the Bank has rigorously pursued a policy of insisting on regular saving as a condition for borrowing and this has brought good results. The Bank's savings deposits are in fact higher than the aggregate savings deposits of all other commercial Banks and the rate of increase maintained by the Bank in savings is higher than in any other financial institution in the country.

In order to exploit the savings potential in these segments of the community the Bank's approach has

ration 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).

Investment Savings offer a rate of interest currently $7\frac{1}{2}$ per cent, which is 2 percent higher than the rate paid on ordinary savings accounts. Loan facilities on easy terms are offered to those who conform to the save-as-you-earn discipline the scheme requires. The idea is that the regular practice of saving however small the sum, helps the People's Bank and the CRBs in some measure in assessing the borrower's willingness and capacity to repay his dues. The scheme also enables a person to plan a housing or development project in advance, in the expectation of raising long-term funds from the Bank for the purpose. Regular depositors can qualify for house construction loans upto a maximum of Rs. 25,000 and loans upto Rs. 50,000 for industrial and agricultural projects.

requiring the physical transfer of monies in such savings accounts to the People's Bank. The figures below indicate the success of this scheme, introduced in 1970.

	No. of Accounts	Amount R. M
Dec. 1970 ...	14,986	2.5
Dec. 1971 ...	53,791	10.7
Dec. 1972 ...	70,943	21.7
Dec. 1973 ...	104,859	41.5
Dec. 1974 ...	174,027	73.2
Dec. 1975 ...	217,462	103.2
June 1976 ...	236,242	119.8

The 'Daily Loans' scheme for the benefit of small traders operated both by the People's Bank and the CRBs is another innovation introduced recently which promises to develop into a regular source of small savings. Traditionally the small trader obtains his daily working capital requirements from big traders or professional money lenders at exorbitant rates of interest. The usual procedure is for the loan to be given in the morning and for repayment of principal and interest to take place in the evening. Interest rates applied usually amount to about 10 per cent per day. With the Bank's branches and the CRBs stepping into the shoes of the money-lender and offering funds to the small trader at reasonable rates, the latter is able to generate a surplus, part of which he undertakes to deposit as savings with the lending institution in addition to payment of loan and interest.

People's Bank and the Co-operative as Partners in Rural Banking

The Bank's programmes for the development of the rural market for savings is closely bound with the co-operative societies as already indicated. The People's Bank has been proceeding on the basis that the development of rural banking and credit has to be pursued in partnership with the primary Multi-Purpose Co-operative Societies, and where possible with other primary co-operatives at the village level. The Bank realizes the potential the Multi-Purpose Co-operative has to operate as a village bank. In addition to its low-cost operation and intimate knowledge of local conditions and persons, its capacity to integrate credit with production and marketing is of considerable advantage in the issue and recovery of loans. Further the

TABLE IX SAVINGS DEPOSITS—RELATIVE POSITION
(In Rupees Million)

Year	Rural			Total		Urban		Total
	P.O.S.B.	C.S.B.				Cm.Bks.		
1949	134.9	56.6	88.8%	191.5	11.2%	24.1	100%	215.6
	P.O.S.B.	C.S.B.		Total		Cm.Bks.		
1960	343.4	75.5	76.5%	418.9	23.5%	129.0	100%	547.9
	N.S.B.	P.B.		Total		Cm.Bks.		
1975	1,337.5	499.9	80.4%	1,837.4	19.6%	447.5	100%	2,284.9

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

Cm. 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.

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 op-

Since CRBs do not provide loans of this size or long-term loans, there is a special arrangement between CRBs and the Bank for the latter to provide these loans to members of societies depositing with the CRB without

marketing mechanism could be developed into a rich source of farmer savings. Bank policy has accordingly been directed towards the evolution of an integrated rural credit structure with the Bank branch providing members with the larger and the longer-term loan facilities and the co-operative the smaller and the shorter-term facilities.

