

COOPERATIVE RURAL BANKS Left in a State of Isolation

Introduction

The People's Bank was established by Act of Parliament No 29 of 1961, with a mandate "to develop the cooperative movement of Ceylon, rural banking and agricultural credit." The Cooperative Rural Bank (CRB) project, installed in March 1964 was the basic strategy adopted by the Bank's inaugural Board of Directors, for carrying out this mandate. The rationale of the CRB has been interpreted by the Cooperative Commission of 1970 in the following terms:

The People's Bank has taken the view, and in our opinion quite correctly that developing the credit departments of multipurpose cooperatives is the best approach to developing rural banking and agricultural credit.

However, in promoting the project the Bank's Directorate had to contend with the Bank's own top executive management, a point which the Commission had not taken into account. The Bank's top executive management comprised mostly of archetypal commercial bankers who were deeply skeptical about the capacities of village cooperatives to handle the tasks entrusted to them under the project.

In the circumstances, conflicts and disagreements between the Directorate and the Bank's top executive management were the order of the day. It seemed very much like a carryover of the acrimonious and protracted parliamentary and national debate, which culminated in the absorption of the former Cooperative Federal Bank by the People's Bank.

Significantly, the conflicts over the CRB were compounded by the fact that the views of the Bank's top executive management about the CRB were shared by influential voices at both Ministry of Finance and Central Bank levels. It even led to a ban on the CRB by the Minister himself, in June 1964, which resulted in the exit from the Bank of the Chairman and chief architect of the CRB, Vimaladharmasubasinghe.

The divisions created by this crisis were papered over at the time but in the event, never bridged. Although the Ministerial ban was lifted in September 1964, and the CRB expansion programme resumed, the distancing of the Bank

from the CRB and the Cooperative movement as a whole, which this episode triggered, proved to be an irreversible process.

At the same time, the CRB, left to fend for itself, developed "its own dynamics and leadership from within", and its history throughout has been one of rapid and sustained growth, both in terms of numbers and volumes. This is evidenced by the CRB's summarised statistical history presented in the annexed Table No 1. To cite an example. The fact that at end-2000, as shown in this Table, there were over 5.5 million "micro" account holders with total balances exceeding Rs 14,807 million, is a mea-

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sure of the confidence that the CRB has generated among village communities.

Besides, there are two other aspects in the CRB's track record which need emphasis. One is the quantum leap it has made when compared with the record of cooperative banking before its arrival. Statistically it dwarfs the earlier record. For example, at end - 1956, cooperative membership numbered 473,614, while the CRB clientele at end - 1999 comprised 5.3 million depositors and 1.2 million borrowers. Loans outstanding of Rs 23.2 million at end - 1956 were funded by government to the tune of Rs. 15.3 million. By contrast, loans outstanding of Rs 7232 million at end - 1999 were funded entirely by the CRB's own mobilised resources without any borrowings from government. (Sources : Agricultural Plan 1958 and Central Bank report 1999)

The second aspect is the CRB's role as a latterday pioneer, influencing other institutions directly or indirectly to tread its path as providers of micro banking services in the village. The Central Bank has presented comparative statistics of deposits and advances of seven institutions of this genre at end - 2000. They all post-date the CRB, and include Bank of Ceylon sub-offices at Agrarian Services Centres, the Regional Rural Development Banks launched by the Central Bank in 1985, the revival of the "bom-free" Pre-World-War-Two cooperatives commencing 1978 under the banner SANASA, and SEEDS, a member of the Sarvodaya Group. SEEDS has a visible link with the CRB in that, its Chairman Sarath Hewagama is in fact one of the

pioneers of the system having helped in the establishment of the very first CRB, Menikhinna in 1964.

To be sure, these successes and influences of the CRB have to be weighed against its negative factors. Regrettably there is no recent publication of this aspect of CRB performance, either by the Department of Cooperative Development or by any of the movement's apex institutions. However, there is on record a negative forecast about the future prospects of the CRB by the Central Bank, and I shall use this as the reference point in this presentation.

Review

In an all - too - brief review in its report for 1999, the Central Bank (CB) has sounded a warning "about the viability and solvency in the long run" of the country's Cooperative Rural Bank (CRB) system. Tucked away, as it were, in the voluminous pages of the CB report, this brief review has apparently escaped the notice of most co-operators judging from the absence so far of any public reaction on the part of the CRB leadership to CB's warning.

