

RELATIONS WITH THE CO-OPERATIVE SECTOR -A METAMORPHOSIS FROM PARTNER TO FAVOURER CUSTOMER

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The scope of this paper is to review the relationship between the People's Bank and the co-operative sector and to examine the extent to which the objectives for which the People's Bank had been established, were realised during the 25 years of its existence.

Co-operative Origin of the People's Bank

The People's Bank commenced business on 1st July, 1961 "by taking over assets and liabilities of the Co-operative Federal Bank Ltd". The same Act that established the Bank (Act No. 29 of 1961) dissolved the Co-operative Federal Bank of Ceylon and stated that "the assets and liabilities of the Co-operative Federal Bank of Ceylon Ltd. shall be the assets and liabilities of the Bank" [Sec. 23(1) (b)].

The co-operative banking structure at the time the People's Bank was set up comprised of the Co-operative Federal Bank Ltd., established in 1949 as the apex co-operative bank, four Provincial Banks (of Colombo, Kandy, Galle and Uva) and eleven District Banks (of Jaffna, Mannar, Batticaloa, Gal Oya, Trincomalee, Kurunegala, Chilaw, Anuradhapura, Polonnaruwa, Ratnapura and Kegalle). They had a total membership of 9,394 co-operative societies and paid up shares, reserves and accumulated profits of Rs. 4.5 million. The Co-operative Federal Bank of Ceylon (Financial Aid) Act, No. 39 of 1947 provided for an initial loan of two million rupees free of interest by the Government to the Co-operative Federal Bank and further loans as the need arose. The initial loan of Rs. 2 million was made in 1949 and the second

loan of Rs. 4 million was made in 1953. By 1958 the balance due to the Government was Rs. 2 million.

The need for the re-organisation of the co-operative banking structure was referred to by the Commissioner of Co-operative Development in his Administration Report for 1956 as follows:

"It has been for quite some time the view of students of our Movement that much better results could be obtained in the realm of Co-operative finance if advantage were taken of the fact that our Island is closely knit together by reason of the availability of good roads and quick communications. The Ministry in charge of Co-operative Development is therefore considering the feasibility of starting a Co-operative Bank that would operate for the entire Island to enable all Co-operative Societies to join it directly. They could thereby obtain loans at much lower rates of interest than now, by reason of obviating the Provincial or District Bank. The Bank would run branches wherever necessary, especially in the rural sector to facilitate transactions with its member societies. The State will participate in its share capital and guarantee its debentures. All funds now made available to Provincial or District Banks by the various development Departments of Government could be channelled through this proposed Bank. Such a bank would in its set-up resemble the Zentral Kasse (Central Bank) of the famous 'Verband Scheweiz' (Union of Swiss Credit Banks) operating for all the Raiffeisen societies of Switzerland, with its headquarters at St. Gallen. There is much to be said for this move. To ensure adequate local knowledge there

could be an Advisory Council for each area that is served by a branch".

The Bank was commended in the same Administration Report as follows:

"The present Provincial and District Banks could also become members of the proposed Bank if they so wish. Every incentive must be given by Government for the healthy growth of the all-Island Bank if such a bank is started. It is only an all island Bank that could follow a uniform policy of co-operative development, make the best possible use of the funds that are available to the Movement from both the public and the Government, and take credit and banking to the rural sector in an effective way. The great advantage of such a unified system would be that it would happily lend itself to uniformity and expedition in the matter of financial assistance to the Movement. In co-operative financial matters there would then be no varying rates of interest or degrees of assistance. The entire Island will be able to obtain the benefits of any scheme of development in the same degree and in the quickest way possible."

In the subsequent Administration Report (1957) the Commissioner made a very brief statement to the effect that the Ministry had decided "that a Bank to assist co-operative development and to be called 'The Co-operative Development Bank' should be set up by an Act of Parliament" and that "action is under way to implement this decision".

The need for a strong and efficient new Bank to replace the Co-operative Federal Bank has been expressed in a letter by Sir Arthur Ranasinghe, Governor of the Central Bank to the then Minister of Agriculture and Food, Mr. Phillip Gunawardena (Quote).