The first step in terms of this policy was taken in 1963 with the introduction of a scheme styled the Scheme of Extended Rural Credit. Under this scheme, with the help of the Co-operative Department, co-operative societies having a good past credit performance were chosen and overdraft facilities were extended to these co-operatives for re-lending to their members for approved purposes over and above those available to members from other sources. The loans were for a wide range of purposes apart from the purely productive ones and included cottage industries, animal husbandry, bringing new land under cultivation, electrification, housing, redemption of debts and consumption. The maximum loan for bringing land under cultivation, animal husbandry and cottage industries was Rs. 3,000/- and for consumption purposes it was Rs. 500/-. The loans were to be repaid within five years.

At the end of 1970, the extended credit scheme was operated by 76 Co-operative Societies. The aggregate overdraft limits approved for these societies by the People's Bank at the end of 1970 was Rs. 1.9 million. The figures below give the growth of the extended credit scheme.

TABLE XI

Aggregate Overdraft Facilities

End of Quarter	No. of Co-op Societies	Approved by People's Bank (Amount in Rupees)	Utilised by Societies
1967 March	53	1,638,568	1,275,450
June	56	1,651,068	1,279,757
Sept.	58	1,685,268	1,254,471
Dec.	67	1,901,118	1,295,673
1968 March	66	1,796,818	1,211,925
June	67	1,829,818	1,231,419
Sept.	69	1,872,818	1,293,526
Dec.	69	1,873,118	1,162,904
1969 March	72	1,892,818	1,166,789
June	72	1,914,818	1,224,288
Sept.	71	1,856,318	1,210,672
Dec.	72	1,861,950	1,163,384
1970 March	73	1,878,450	1,229,380
June	74	1,903,450	1,207,662
Sept.	73	1,854,450	1,183,657
Dec.	76	1,903,450	1,200,847

Source: Central Bank Annual Report, 1970.

The Extended Rural Credit Scheme was suspended in 1973 and the functions it was meant to fulfill in the rural sector have been largely superseded by the Co-operative Rural Banks to which we shall now turn.

Co-operative Rural Banks

The main thrust of the Co-operative Credit and Savings System at the moment is provided by the Co-operative Rural Banks (CRB) operating through multi-purpose co-operative societies. This scheme was launched by the People's Bank in 1964 with the intention of providing farmers, artisans, other village level producers and small traders with credit for production, housing, emergencies and the redemption of debt. Until 1971 the scheme was operated by societies selected on their performance and economic viability. On this basis there were 90 CRBs functioning in 1970. But with the restructuring of the multi-purpose co-operative set-up of 5,884 societies, by a process of amalgamations into 371 large units in 1971, Government decided to establish a CRB in each of the new societies.

The term "Co-operative Rural Bank" is the designation given under the scheme to the credit and banking department of a multi-purpose co-operative society. A CRB operates through both the Head Office and through selected branches of a society. As at 31st March 1976 there were 340 CRBs and 120 special branches performing CRB functions. (See table XII on page 30).

The functions of the CRB are:

- Mobilisation of deposits from members and non-members.
- Provision of loans and other accommodation to members for production and consumption purposes.
- Provision of pawn-broking facilities to members and non-members.
- Provision of money payment and transfer services.

We have earlier referred to the Bank's policy of participating with the multi-purpose co-operative societies in the development of rural banking and credit. The CRBs operating in a limited area have advantages of intimate knowledge of

the local individual. This has significance in a situation where the conventional forms of security are limited and the continued insistence on this by the lending authority would tend to perpetuate poverty. The People's Bank's link with the CRB is, therefore, a means of combining the advantages possessed by a village institution through a knowledge of local conditions with the advantages of a branch banking system allowing for a transfer of resources between different areas. As constituted today, the CRBs have the following objectives:

- Integration of credit with production and marketing.
- Provision of marketing information, storage and transport.
- Survey and identification of local skills and resources with potential for development.
- Formulation and implementation of development projects.
- Development of package-credit facilities to members covering all basic needs.