However, this is not a warning that could possibly be ignored bearing in mind the very strategic position the CRB has assumed today in the village economy. The accompanying Table No 1 giving a summary of the CRB's statistical history amply illustrates this point. Besides, Table No 2 which provides comparative figures of loans and deposits of the CRB and other leading micro banking institutions, underlines the CRB's leadership in the field.

In this context the issues raised by the CB's review need to be urgently addressed by the players concerned, principally the Ministry for Cooperatives and the apex body of the CRB, namely the Sri Lanka CRB Federation Ltd. It is also hoped that the special Presidential Commission which probed the workings of the cooperative movement recently, has taken due cognizance of the CB review and its implications.

Ironically the CB begins its review with a manifestly upbeat appraisal of CRB performance, highlighting especially the scale of the expanse and the penetration it has achieved "over the

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entire rural areas." Extracts from the review in this regard are reproduced below:

CRBs have spread themselves over the entire rural areas, making them accessible to the rural population. During 1999, 1418 such CRBs operated in the country under 299 multi purpose cooperative societies. At end- 1999 CRBs had over 5.3 million savings accounts, recording an increase of 12 per cent during the year. The deposits of CRBS increased by 15 per cent from Rs 11,234 million to Rs 12,914 million [Rs 14,806 million as of end -2000] i.e. a micro deposit of Rs 2420 per depositor. On the loan portfolio side a similar picture was shown with 1.2 million borrowers receiving an average loan of Rs 5,874 per borrower. The pawning activities of CRBs increased from an outstanding level of Rs 2,332 million in 1998 to Rs 2,864 million in 1999, an increase of 21 percent during the year [CB-1999].

Having delivered this appreciation of CRB performance, CB has proceeded without further ado, to forecast an unequivocal end - of - the - road scenario for the CRB, as articulated in the following passage:

Though it is encouraging for CRBs to cater to the lowest stratum of the depositors and borrowers in the village, the high administration costs of handling such a voluminous number of accounts will undoubtedly erode the viability and solvency of CRBs in the long run [Idem].

CB has not presented an explanatory analysis of these "high administration costs". Whatever they may be, CB's diagnosis has seemingly dismissed the assumption of analysts, that the relatively low overhead costs of a village cooperative give it a comparative advantage over conventional banking institutions in the administration of rural credit.

Be that as it may, CB's message is clear. Given the country - wide expanse of the CRB network and the multitudes of village people who comprise its clientele, the repercussions in the village of any major failure of the system could be near catastrophic. Of particular concern is the safety of depositors who at end - 2000 were 5.5 million in number with total deposits exceeding Rs. 14,806 million. (CB 2000)

To be sure, cooperators have their own fears about the CRB's future, but for reasons more complex than the one CB has identified. Cooperators have indeed agonized for years over shortcomings of CRBs in the areas

of planning, operations, supervision and loan portfolio management. These have been documented in a number of studies, a selective list of which is given at the end of the paper.

However, cooperators have been even more disturbed about another dimension of these shortcomings over which they have no control. These are briefly, (a) the deep structural imbalances inflicted on the CRB by the shifts in the politics and policies vis-à-vis cooperatives by successive Sri Lankan governments, and (b) the absence of a consistent and constructive approach on the part of CB - the putative regulatory authority on finance and banking - in addressing CRB issues.

The focus of this paper will be on this dimension of the problems which weigh on CRBs, as well as on the causal factors which have brought these problems into existence. It is also intended to preface the exercise with a brief note on the origins and rationale of cooperative banking, so that the issues could be viewed from a wider perspective.

The Rationale

Cooperative banking had its origins, beginning in Germany, in the backwash of the rampaging capitalism, and the scramble for colonies and markets, which seized the nations of the western world in the latter half of the nineteenth century and in the early decades of the twentieth. As phrased by Gooneratne (1966) "It was the response of the weaker units of society in their unequal struggle," in the fiercely competitive environment which the onrush of capitalism had brought about.

Survival in this environment demanded that the weaker units combine in cohesive, mutualistic, pooled resources linkages, as the obviously pragmatic option. This led sequentially to the construction of federal structures encompassing national borders, commencing with village cooperatives grouping together in formations at district, provincial or regional lev-

els, which in turn were affiliated to an apex institution at national level.

These federated structures unified and fortified the village cooperatives in the country, affording them the economies of scale while also preserving the cohesive democratic participation of the membership at all levels of the "pyramid".