"As it is now organised, the Co-operative Federal Bank does not appear to be of much use to the Co-operative Movement or to the Public. I would therefore wish to see that this Bank is so reconstituted as to be an effective institution not only to attract deposits

of the rural population but also to serve their credit requirements."

The proposal to establish a Co-operative Development Bank submitted by the Ministry of Agriculture and Food, had the approval of the Hon. the Minister of Finance and subsequently of the Cabinet of Ministers at its meeting held on 28th October, 1957. The Cabinet had decided further that a Bill be drafted for presentation to Parliament.

During the period the proposal was accepted by the Cabinet and the Bill was prepared and submitted to the cabinet colleagues in 1959, much water had passed under the bridge, and the Bill had to face stiff opposition. In a publication issued by the Ministry of Agriculture and Food under the signature of the Hon. Minister the following statement has been made (Quote):

"It is not accidental that criticism of the new Bill has emanated from the same sources as opposed the Paddy Lands Act. The Paddy Lands Act aimed at sweeping away the semi-feudal systems of land tenure which have for so long, oppressed and enslaved the village farmer. The new Co-operative Bank Bill similarly aims at sweeping away the semi-feudal credit system which still prevails in the villages of Ceylon and thereby releasing the Ceylon peasant from the clutches of the village boutique-keeper and the professional money-lender".

The period that followed was very traumatic and when the Bill was finally presented in Parliament in 1961, the short title has been changed from "Co-operative Development Bank Act" to "People's Bank Act". This was the first "metamorphosis" in the relationship between the People's Bank and the co-operative sector.

However, the purpose of the Bank remained the same, to wit, "to develop the co-operative movement of Ceylon, rural banking and agricultural credit, by furnishing financial and other assistance to co-operative societies, Cultivation Committees and other

persons". The only addition to the original draft bill of the co-operative Development Bank was to include Cultivation Committees set up under the Paddy Lands Act.

Representation on the Directorate and Control

The real issue was not the objectives of the Bank or the wide scope in the powers and functions of the new Bank, but the composition of the Board of Directors and through if the control of the Bank.

According to the Co-operative Development Bank Bill the Board of Directors was to consist of the following Directors:

"(a) the Commissioner of Co-operative Development who shall be the ex-officio Director;

(b) three directors appointed by the Minister; and

(c) two directors appointed by the Minister from a panel of five persons elected by an electoral college consisting of representatives of the areas which are assigned to Assistant Commissioners of Co-operative Development and in which there are such co-operative societies as are shareholders of the Bank, the number of

The People's Bank Act increased the Directorate to eight as follows:

(a) the Commissioner of Co-operative Development who shall be the ex-officio director;

(b) two directors appointed by the Minister;

(c) one director appointed by the Minister for the time being of the subject of rural development;

(d) one director appointed by the Minister of Finance; and;

(e) three directors appointed or elected as provided in sub-section 2".;

From the co-operative leadership there was much opposition to the principle of nominated directors. Two reasons were adduced for providing a majority of Government appointed Directors. (Quote) "In the first place members of the Board which had to sanction large loans were often repre-

sentatives of co-operative interests which had applied for these loans. Secondly-and this is the more important reason-it is unfortunate but true that, in the present stage of development of the Co-operative Movement in Ceylon, it is not possible by this elective method to obtain a sufficient number of directors with the requisite variety of experience and the requisite degree of ability for conducting efficiently the complicated affairs of a large Bank". Although there was a change in the composition of the directorate of the People's Bank from the original proposal, the principle of a majority of Government-appointed directors had been accepted.