The credit limits and the types of credit given under the scheme are given in the table below:

Purpose	Limits
Production (Industries, agriculture, animal husbandry etc.) ...	Rs. 7,500
Consumption ...	1,000
Construction (House, workshops, stores etc.) ...	7,500
Trade ...	1,000
Redemption of Debts ...	5,000
Electrification (House, workshop etc.) ...	1,000
Emergencies ...	200

The lending policy of the CRB is production-oriented but in the context of the villager's traditional dependence on non-institutional sources of credit for his production as well as other essential needs it aims at providing a comprehensive package of credit facilities for a range of purposes as listed above. The facilities are made available to a member in the desired combination in the form of a credit limit established in his name on which he could draw for both production and other needs as and when they arise.

Government Loan and CRB loans

Side by side with their loan operations MPCs also provide farmers with crop loans for paddy and a number of other essential food crops under a government sponsored scheme, styled the New Agricultural Credit Scheme. This is in effect a continuation of government loans for farmers which began shortly after the second world war through the old CAPS Societies discussed earlier. In 1967 government handed over these lending operations to the People's Bank with a credit guarantee to the Bank upto 75 per cent in respect of loans in default. The Bank provides the funds to MPCs for re-lending to the farmers, but neither the People's Bank nor the MPCs has any real autonomy in credit decision-making. Loans are given according to government criteria and these do not provide much opportunity for the application of even the basic tests of lending. From time to time defaulters have been accommodated afresh. Defaults under this scheme have been very high.

A clear distinction has to be drawn between these loans and the loan operations of the CRB proper. In the latter an attempt is being made to develop a sound rural credit system where basic tests of lending such as the borrower's character, skills and capacity to apply these skills and generate a surplus adequate to repay loans are taken into account. In

marked contrast to the government loans scheme where the current default rate is 45.3 per cent the rate of default in CRB loans is around 9 per cent.

Deposit Mobilisation

The sources of funds of the CRB are as follows:

- Member and non-member deposits.
- Borrowings from the People's Bank.

The CRB's deposit mobilisation function has the twin objectives of maximising local resources for its own loan operations and promoting the savings habit in the village. Over the years, the rural areas of Sri Lanka have benefitted from increased developmental expenditure of government. Large volumes of funds have been provided as agricultural credit. Government has also progressively increased the prices paid for agricultural commodities under its guaranteed price scheme. Paddy, for instance, is now purchased at Rs. 33/- per bushel whereas in the sixties the price paid was only Rs. 12/-. Growing agricultural productivity following adoption of improved cultural practices, fertilizers, pesticides and better seeds have resulted in higher farmer incomes, although it must be said that severe drought conditions during the past few years have caused considerable losses in certain parts of the country.

Nevertheless it is clear that there is considerable potential to mobilise

savings in the rural areas. The relative success achieved by the rural branches of the People's Bank in this regard is a pointer to the possibilities. The CRB being a village-level agency is, in fact, in a far more advantageous position, in many respects, than a People's Bank or any other commercial bank branch, to exploit this potential provided, of course, it can build the necessary confidence. Commercial bank employees with their urban life-styles may not be able to establish the right rapport with the village community as well as the CRB employees could. Often it is a case of persuading the villager to give up age-old habits of hoarding and to eschew ostentatious expenditure on weddings, funerals and other ceremonies. To do this, confidence has to be created and this requires the right approach and understanding. On the question of deposit rates also, the CRBs can make themselves more attractive. It is not bound by Central Bank directives, and, unlike commercial banks, it is free from the operation of inter-bank arrangements on interest rates. Since money-rates prevailing in the unofficial rural market are generally higher than the urban deposit rates, financial institutions functioning in the village, to be competitive, will have to offer higher rates than in urban areas. The commercial banks cannot adopt such a differential rate policy as between its urban and rural branches, but a CRB is free to vary its deposit rates and,