These structures which constituted the foundation of the highly successful agricultural credit movement pioneered by Germany, also served as the model for the agricultural credit systems of other countries in western Europe, in Asia and in other parts of the world.

In Sri Lanka, the British colonial administration which formally established cooperative banking in 1911, adopted this model in 1926, "with primary cooperatives at the village level affiliated to secondary banks at provincial levels, ultimately to be united by an apex bank for the whole island" (Ceylon Sessional Papers No XXIV of 1926)

Growth was slow considering the low levels of literacy and the feudalistic elitism which characterized the village communities during colonial rule. At end-1942 there were 2,036 primary cooperatives affiliated to three co-operative provincial banks with a membership of 91,928 and loans outstanding Rs.2.32 million (Cooperative Commission 1970)

Nevertheless, the system's contribution to the monetisation of the rural economy, and the institutionalisation of rural credit and savings, within an autonomous and democratic framework, was well received in the village. From the standpoint of performance the village cooperatives maintained high standards, even during the Great Depression of the 1930s. The following extract from the report of the Registrar of Cooperatives for 1931 to 32 underscores this point.

But the societies have refused to be depressed by the Depression. Repayment cannot have been easy, but they have chosen this of all years to produce the lowest percentage of default, which we have ever achieved in Ceylon. The percentage of default for the whole island in primary credit societies only ... is only 13.88 percent (Registrar of Cooperative 1930/31)

A Command Economy

Japan's air attacks on Colombo and Trincomalee in April 1942 following its dramatic entry into World War II in December 1941, were fated to bring to an

Table No 01
Cooperative Rural Banks

Rs. Million

Year	Deposits		Advances	
	No. of Accounts	Amount (Rs.'000)	No. of Accounts	Amount (Rs.'000)
1967	- NA -	1371	- NA -	20, 662
1977	805,921	175,462	348,886	104,793
1987	2,239,371	1,560,178	513,646	708,782
1997	4,517,749	10,063,549	1,129,740	5,736,709
1999	5,336,501	12,914,748	1,231,194	7,232,458
2000	5,524,751	14,806,829	722,027	6,187,518

Source: Central Bank, People's Bank

end the laissez-faire policies of government. It brought the War to the very shores of Sri Lanka, virtually shutting out the shipping services and hence the imports of strategic foods such as rice, flour and sugar on which the country was heavily dependent.

In mobilizing the population to confront the long and severe food crisis that ensued, the form of organization of the government's choice was the cooperative. However, given the prevailing wartime exigencies the government found it expedient to create special cooperatives for the purpose, which it could control and direct, in preference to the "born-free" cooperatives operating at the time.

The consumer cooperatives launched in 1942 and the Cooperative Agricultural Production and Sales Societies (CAPS) launched in 1947 were the first of the new breed of government directed cooperatives. The Multi-Purpose Cooperative Societies (MPCSS) launched in 1957 absorbing the consumer and the CAPS societies, continue to dominate the scene up to the present day.

Manifestly these wartime changes constituted a volte-face in government policy, and an abandonment of the concept of the cooperative as "a voluntary people's movement developing its own dynamics and leadership from within." (Cooperative Commission 1970)

These were tantamount to the creation of two systems. While the new government-directed cooperatives occupied the center, the "born-free" cooperatives of the pre-war vintage found themselves relegated to a backseat, reduced in numbers and influence but with their autonomy intact. (Their resurrection decades later in the wake of the post-1977 market liberalization reforms, under the banner SANASA, was continuing proof of the relevance of the "born-free" cooperatives to the Sri Lanka rural economy.)

Government proceeded to rationalize its volte-face with the claim that "the role of the cooperative society, particularly in the less developed countries was one of being an active partner of the state in the task of national development." (Ministry of Agriculture and Food 1957)

However, the partnership concept proved to be a mirage in the Sri Lanka experience, because in the highly politicised programmes such as was the case in the government-sponsored

agricultural credit programmes through cooperatives, lasting from 1947 to the mid-1990s, electoral politics virtually hijacked the credit decision making processes. Besides, the issue of fresh loans even to wilful defaulters - a practice which successive governments frequently adopted - undermined the credibility of cooperatives among village communities.

The following extracts from the report of the Cooperative Commission of 1970 succinctly sums up the dependent status to which cooperatives were reduced under the post-war regime of government controls and directives.