This remained a very thorny issue between the Bank and the co-operative leadership. Co-operators that had given evidence before the Royal Commission on the Co-operative Movement in Sri Lanka appointed in 1968, i.e. seven years after the establishment of the People's Bank, had been categorised by the Commission into four groups:

- (a) those who would like to see status quo restored, with independent district banks and the Co-operative Federal Bank at the apex;
- (b) those who would like to see the People's Bank as a purely co-operative bank, in which shares would be held only by co-operative societies and credit facilities extended through its branches only to co-operative societies;
- (c) those who would like to see the People's Bank operating in two sections, a co-operative section and a commercial section; and
- (d) those who see no objections to commercial banking and co-operative banking done by the same bank and are prepared to recognise the People's Bank as the apex bank of the co-operative movement

provided changes are made involving shareholding, composition of the board of directors, and a programme of co-operative education for employees of the People's Bank"

The Commission whilst supporting the fourth group recognised " the claims of the co-operative movement to have more directors than at present particularly in view of the absorption of the co-operative banking system and the Government's intention at the time to establish a co-operative development bank". It therefore accepted:

- (a) that certain changes must be brought about in the People's Bank Act;
- (b) that co-operatives should have a greater share of the ownership of the Bank and of representation on the board of directors than at present; and
- (c) that the Bank's employees must be included in various programmes of education along with other personnel in the co-operative movement".

The Commission was positive that if these changes were brought about, "any reservations within the co-operative movement towards the People's Bank should quickly disappear and the remaining co-operative banks should then opt for voluntary merger"

The specific recommendations of the Commission were as follows:

- (1) Provision should be made in the Act to enable co-operative societies to purchase shares from the Government until two-thirds of the shares are held by co-operatives;
- (2) Provision should be made at the same time for shareholding co-operatives to elect four out of eight directors. Of the other four directors, one should be the Commissioner of Co-operative development ex-officio, and the

remaining three should be nominated by the Minister of Finance. It is presumed that he will consult his ministerial colleagues, especially those responsible for agricultural and food and rural development. Furthermore, it is recommended that after five years-by which time we expect the co-operative movement will have established itself in a much stronger position than at present-the board of directors of the People's Bank should consist of nine persons, of whom co-operative societies will elect six, provided they have by then acquired two-thirds of the shares, and the Minister of Finance will elect three;

(3) In order to establish a closer link between the Bank and other sections of the movement, consultative committees should be set up at each branch of the People's Bank consisting of representatives of societies dealing with that branch, for the purpose of holding regular discussions with Bank officers and branch managers, but not to discuss individual loan applications. Educational programmes for Bank employees should be arranged within the general education programme of the co-operative movement.

(4) As an apex organisation of the co-operative movement, the People's Bank must accept responsibility not only for education of its own employees but also for the support of the general programme of education and training in the co-operative as a whole. If it had been a co-operative bank like its predecessor, the People's Bank would have been obliged to contribute 10 per cent of its profits to the Co-operative Fund and to the educational funds of the Co-

operative Federation of Ceylonwe recommend that each year the Bank be authorised to treat as an operating expense an amount equivalent to ten per cent of the profits made by it in the previous year from dealings with co-operative societies, and that such amount be paid to the Co-operative Union of Ceylon to support co-operative education".

It may be noted that the Chairman of the People's Bank, Mr.T.B.Panabokke, was himself one of the members of the Commission. There was dissenting report and therefore one may conclude that he endorsed these recommendations.

The recommendation for greater representation of the co-operative movement in the board of directors did not get the support either of the Ministry of Finance or the management. On the contrary, there were moves, even in the early 1970's, to displace the "co-operative directors" and this had to be resisted by the Minister in charge of co-operatives. The internal bickerings within the Board came to a head subsequently, and one of the results was the People's Bank (Special Provisions) Law No. 25 of 1978. By this Law, every person holding office as a director of the Board of Directors of the People's Bank on the day immediately preceding the date of commencement of the Law, "whether such person was appointed or elected to such office" or holds such office by virtue of office shall notwithstanding anything in the main Act, "cease to hold office on the date of the commencement of this Law".