TABLE XII

DEPOSITS AND ADVANCES OF RURAL BANKS

	No. of Banks		DEPOSIT ACCOUNTS						ADVANCES					
			Savings		Fixed		Total		Loans		Pawning		Total	
	Rural Banks	Special Branches	No.	Amt. Rs. m.	No.	Amt. Rs. m.	No.	Amt. Rs. m.	No.	Amt. Rs. m.	No.	Amt. Rs. m.	Amt. Rs. m.	
1965 Dec.	8	—	2,924	.5	9	—	2,933	.5	1,153	.9	n.a.	.3	—	1.2
1966 Dec.	13	—	4,636	.7	15	—	4,651	.7	1,783	1.3	4,222	.4	6,005	1.8
1967 Dec.	27	—	8,792	1.3	41	—	8,833	1.4	2,897	2.0	6,598	.6	9,495	2.7
1968 Dec.	44	—	17,359	3.1	287	.2	17,646	3.3	5,586	3.6	9,507	1.1	15,093	4.7
1969 Dec.	68	—	28,626	5.7	724	.5	29,350	6.2	7,893	5.6	14,325	1.5	22,218	7.1
1970 Dec.	90	—	49,939	16.1	892	.8	50,831	17.0	10,017	7.0	18,092	2.0	28,109	9.1
1971 Dec.	111	—	60,371	17.2	838	.7	61,209	17.9	10,725	7.0	21,044	2.2	31,769	9.2
1972 Dec.	242	—	172,822	22.7	812	.6	103,634	23.3	11,515	8.2	70,735	7.0	72,250	15.2
1973 Dec.	341	62	206,970	44.3	748	.9	207,718	45.2	20,548	16.2	150,118	22.7	170,666	38.9
1974 Dec.	332	71	366,203	61.5	1,271	1.2	367,474	62.7	26,819	29.0	235,115	38.4	261,934	67.4
1975 Dec.	338	109	499,969	72.8	783	1.4	499,969	74.2	55,052	37.4	298,583	49.9	333,635	87.3
1976 March	340	120	524,242	80.1	926	1.4	525,168	81.5	37,839	40.6	307,328	51.6	345,167	92.2

in fact, the prevailing interest rates on savings deposits in CRBs range between 6 - 8% and these are higher than the current commercial bank rate of 5½%. CRBs have much longer business hours and cost very much less to operate. Further, the CRB, being a department of the Multi-Purpose Co-operative Society is in a position to link savings with sales through the marketing facilities for village produce provided by the society. This, in fact, is a device adopted by a number of CRBs today to tap the savings of paddy and other food-crop farmers.

It is useful to examine to what extent CRBs have succeeded in exploiting these advantages in actual performance. Table XII on page 30 gives figures of savings and loans in the CRBs from 1965 to 31st March 1976. It shows a steady upward trend in the growth of deposits. As at 31st March, 1976, savings and term-deposits amounted to Rs. 81.5 million, the number of deposit accounts being 525,168, the average deposit being Rs. 150/-. Assuming that each account represents a household of five persons, this would represent a population of 2.6 million and assuming further, that in Sri Lanka, 75% of its population of approximately 13 million live in rural areas this would amount to approximately 28.2% of the rural population.

In evaluating the progress made a relevant point to be borne in mind is that CRBs on a national scale have been in operation only for 5 years so far. Although the CRB Scheme was launched as far back as 1964, prior to the amalgamations of 1971 the scheme had been extended to only 90 of the then existing societies. Considering the fact that at the time there were 5,884 MPCSSs, the geographical coverage of the 90 societies was relatively very small. There are also a number of factors at work in the MPCSSs as they are presently constituted, which tend to inhibit CRB growth. Principal among these is the consumer-business activity of the MPCSS. We have seen how during the War, government created an island-wide network of consumer

co-operatives as distribution agents of essential foodstuffs which were in short supply. This situation did not end with the War, because shortages of essential commodities have persisted and the MPCSSs as inheritors of the old CAPS societies have been functioning as government's distribution agents throughout the entire country. Today, the volume of consumer business handled by MPCSSs is very large indeed and, as a result we find that most of the time and energies of the governing boards of MPCSSs are devoted to this work. This preoccupation has resulted in the relative neglect of the MPCSS credit and banking functions by the governing boards. There is also an inherent conservatism in the lending policies favoured by many MPCSS boards, showing a preference for the security-oriented loan as distinct from the development-oriented.