Reviewing the history of the cooperative movement in Ceylon of the past sixty years brings into focus one fact above all. Government, acting in the earlier period as trustee and guardian, has ended up in the firm control of what was intended to be a voluntary movement. Cooperation has now become the handmaid of the state and cooperatives are virtually agencies directed to carry out government policy (Cooperative Commission 1970)

Among these agencies one that has constrained the scope and development of the CRB has been the use by government of the MPCCS as its agent in the distribution of strategic foods to the population. The task became particularly burdensome after the government-directed MPCCS amalgamations of 1971. In the original CRB project launched in 1964, it was agreed that the CRB would be given the central position in the MPCCS hierarchy. This was brushed aside in the amalgamation exercise, and the MPCCS' consumer trading department was given the central position.

Prior to the amalgamations the primary MPCCS was only a retailer in consumer trading while the wholesale side of the business was handled by 124 secondary level MPCCS Unions. Under the amalgamations the 124 Unions were dissolved, and the newly created primary MPCCS entrusted with both consumer retailer and wholesaler func-

tions. In this situation the time and energies of the MPCCS management personnel were performed focussed on these very politically sensitive functions resulting in the relative neglect of the CRB function.

Delinking the CRB from the MPCCS

As a remedial measure the People's Bank proposed in 1976 that the CRB be delinked from the MPCCS, and registered as a separate banking cooperative. This proposal was echoed ten years later by the Sri Lanka Institute of Cooperative Management, in a study made in 1986. In 1991 the Presidential Commission on Finance and Banking made the following recommendations on the issue:

- Delink the CRB from the MPCCS
- Ensure the autonomy of the CRB
- Give CRBS the status of banking institutions within the meaning of the Monetary Law Act.
- Provide for the prudential supervision of CRBS by the Central Bank.
- Strengthen the audit procedures carried out by the Commissioner of Cooperative Development in collaboration with the Central Bank.

The delinking of the CRB from the MPCCS should also be seen as a crucial prudential measure against the risks arising from its link with the MPCCS. Not being a legal entity in its own right it is liable for losses incurred by other departments of the MPCCS as well.

It is well known that over many years the CRB had been the major - if not the only - profit earning department of the MPCCS. MPCCSs have regularly bolstered their sagging financial structures by investing CRB deposit surpluses in income yielding investments in both state and private sector institutions. At the same time according to market sources, some of these investments had been in institutions of doubtful standing, which,

Table No 2
Deposits and Advances at End 2000 Selected Rural Sector Institutions
Rs. Million

Janasakthi Banking Hambanthota	Cooperative Rural Banks	Bank of Ceylon Sub-offices	Regional Rural Development Banks	Sanasa Cooperatives	Sarvodaya (Seeds)	Sanasa Development Bank Ltd
Deposit						
46	14,807	353	4995	1235	626	1178
Advances						
1189	6187	159	4043	2235	749	387

Source : Central Bank

interalia, reveals the lack of effective supervision of the CRB by reliable higher level agencies.

The following observations of the Sri Lanka Institute of Cooperative Management (SLICM) show the inequities the CRBs suffer by these faulty policies:

It is true that MPCs are performing a most valuable public service through their consumer trading department, but it is essentially a task imposed on them in terms of government policies for the performance of which they are not sufficiently equipped either resource-wise or management-wise. It would not be fair to sacrifice on behalf of this department, the one activity - the CRB - which has been able to operate on its own with a measure of success (SLICM - 1986)

CRB - Genesis

The year 1961 in which the People's Bank commenced business was a time when the decline of cooperative banking as an autonomous institution, triggered by the compulsions of World War II, had sunk to its very nadir. Three features in particular associated with the establishment of the new bank accentuated this trend, and gave rise to certain misconceptions as regards the scope of the activities of the Bank, as asserted by the People's Bank Commission of 1966.

There was the name-change, to begin with. Originally designated "Cooperative Development Bank" by the government elected in 1956, its establishment was shelved in 1958 due to political conflicts, and the government elected in June 1960 resolved to set it up, but with the name changed to "People's Bank". There was secondly, the appointment of commercial bankers without any exposure to cooperative banking or cooperative training to the top executive management.

The third and most far-reaching was the rejection by government of the archetypal federal design of standard cooperative banking systems, in setting up the new bank. Its decision, based on the recommendation of the Central Bank [BS/25/53 of 22 March 1955], was the adoption of the standard centralized organizational design of commercial banking systems.

This involved importantly, the conversion of the then-existing cooperative provincial and district banks into ordinary branches of the new bank.