This Law, which was certified on 3rd July, 1978 was the culmination of a somewhat uneasy marriage between the State and the co-operative movement. The decision was in favour of the State, the more powerful partner. According to section 3 of the amending Law, the Board in its entirety was to be appointed by the Minister of Finance

and in spite of the fact that over 50% of the share capital was held by the co-operative sector, in appointing the Board of Directors not a single person was appointed to represent the co-operative shareholders. For the first time even the Commissioner of Co-operative Development, who was a member of the Board from the beginning of the Bank by virtue of post, was not appointed. The necessary amendments were also introduced to make the powers of the Minister as regards the Directorate, similar to that of any other corporation.

The new situation resulted in the clamour by the co-operative sector to have its own Bank. The proposal for a Co-operative Bank submitted by the Ministry of Food and Co-operatives did not get the favour of the Ministry of Finance. However, there was a negotiated settlement and People's Bank (Amendment) Act No. 11 of 1980, the number of directors of the Board was increased from eight to ten, of whom two were to be "nominated by the Minister in charge of the subject of co-operatives".

The argument of the co-operators that over 50% of the authorised capital of the Bank, was nullified by increasing the authorised capital from Rs. Seven Million divided into 140,000 shares of fifty rupees each to Rupees One thousand million divided into twenty million shares of fifty rupees each. From being a majority shareholder, the co-operatives were made a minority shareholder overnight. The Table given below gives particulars of this metamorphosis.

People's Bank as the Chief Financier of the Co-operative Sector

In spite of the changes in the organisational between the People's Bank and the co-operative sector, the People's Bank continued to be the chief financier of the co-operative sector.

Section 25 of the People's Bank Act gave a monopoly of co-operative business to the Bank. According to this section:

Source: People's Bank.

(a) no co-operative society shall, unless exempted by the Commissioner of Co-operative Development, deposit its funds in, or maintain any current or deposit account with, any commercial bank other than the (People's) Bank, and

(b) no co-operative society shall, except with the written approval of the Commissioner of Co-operative Development, obtain a medium

Although this section is yet not repealed, the exclusivity of the People's Bank for co-operative banking is only generally recognised now. Co-operative societies are more freely allowed to have dealings with other State Banks. It was a gradual change commencing from about the middle of the 1970's. A similar change is also seen in the Annual Reports of the People's Bank in presenting its figures.

Upto the 7th Annual Report (1968) a pictorial representation of the loans granted was shown sector-wise. It was to emphasise at the Annual Meetings of the shareholders, consisting of representatives of co-operative societies, that the co-operative sector was the greater beneficiary by the setting up of the People's Bank. A genuine interest on the part

TABLE 1
Share Capital of the People's Bank 1979 and 1981

	1979 (Rupees '000)	1981 (Rupees '000)
Authorised	7,000	1,000,000
Issued—		
Government:		
Fully Paid	3,000	46,135
Co-operative:		
Fully Paid	3,838	3,847
Partly Paid	09	03
Shares of Liquidated Co-ops.	14	13
	6,861	49,998

of the Bank to appease the co-operative leadership was seen. For example the third Annual Report, which was the first during the chairmanship of Mr.T.B.Panabokke, is unique in that the published Annual Report is prefixed with the words "My Dear Co-operators". The management seemed conscious of its responsibility to the co-operative societies, who were the shareholders who mattered and for whom primarily the Bank was established.

According to the Annual Reports, the loans granted sector-wise were as follows:

	Co-operative Sector	Private Sector
1961 - 1962	61%	39%
1961 - 1963	47%	53%
1961 - 1964	53%	47%
1961 - 1965	59%	41%
1961 - 1966	56%	44%
1961 - 1967	60%	40%
1961 - 1968	53%	47%

This distinction had not been made in the Annual Reports since 1968. The Annual Report for 1973, however, has made a reference that the advances to this sector had increased to Rs.439.2 million and this constituted 40% of the advances to all sectors. According

to the records available the quantum of advances has almost doubled by 1984, but as a percentage of total advances it was only 7.2%.