Besides this, shortcomings in CRB management constitute another inhibiting factor. In the present MPCSS management hierarchy, the manager of the CRB is subordinate to the MPCSS's General Manager who is in overall charge of the MPCSS activities. In some CRBs this has tended to restrict the CRB manager's scope to display much initiative and drive in promoting CRB goals. Lack of adequate banking and loan experience on the part of the CRB manager has also contributed to slowing growth in a number of CRBs. A good number of CRBs have employed university graduates as managers and strange though it may seem, this has become a counter productive factor in many CRBs. This is largely because the graduate, while accepting the village level job due to lack of employment opportunities, still aspires for a job in the public or private sectors where salary scales and prospects of future promotion are more attractive.

Bank's Advisory Services to CRBs

In view of these factors it has been generally understood that People's Bank field staff should play a major role in initiating and directing the promotion of CRB activities. In the earlier phase of the CRB scheme beginning in 1964, the CRB organisational structure existing at the time, facilitated this kind of participation. Bank staff often functioned for periods of time as CRB managers. In that

set-up the CRB operated a virtually autonomous unit of the MPCSS. I maintained separate accounting records and its manager was directly responsible to the governing board of the MPCSS. But after the MPCSS re-organisation of 1971, the CRB accounts were integrated with the rest of the MPCSS departments, its manager was subordinated to the General Manager of the MPCSS and the CRBs existence as a virtually autonomous unit ceased. It should be mentioned that these problems inhibiting CRB growth are engaging the attention of the Co-operative leadership both official and unofficial and it is expected that remedial action will be taken in due course. The Bank for its part is currently implementing a programme to restructure the work distribution of its branches so as to sharpen its focus on development work in the rural sector. Development Assistants are being deployed in the field for the identification, formulation, implementation and follow-up of development projects. They will be posted to the CRBs which will serve as the centre of their activities in the village. It is expected that the CRB will benefit from the supervisory and advisory services which the Development Assistants will render to CRBs.

Reverting to the question of savings mobilisation by the CRB, there are certain aspects of the rural market for savings which require further examination. In the village, there are the more affluent farmers and other persons with surplus funds. These constitute the obvious market for deposits in the village, and the CRBs have been quite successful in inducing these persons to deposit their surplus funds with them, but there remains the question of the lower strata of the village community existing at subsistence and poverty levels. At these levels the CRBs savings promotion task requires a sharply different approach. In this area credit has to precede savings. The need is for the provision of credit to the farmers and the artisans accompanied by close end-use supervision directed towards increasing productivity so that income surpluses could be generated. CRB loan operations with such an orientation will not only result in increasing the incomes of the poorer classes, but also reduce the demand for loans from

local private sources such as land owners, money-lenders and the affluent farmers. This will bring down village-level interest rates and attract to the CRB the monies of those who have surpluses.