To be sure, cooperators were very much dismayed by these changes though they found some consolation in the fact that the new bank, unlike its predecessor, the Cooperative Federal Bank, was endowed with commercial banking and branching powers, providing it thereby with the potential to enhance its resource base.

Despite this plus point, cooperators feared that in the absence of the standard federal design, the Bank could drift away from its cooperative moorings, and focus overly on its commercial banking opportunities.

The People's Bank Commission of 1966 articulated these fears with remarkable prescience of "things to come", in the following passage:

While we agree that "commercial business is a legitimate operation for the People's Bank to under-

federal design. In other words, the CRB was intended to be the Bank's basic strategy for the pursuit of its statutory objectives namely "the development of the cooperative movement of Ceylon, rural banking and agricultural credit."

Essentially it sought to bring about a partnership between the Bank's network and the village cooperative in the extension of "micro" banking services in the village. The village cooperative with its easy access to village level credit intelligence and low overhead costs was seen as an institution well positioned to deliver micro-banking services, provided it was guided, supervised and monitored by the Bank's network. Supervision was to include off-site surveillance as well as on-site inspections. This multi-functional role of the Bank was seen as a sine-quanon for successful operation of the project.

The CRB project also sought to bring about a division of labour, as it were, in the matter of lending. In terms of this concept "micro" loans were to be handled exclusively by the CRB, leaving the Bank-branch freed from the workload of "micro" lending-to focus aggressively on its commercial banking opportunities.



The First Cooperative Rural Bank established by the People's Bank at Menikhinna in the Kandy District in 1964.

FRUSTRATIONS

The project was launched in March 1964 but given the prevailing scepticism in official circles about the capacities of village cooperatives, it was cold-shouldered at both Ministry of Finance and Central Bank levels. It came even under a Ministerial ban, as stated earlier

Despite these birth pangs the project did not falter for two reasons. The first was the positive response of village communities, and

take under the Act, its rapid expansion had within it the danger that what was intended to serve only as the means by which these purposes might be achieved might become its main objective. In other words, the People's Bank which was erected as primarily a bank for the development of the rural economy, might constitute itself as yet another commercial bank on the conventional pattern [People's Bank Commission 1966]

The Bank's inaugural Board of Directors shared these fears with cooperators, and the CRB project installed in March 1964 was their alternative to the

the other was the rapport and reach which the Bank's field staff achieved in the village. The Central Bank has made the following observations on the progress made in the early years.

CRBs were nurtured by the Bank providing a host of services, banking facilities, supervision of activities, training personnel and the absorption of funds. Hence CRBs continued to play a vital role in retailing agricultural credit among farmers as a junior partner of the Bank [Central Bank 1999]

Having made these complimentary observations the Central Bank proceeds to make the following charge against the People's Bank.

However, this relationship came under strain after the People's Bank gradually moved into commercial banking proper leaving CRBs in a state of isolation [idem]

The Central Bank's charge that the People's Bank had left the CRB "in a state of isolation" is not disputed but it needs to be pointed out that the Bank's move was a direct response to a drastic shift in policy vis-a-vis cooperatives which government adopted in the post - 1977 years. In terms of this policy shift government sought to terminate the Bank's special relationship with the cooperative movement - a fact which inexplicably, the Central Bank has failed to note in its review.

Government's strategy to bring this about is embodied in three legislative measures summed up below:

- (a) People's Bank (Special Provisions) Law No. 25 of 1978. The purpose of this Act was to secure the complete control and management of the Bank for government. It effected this by providing for the appointment of all eight members of the Bank's Board of Directors by government and abrogating the right that the cooperative movement had to elect three directors to the Board.
- (b) People's Bank Act No. 61 of 1980 which enabled government to replace the cooperatives as the major shareholder of the Bank.
- (c) People's Bank (Amendment) Act No. 32 of 1986 which eliminated the exclusivity which the cooperatives had enjoyed with regard to the purposes of the Bank.