One may argue that the percentage of co-operative advances out of total advances of the Bank has decreased due to the rapid expansion of the Bank under the new environment after 1977. The legal changes made in 1978, also reflected the current thinking as regards the Bank. The new emphasis of the Bank was participation in development. Accordingly there has been an increase of the total advances of the Bank from approximately Rs.2,200 million in 1976 to Rs.11,854.8 million in 1984, which was an increase by over 400%. In the case of the co-operative sector, the increase in 1984, which was an increase of 72%. In 1977 there was a jump in the advances to the co-operatives to Rs. 835.5 million, as a result of increased amount of agricultural credit made available to the co-operative sector influenced by the euphoria after the 1977 elections. For the subsequent period 1977-1984 the increase was only 1.8%.

The change in emphasis and the new role of the People's Bank as a partner in development (and not merely of the "development of the co-operative movement") is reflected even in the traditional areas of co-operative lending, such as agriculture.

For the period 1978/1979 to 1985/1986 the total advances for paddy was Rs. 387 million, of which lending through co-operatives was only R Rs. 131.2 million, which was a mere 33.9%. As much as 76.1% has been direct lending by the Bank, mainly in the Mahaweli area. This was influenced also by the policies pursued by the Mahaweli Authority as regards agricultural lending. In the subsidiary food crops too the share of the co-operative sector was 31.6%. The recovery as a percentage has been 78.1% and 70.4% for the co-operative sector for paddy and subsidiary food crops respectively and 73.9%

and 64.1% respectively for direct lending. Advances for agricultural purposes was only 15.6% of the total advances of the People's Bank for the year 1984.

From the co-operative side, a noticeable trend has been decrease in the dependence of the co-operative sector on the People's Bank for its financial requirements. Details are given in the Table give below.

ADVANCES OF CO-OPERATIVE SOCIETIES ACCORDING TO SOURCES

Year	People's Bank Rs. Mn.		Government Rs. Mn.		Others (State Corps. mainly) Rs. Mn.		Total (in Rs. Mn.)
1978	571.1	79.8%	49.3	6.9%	95.5	13.3%	715.9
1980	614.6	65.2%	103.5	11.0%	224.4	23.8%	942.5
1981	687.4	65.1%	144.6	13.7%	224.2	21.2%	1,056.2
1982	695.1	63.7%	175.8	16.1%	219.8	20.2%	1,090.7
1983	705.4	57.7%	276.5	22.6%	239.9	19.6%	1,221.8
1984	724.8	61.0%	204.9	17.2%	259.6	21.8%	1,189.3

Source: Administration Reports of the Commissioner of Co-operative Development.

From the Table it is seen that the People's Bank, as a source of financing, accounted for 61.0% of the total advances in 1984 as against 79.8% in 1977. In the case of Government it had increased from 6.9% to 17.2%, and from others including State Corporations from 13.3% to 21.8% Government's financing was mainly for the Food Stamp scheme.

Rural Banking

The most significant contribution of the People's Bank is in the development of the Rural Bank scheme. The management of the Bank as regards the success of the Rural Bank scheme. Credit should be given to the untiring efforts of the first President of the People's Bank, Mr. V. Subasinghe, a very seasoned co-operator, for both the concept and the drive.

As described in the 3rd Annual Report of the Bank, "a Rural Bank is the banking department of a Multi-purpose Co-operative Society and it mobilises local savings by accepting savings deposits from members and

non-memebrs alike. On 30th September 1964, there were three such Rural Banks with total deposits amounting to Rs. 129,968. As at the same date they had together lent out Rs. 1,175,000, the difference between deposits and lendings being provided by the Bank". The rural scheme was the next stage of development from the Extended Scheme of Rural Credit in the People's Bank programme of

"mobilising rural savings for rural credit through the co-operative movement".

The early progress was slow and until 1971 the scheme operated on a selective basis depending on the performance and viability of a multi-purpose co-operative society. In 1970 there were 90 Rural Banks and for the first time, in that year, the deposits exceeded the advances.