The Lower Strata in the Village

This raises the question as to the extent to which co-operative credit reaches the lower strata of the rural population. We have already referred to a number of organisational and managerial weaknesses in the operations of the MPCs and CRBs. We have also commented on the innate conservatism of many MPCs governing boards in regard to loan policy. In this connection recent studies done by the Agrarian Research and Training Institute of Sri Lanka, as well as by the Research Unit of the People's Bank, reveal certain interesting information. A study made by the former in the Kandy District in the central highlands shows that it was the class of smallest cultivators, i.e. cultivators having up to 2 acres, which make the least use of the cultivation loans under the New Agricultural Credit Scheme. The figure of utilisation was 35% for the small farmer class as against 89% for the class of farmers having over six acres. The use of other services provided by the co-operatives also show a similar tendency. For instance, the use of seed paddy is only 38% for the small farmer of the two-acre class as against 67% for the six-acre class. It seems that the small farmers presumably handicapped by their low socio-economic status find it more convenient to go frequently to private sources for their loan requirements than to the co-operatives. The fact that credit does not seem to filter in sufficient quantities to those in most need of it i.e. the poorest farmer, has also been confirmed in a study on the adoption of New Technology by Small Farmers (Samuel 1974) which indicates that the inputs to the village economy are absorbed more by the affluent strata than by the poor, who are those in most need.

A study undertaken by the Bank on the impact of the bureaucracy on the village indicates the mechanism through which these inputs are denied to the small farmer. This study tends to show that at the village-level, a

coalition of forces representing elements of the government bureaucracy as well as landlord elements combined to provide an effective barrier that prevents the flow of credit and information to the small farmer. A study of vegetable-marketing practices undertaken by the Bank in the vegetable growing areas of Welimada, also in the central highlands, has also tended to confirm the presence of such an alliance as a significant element inhibiting inputs of credit as well as capacity to sell produce at a fair price.

For its part the People's Bank is working out a strategy to help CRBs penetrate these barriers and reach down to the farmers, the artisan and the petty traders existing at the poverty level. Reference has already been made to the restructuring of work distribution in the Bank's branches and the deployment of Development Assistants to work with the CRB at the village level. In the selection of staff to function as Development Assistants attention is paid to their aptitude for this type of work and their capacity to establish the right rapport with the village people. The Bank's training programmes are being fashioned to help field staff in cultivating the desired behavioural patterns. The Bank is also endeavouring to bring about closer co-ordination between the various agencies linked with the co-operative Movement both at the national and village levels so that the problems arising in the promotion of co-operative credit could be more effectively dealt with than at present.

Summary

We stated at the outset that the generation of savings is intimately tied to the credit institutions in the country and that no description of the savings system can be done without a description of the credit system. We thus find that in attempting to trace the history of co-operative savings in Sri Lanka we have also had to deal with the history of co-operative credit. In conclusion we shall sum up the salient points that emerge from this study.

We have seen that co-operative credit societies were the earliest co-operative institutions to appear. Their effect on the economy was limited due to social and economic restraints. But it has to be noted that the mon-

etisation of the traditional rural economy and the mobilisation of savings began in Sri Lanka with their establishment. Major changes that occurred with the granting of increased political autonomy since 1931 resulted in concerted attempts to restructure the local economy away from a colonial pattern. The setting up of local banks and the increasing importance attached to rural financial institutions were important aspects of these developments.

We have also seen the growing partnership of the co-operatives with the state in nation-wide economic activities and the organisational changes introduced to broaden their scope in keeping with these tasks. These ranged from War-induced changes to takeover marketing and distribution functions to the important transformation in the late fifties to undertake multi-purpose activities. Further, there was the consolidation that followed in the seventies whereby larger and more economically viable units were formed.

An important development in the savings field was the formation of the People's Bank with the express purpose of developing the co-operative movement and rural banking. The People's Bank has been experimenting with several credit as well as savings mobilisation schemes and among its most successful has been its sponsorship of rural banks based in co-operatives. The Co-operative Rural Banks, as they are known, now numbering 460 outlets have served as an important institution forging very close links with the village social and economic structure. They have been a key factor in the rural financial situation in the last few years with perhaps as much as 20 to 30 per cent of the rural population participating in their savings and loan business. The activities of the People's Bank in the savings field has, at a macro level, been a very important instrument in the redistributionary function in the economy with large deposits from the private sector being funnelled into the co-operative and state sectors. The Bank maintains an on-going review of its developmental activities and in recent months, as we have already indicated, there has been a further intensification of its efforts at reaching the bottom 40 per cent of the rural population.