In moving the second reading of the first of these enactments in the national legislature, the Prime Minister made the following policy statement:

This is a bill to provide for the appointment of directors to the People's Bank. As you are aware the People's Bank was created to serve the cooperative movement. It has grown and developed into a commercial bank in the country. The government strongly feels that we must create a cooperative bank which will cater to the needs of the cooperative movement but the People's Bank has now gone beyond that sphere, and the intention of the Finance Minister and the government is to allow the People's Bank to continue to develop on the lines, and on the same basis as other commercial banks and compete with them [Hansard June 22-1978]

The Prime Minister completed his statement with the following undertaking

At the same time action is being taken to create a real cooperative bank to service and cater to the needs of the cooperative movement and the bill provides for that. [idem]

Admittedly, the evidence is very clear that in the growth of the Bank's business volumes, the cooperatives have lagged behind the other sectors. The statistics presented in Table No III annexed to this paper reflect this process. For example, advances to cooperatives by the People's Bank, which constituted 24.8 percent of its total advances at end - 1965, had slumped to 2.7 percent at end - 1998.

The counterpoint to this has been a correspondingly progressive growth in the Bank's appetite for business in sectors other than the cooperatives. For example, during this same period, the Bank's advances to the private sector as a percentage of total advances had soared from 58.7 percent to 92.5 percent.

Be that as it may the enactment of these legislative measures caused much dismay among co-operators. There were fears that government had an undisclosed agenda in bringing about this severance in the special relationship between the cooperatives and the People's Bank. Its failure subsequently to live up to its undertaking to establish what the Prime Minister had described as "a real cooperative bank", added fuel to these fears.

It may be stated parenthetically at this point that these legislative measures were enacted before the CRB system had made the strikingly conspicuous impact on the village that it has done since. Indeed it did not come into the reckoning at all in the Parliamentary debate which led to the enactment of People's Bank (Special Provision) Law No 25 of 1978.

It was the sharp and sustained escalation in CRB growth, particularly in its mobilization of deposits, witnessed in the post - 1986 years which signified its presence in the village. As depicted, the growth of CRB deposits since then has been of such an order that cooperatives as a group have in effect become a net creditor of the People's Bank. For example at the end - 1992 cooperative borrowings which stood at Rs. 1,785 million were backed by CRB deposits of Rs. 3424.3 million.

ROLE OF THE CENTRAL BANK

This "decampment" of the People's Bank from the cooperatives was indeed a serious setback for the CRB. It has meant that since that time the CRBs

have been functioning without the guidance and supervision of a higher level institution. The potential risks of loss and failure to which the CRB has been exposed by these changes, have been commented upon in several studies, and need no further elaboration in this essay.

In this context the hopes of the CRB leadership were uplifted in the first flush of an announcement made by the Central Bank in 1986 reading as follows:

Given the preponderance of the agricultural sector in the economy, the Central Bank has from its inception provided leadership and direction in evaluating the problems and enhancing the availability of credit to the rural sector. Since the Monetary Law Act of 1949 required the Central Bank to regulate the monetary system, the provision of adequate rural credit is a vital component of this responsibility [Functions and Working - Central Bank Publication 1986]

As an earnest of its commitment to this responsibility the Central Bank gave the following undertaking.

In 1982 the Department of Rural Credit of the Central Bank commenced a programme for the comprehensive inspection of the agricultural credit portfolios of commercial banks and Cooperative Rural Banks [idem]

However, this ambitious programme in so far as it related to CRBS proved to be a non - starter, for two obvious reasons.

- (a) Given the Central Bank's essentially centralized organizational structure it did not possess the widespread network like that of the People's Bank to reach the CRBs own network of over 1400 units with the requisite frequency and intensity.
- (b) Central Bank has its vested interest in its own micro-banking services provider, the Regional Rural Development Bank network. In this situation it seemed unlikely that the Central Bank would extend the same attention and care to the CRB which after all is a competitor of the Regional Rural Development Bank.

In any event, the Central Bank's romance with the CRB was short - lived, considering its commitment to keep in step with changing global trends, about the proper role of Central Banks in the national economy. As the Central Bank governor is reported to have stated, the Central Bank will "pay less attention to functions such as rural sector development and setting up Regional Development Banks" (Ceylon Daily News - 7 September 2001)

RESSTRUCTURING CRBs

In the circumstances the only option left for the CRB leadership was to create its own, higher level structures to guide, supervise, monitor and help develop the village level CRB. It was indeed a typical cooperative solution, in line with cooperative banking systems elsewhere, as well as in Sri Lanka before government abandoned the then - existing cooperative provincial and district banks with the establishment of the People's Bank in 1961.

Acting in concert the CRB leadership commenced the exercise with the establishment of CRB District Unions to which the primary CRBs in the district were affiliated. The first Union registered was the Gampaha District CRB Union which commenced operations on 24 January 1994. By end 1999 there were 14 District Unions and these are now affiliated to the apex institution at national level, namely the Sri Lanka CRB Federation incorporated in 1997.