One of the important decision of the re-structuring programme of the multi-purpose co-operative societies that took place during the period 1970 to 1973 was for each of the large multi-purpose co-operative societies to have a Rural Bank. The name was changed to Co-operative Rural Bank in order to bring on greater identification of the rural banking scheme with the co-operative movement. Under the new scheme a Co-operative Rural Bank (CRB) could operate through both the head office and through selected branches of a multi-purpose co-operative society. By 1976 the number of CRBs had increased to 503 and by

1984 to 888. The deposits had increased from Rs.0.7 million in 1966 to Rs. 116.3 million in 1976 and Rs. 905.5 million in 1984. The total of deposits have topped the Rs. One Billion mark in 1985 and stood at Rs. 1,087.5 million. These developments were closely supervised by the staff of the People's Bank and the Department of Co-operative Development. The deposits and advances of the Co-operative Rural Bank are given in the Table below.

Reform and Rural Development Reform and Rural Development RRD) in Sri Lanka (Quote).

"In 1961, a promising attempt was made to mobilize resources in, and for, the rural sector through the creation of the People's Bank. The People's Bank was to be the apex or hub of a network of rural banks in a system which would be a blend of the advantages of unit banking and branch banking, designed to strengthen the co-operative movement as the main

been developed in the rural sector, to the point of harnessing extra local resources for local rural development. This is evident in the consistent and increasing excess of rural deposits over rural advances; (ii) the People's Bank has become primarily a commercial bank, which uses its capacity to mobilize rural savings for conventional bankable projects in industry, trade and services, mainly in urban areas".

This criticism is somewhat collaborated by the following Table reproduced from the Annual Report of the Central Bank of Ceylon for the year 1984.

The Central Bank has observed that "during the year (1984) government corporations and co-operative institution made a net contribution of Rs. 1,752 million and Rs. 331 million respectively, towards the resources build-up of commercial banks. Meanwhile the other private sector utilized, a sum of Rs.895.2 million in 1984 as compared with Rs.1,018.3 million in 1983....."

A new development was the establishment of Regional Rural Development Banks under the Regional Rural Development Bank (RRDB) Act, No. 15 of 1985. These banks are to be both commercial and development banks. They are to operate as unit banks at the district level, "each with full autonomy in regard to its operations and management so that each such bank will have a distinct local character....." According to the Act, co-operative societies can hold upto a maximum of 10 per centum of the issued capital of a Bank and elect its representatives to the general body of a bank. As at 31st December 1985 there were four such banks for each of the districts of Kalutara, Kurunegala, Matara and Anuradhapura. These banks are planning to have one branch per electorate and have opened 21 branches so far. The establishment of these banks was a direct reply to the criticism that developments in the rural areas of agriculture, cottage and small industries, fishing industry and

CO-OPERATIVE RURAL BANKS - DEPOSITS AND ADVANCES

year	Number of Banks	Deposits Rs. Mn.	Advances Rs. Mn.	Advances as % of Deposits
1965	08	0.5	1.2	240.0%
1966	13	0.7	1.7	242.0%
1967	27	1.4	2.6	185.7%
1968	44	3.3	4.7	142.4%
1969	68	6.2	7.1	114.5%
1970	90	16.9	9.1	53.8%
1971	111	17.9	9.3	52.0%
1972	242	23.3	15.2	65.2%
1973	341	45.2	38.9	86.1%
1974	403	62.7	67.4	107.5%
1975	447	74.2	87.3	117.7%
1976	503	116.3	101.8	87.7%
1977	544	175.5	110.9	63.2%
1978	558	222.1	125.1	56.2%
1979	586	271.0	129.3	47.7%
1980	641	334.7	176.8	52.8%
1981	746	434.0	271.6	62.6%
1982	804	541.5	329.3	60.8%
1983	843	718.0	391.6	54.5%
1984	888	905.5	508.2	56.1%
1965 - 1984	888	3,970.9	2,389.0	60.2%

Source: People's Bank

Since 1970, except for the two years of 1974 and 1975, the deposits have been in excess of the advances. In 1984 the advances were only 56.1% of the total deposits. This trend has been adversely commented by the High Level Mission on the follow-up to the World Conference on Agrarian

engine of growth in the rural sector. Since 1964, over 600 rural banks have been formed with the help of the People's Bank, and these banks have indeed mobilized a substantial amount of rural savings. But, as the Mission has attempted to show in this Chapter: (i) unit banking functions have not

commerce were not commensurate to the rural savings that had been mobilised.

Hence, it may be true to say that rural banking, in the limited sense of rural savings mobilisation through co-operative Rural Banks, has been successful. But in the overall development of the rural economy, rural banking has failed to make an appreciable dent.

sectors. In 1968, for example, the co-operative sector has brought in only 7.4% of the deposits but has been financed upto 27% of the total deposits.

The position by 1984 was somewhat different. The deposits of co-operative societies in 1984 was 5.54%, whilst the advances as a percentage of the total deposits was 6.7%, which is about 1% more than the deposits. As

multi-purpose co-operative societies, which had (a) misused funds and/or (b) failed to maintain satisfactory accounting records. Furthermore, granting a liberal credit on more favourable terms than to the private sector had always been the policy of the People's Bank. Seminars and training programmes for co-operative employees were also conducted by the People's Bank in collaboration with the Department of Co-operative Development.

The People's Bank, however, did not go beyond traditional, security conscious, conventional banking. The bulk of the finances provided by the Bank was for trading activity, cultivation loans and purchase of goods receipts, against security of goods and/or government guarantee. They constituted over 90% of the Bank's lending to co-operatives. The expectation was for the People's Bank to be a development banker playing a more dynamic rôle in supporting and spearheading co-operative entrepreneurship and investment. Unfortunately the People's Bank was not geared to play this role, both organisationally and psychologically.

The establishment of the Co-operative Management Services Centre in 1973, to provide consultancy services and management advice to co-operative societies on investment proposals was one of the outcomes of the failure of the People's Bank to meet the developmental requirements of the co-operative sector. At the time the Centre was established, the possibility of establishing the Centre as a subsidiary of the Bank was even mooted. It did not meet with a response and in order to develop a link between Research and Development and financing the General Manager of the People's Bank was appointed to serve on the directorate of the Co-operative Management Services Centre. The Centre is now called the Sri Lanka Institute of Co-operative Management and the link referred to above does not exist now.

CHANGES IN COMMERCIAL BANK'S RESOURCES AND THEIR UTILIZATION

Sector	End 1982/ End 1983 Rs. Mn.	End 1983/ End 1984 Rs. Mn.
1. Government	278.0	- 754.1
2. Central Bank	- 41.6	- 1,117.9
3. Government Corporations ..	532.3	1,732.5
4. Co-operative Institutions ..	- 527.5	331.2
5. Other Private	- 1,018.3	895.2
6. Inter Bank	1,243.8	485.0
7. Foreign	- 466.7	218.5

Source: Central Bank of Ceylon, Annual Report - 1984, Table 1.47.

Note: Minus sign indicates net utilization of resources.

People's Bank and the Development of the Co-operative Movement

One of the main purposes of setting up the People's Bank was the development of the co-operative movement. This responsibility was interpreted by the Bank as providing the necessary finances and ensuring that the co-operative societies (a) function as economically viable units and (b) develop in accordance with government policy.

When compared with the problems faced by the co-operative movements in some countries of the Asian Region in obtaining finances, the co-operative movement in Sri Lanka is most fortunate in having the People's Bank as veritable benefactor. The Royal Commission on the Co-operative Movement in Sri Lanka has referred in most appreciative terms the benefits that had accrued to the co-operative sector because of the People's Bank's ability to attract deposits from all

stated earlier co-operative institutions, on the whole, have contributed Rs. 331 million in 1984 to the resource build-up of the commercial banks. The net negative difference of 1% in the case of the People's Bank was because a part of the excess deposits of the Co-operative Rural Banks had been invested with the National Savings Bank, which was offering higher interest rates on fixed deposits. Hence, when, taking the total co-operative movement vis-vis the commercial banks, by 1984, the movement could be said to be self financing.