Significantly the Central Bank endorsed this restructuring programme. Adverting to its charge that the People's Bank "left the CRB in a state of isolation", it states that "to fill the vacuum it was necessary to set up some kind of an apex institution to lead CRBs to play their role as viable retail banking institutions" (Central Bank 1999)

Central Bank also proceeded to compliment the work done by the CRBs under the programme, witness the following passage:

The CRBs have been able to maintain the same credit momentum in 1999 through the introduction of better extension and recovery services by the District CRB Unions. (Idem)

The CRB leadership may have derived some encouragement from these seemingly positive responses from the Central Bank, but they were in for a big disappointment on the issue of establishing the CRB's own apex bank.

The application to set up the bank as a licensed commercial bank in terms of the Banking Act No 33 of 1995 was submitted by the CRB Federation in mid - 1999 to the Central Bank. However, according to reports the Central Bank has not yet responded either positively or negatively to the application. The long silence gives rise to the question - Has the Central Bank, like the People's Bank and government before it "left the CRB in a state of isolation?" Perhaps the CRB does not qualify according to the Central Bank. Whatever it may be, the silence has left the cooperators demoralized and clueless given the indeterminate situation in which the CRB finds itself, as a consequence.

STRUCTURAL CHANGE

- Rethinking Needed

These events should make it clear to the Federation that neither government nor the Central Bank - bound as they are by the neo - laissez-faire commitments in this age of globalization - will intervene to further the CRBs restructuring programme. The momentum and the thrust have to be those of the Federation itself bearing in mind its own priorities.

The first among these priorities is the need for the Federation to break away from the apron strings which continue to bind it to the Department of Cooperative Development. The fact that the Federation's current Chairman, however estimable he is as a person, is a Departmental officer, is a reflection of the leadership crisis which ails the Federation today.

As a corollary to this, the Federation should ensure, that the active democratic participation of the CRB membership in the decision - making processes at all three levels, - primary, secondary and apex, is an ongoing reality.

Among the Federation's other priorities should be the delinking of the CRB from the MPCS, a measure essential to preserve the system's security, viability and integrity, as proposed by a number of expert bodies.

The Federation should not be deterred by the Central Bank's seemingly unhelpful approach on the apex bank issue. An apex bank need not be treated as a sine - qua - non by the Federation. There are other options that could be explored. As the Federation is aware, in the very cradle of cooperative banking, Germany, the cooperatives had no apex bank of its own, and were served by a public bank established by the federal government in 1946.

Its focus for the present, pending the final decision of the Central Bank, should be on strengthening and professionalising the District CRB Unions, as the system's sheet anchor, advising, supervising, monitoring and auditing the village level primary CRB. Here again the German experience may be relevant in that its Regional Cooperative Banks - corresponding to the local District CRB Unions - reportedly constitute the backbone of the German system.

CONCLUSION

Dubbed "a poor man's club" cooperative banking is generally ignored by those schooled in the Economics of the Establishment. All the same it has been a standard constituent of the banking industries of countries as diverse as Germany, Japan, France, South Korea, Switzerland, India, the Netherlands and the United States of America.

In Sri Lanka too, the sustained growth of the CRB system since 1964, and the striking revival of the pre-war cooperative banking system since 1978, under the SANASA banner, provide conclusive evidence of the relevance of cooperative banking to the Sri Lankan rural economy. Of particular significance in this regard is the fact that both these institutions have been powered by the efforts of village communities without any dependence on government, financial or otherwise.

However, it is a hard but undeniable fact that in recent years, the apex institutions of the local cooperative movement have failed to capitalise on these successes of village communities, and provide them with the kind of leadership needed to consolidate their gains.

In the circumstances the conclusion is inevitable that the government should intervene as an honest broker, by providing the appropriate environment in which the CRBs can develop as autonomous institutions, free from political and other negative influences.

This is an obligation which government owes to the millions of village people who have contributed to the growth of both the CRB and SANASA institutions.

Government should also give serious consideration to have in place an appropriate regulatory authority to control cooperative banking and other micro - banking institutions, now that the Central Bank is moving away from the rural sector.

Government, it needs to be stated finally, should welcome the CRB, Sanasa and other micro-banking institutions as its allies, along with its own Janasaviya and Samudhri programs, in its war against poverty.

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