The People's Bank, indeed, has assisted this process in more than one way. The co-operative rural banking programme, referred to earlier, was the most important. The co-operative movement was also assisted by financial discipline exercised by the People's Bank by restricting advances to errant co-operative societies, mainly

A Policy-level Workshop on Integrated Management Systems for Agricultural Co-operatives, held in September 1984 under the sponsorship of the Food and Agricultural Organisation of the United Nations and the Government of Sri Lanka had made the following comments in respect of financing development.

"The need for a substantial amount of investment capital for the co-operatives to venture into agro-industry was considered. Was it possible to obtain this finance from the existing institutions like the People's Bank, the proposed Rural Development Banks or the National Development Bank, or would it be necessary to set up a separate department of the People's Bank, which now finances co-operative activity, to supply the funds required for agro-industrial ventures? The group considered every possibility. The People's Bank, which has been the traditional supplier of credit to the co-operative sector, was paying increased attention to commercial banking. The co-operative agro-industries would also be outside the present portfolio of lending by the People's Bank. Whilst the National Development Bank has a large commitment to finance the private sector, the proposed Regional Development Bank were being set up to provide production credit to the so-called People's Sector or the small producer, and would not be in a position to provide investment credit to the co-operatives.

"It was accordingly resolved that there was a pressing need for co-operative finance agency or bank at the national level, that would be financed and funded initially by the Government, but with the support of resources from the co-operative sector and public share capital. The major purpose of this bank/co-operative agency would be to finance the necessary infrastructure development for co-operative marketing, and provide investment capital to set up

agro-processing units under the co-operatives.

It is well-seen that the development needs of the co-operative sector have not been met adequately by the People's Bank. This lacuna has yet to be filled.

Future

During the last 25 years, the change from a partner to a favoured customer has been the most significant change in the relationship between the People's Bank and the co-operative sector.

According to the Act of Incorporation, the main object of the Bank is the development of the co-operative movement and the rural economy. This has not been amended yet. But, in fact, the other business activities of the Bank has far outgrown in importance. The People's Bank has developed into a full-fledged commercial bank with parameters of development different from that of the initial objectives. These have been reflected in the changes in the capital structure and the composition of the directorate are brought about by the amendments to the original legislation.

The co-operative sector, too, over the 25 year period has become self-reliant financially. Though in terms of percentages the deposits and advances are less than 10% of the total deposits and advances of the People's Bank, the co-operative sector by its own right has become a favoured customer. The greatest attraction is the large network of Co-operative Rural Banks that stud the country and the savings these banks have been able to mobilise. The resurgence of the co-operative credit and thrift societies and the vast potential they have are a further attraction. The introduction of liberalised economic policies since 1977 has also affected the People's Bank as the Bank cannot, any more, claim a mono-

poly of co-operative business by virtue of section 25 of the People's Bank Act. The Regional Rural Development Banks, for example, will be competing with the People's Bank for a greater share of co-operative business in the rural areas. The People's Bank, therefore, may prefer to keep the co-operatives under the "favoured customer category" not so much as to bestow a favour on the co-operative but for more compelling reasons such as the maintenance of its present position and image in the rural areas.

It is evident that the People's Bank is fully conscious of recent trends. A contribution of Rs. 25 million was made in 1985 from the profits of the People's Bank to the Co-operative Development Fund, which has been almost dormant since its creation under the Finance Act, No. 11 of 1963. The total amount in the Fund, which is controlled by the Bank, is just over Rs. 29 million, including the Rs.25 million contributed in 1985. The Bank has requested co-operative societies to submit proposals for member education programmes, for their funding by utilising the interest income of the Fund. The Bank, as an alternative, may consider opening a soft loan window, to grant loans at a very low interest rate and payable over a long period of time, with these funds for investment by co-operatives on member-oriented viable projects.

The People's Bank could play a more active developmental role in regard to the co-operatives in the future. At this stage of development of the co-operative movement this seems the most urgent requirement. The People's Bank undoubtedly has the financial strength and the infrastructure for it to effectively play this role. What is necessary is direction, motivation and the will.

ACKNOWLEDGEMENT

The author acknowledges the assistance of Mr W.G.S.Waidyanatha of the People's Bank, Research Department in compiling of data for writing of this paper.