

# FEATURES

## Evacuees from Mahaweli work sites in their new settlements – A study of the Madagama Block, in Zone 3 System C

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*Building of the major dams and other construction works in the Mahaweli Development Project has necessitated the large scale evacuation of populations from such sites to new areas of settlement. It is essential to know exactly who the evacuees and their families are and how they could be assisted to adjust in their new settlements and it is with this object in view that Senaka Samarasinghe, a Deputy Resident Project Manager, undertook this study of the Madagama Block, in Zone 3 System C. He draws attention to the need to expeditiously develop services to provide these settlers employment in the tertiary sector; and also for a wise investment of the considerable amount of money expected to flow into this area.*

### The Study Area – Topography and Soils

This study covers the area Madagama Block, in Zone 3 System C, of the Mahaweli Settlements where evacuees from the Mahaweli work sites, including the Victoria reservoir area, were being settled. The study area is located on the Western boundary of the Amparai district. (See map 1). The Uihitiya Oya forms the southern and western boundaries of this area, while on the north the Kuda Oya serves as the boundary. On the east is Main Canal No. 1, where Rathkinda reservoir and the Uihitiya reservoir together constitute the boundary (See map 2).

In this area the ground slopes downwards from east to west. From the east the tributary and streams – Kuda Oya, Diyavidda Oya and Rathkinda Oya – flow westwards to join the Uihitiya Oya. Remnants of erosion are encountered on the northern and eastern borders, while the rest of the area is undulating land.

The soils consist essentially of the upland well drained Red Brown Earth (RBE's) and the poorly drained Low Humic Clays (LHC's) in the valley bottoms. Between these two types are intermediate imperfectly drained soils. (1)

### Climate

The area constitutes a part of the Dry Zone of Sri Lanka. Rainfall is variable averaging 2,000 – 2,100 mm. of which

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about 75 percent falls in the Maha season (Sept. – Jan.) The climate is characterised by steady temperatures and sunshine hours (except in Nov. – Jan.) with low humidity and high wind speeds in the dry season. (2)

### Background

Only the command area of the region, covered by dense monsoon forest, was cleared at the beginning of 1982 with the aid of machinery. The island area was not cleared till the settlers were brought in. Once they came they were paid to clear the ground falling within their own allotments by means of human labour.

### Object of Study

1. On the development of the new area as a result of the following factors relating to the chief of the settlers household – his native area, race, age, civil status and occupation.
2. On the development of this area resulting from the following factors relating to the other members of his family – family size, male/female ratio, age structure, education and occupation.
3. Of the above variables on each of the nine villagers in which the settlers have been placed.

This study was also intended to determine the general progress in the settlement policy with the shifting of evacuees from the Mahaweli work sites, including the Victoria reservoir area, into new settlements such as in Zone 3 of System C.

### Data Collection

Data was collected, by means of a questionnaire, from those who had been evacuated, since June 1982, from the Victoria Reservoir area, other Mahaweli work sites and the Maduru Oya National Park. Arrangements were made to have the questionnaire filled in respect of every settler of System 'C'. The filling up of the questionnaire was carried out during October – November 1982 by the new

Unit Managers appointed to Zone 4 of the System 'C'.

While the number of chief house holders amounted to 1,704, those included in the sample consisted of 225 of them; a sample of 13 percent of the total number. (See table 1).

### Basic Data Relating to the Chief Householder

#### (a) District of Origin

The settlers had come from the Kandy, Badulla and Amparai districts. Of them 86.2 percent hail from the Kandy district and are those who have been displaced from the Victoria reservoir area. Another 12.8 percent gave Badulla district as their place of origin and they formed the group evacuated from the Maduru Oya National Park. The balance 1 percent of the settlers were from the area coming under the Rathkinda Reservoir. Except in two of the main villages, all settlers had originated from the same district.

The population density of the Kandy district in 1981 was estimated to be 522 (3) persons per sq. kilometre and this ranks it as the district with the highest density in the central mountain region. On the other hand the density of population in the Batticaloa and Amparai districts in 1981, were 134 and 86 persons respectively. A feature therefore apparent here is that owing to the Victoria Reservoir project an emigration of population has taken place from the Kandy district, with the highest population density in the central hills, to one with a very low density.

Of the land area in Sri Lanka 70 percent constitutes the Dry Zone whereas only 25 percent of the population resides there. (4) Mass scale emigration of population could be expected from a scheme like the Mahaweli and it would appear

(1) *System C, Final Designs and detailed Cost Estimates, Development Plan, December 1980. Page 7*

(2) *Ibid.*

(3) *Department of Census and Statistics, Colombo; Statistical Pocket Book 1983. Page 18.*

that this is already taking place automatically owing to its various work sites causing a shift of population from surplus areas to deficit areas.

**(b) Race**

Of the settlers coming from the Victoria reservoir area, except for one settled in Medagama and another in Ihalagama, all the others are Sinhalese.

**(c) Age**

The study revealed that 82.7 percent of the house-holders are below 60 years of age while 11 percent are between 61-70 and 6.2 percent are over 71. For an agrarian project the best suited are house-holders below 60 years of age. Here the majority (82.7%) are below that age level, and as such good results can be expected. With the reaching of 60 years of age the capacity to engage in manual labour diminishes. However, the percentage of such house-holders is only 27.3.

**Table 3**

**Civil Status of Settlers**

No.	Name of Village	Married	Bachelors	Widowers
1.	Pahala Ratkinda	25		
2.	Wewagama	23	02	
3.	Medagama	23	02	
4.	Pahalagama	23		02
5.	Kudagama	23	01	01
6.	Ihalagama	20	01	04
7.	Paranagama	20	01	04
8.	Kelegama	23		02
9.	Henanigala South	23		02
Total		203	07	15
Percentage		90.2	3.2	6.6

An interesting feature that emerges from Table 2 is that of the householders at Pahala Ratkinds, 60 percent are less than 30 years of age. Those settled here are evacuees from the Maduru Oya National

Park area and a majority of them happen to be young people. Apart from this village all the others are settled with house holders in age ranges of similar proportions. A special feature is that 48 percent of them are within the age group of 31-40 and 41-50.

**Table 1 Basic Data of the Villages**

No.	Name of Village	Total No. of house-holds upto 31.12.82	No. of house-holds in the sample	Total population in village	Total population in sample
1.	Pahala Ratkinda	304	25	1,520	125
2.	Wewagama	199	25	995	125
3.	Medagama	195	25	975	125
4.	Pahalagama	185	25	925	125
5.	Kudagama	181	25	905	125
6.	Ihalagama	168	25	840	125
7.	Paranagama	164	25	820	125
8.	Kelegama	154	25	770	125
9.	Hemanigala South	143	25	715	125
Total		1,704	225	8,465	1,125

**(d) Civil Status**

As many as 90.2 percent of the settlers were married men. Bachelors and widowers amounted to 3.2 percent and 6.6 percent respectively, as seen from Table 3.

According to the Sri Lanka Mahaweli Authority Selection Criteria (5) one of the basic qualifications to be a settler is that he should be married. Even though Land Kachcheri's may not have been held and the basic qualifications verified, it would appear that the settlers coming from the Victoria Reservoir area and the other Mahaweli work sites qualify for selection as Mahaweli farmers and conform to the criteria laid down.

**(e) Educational Standards**

As seen in Table 4, 66.2 percent of the settlers are those who have had a primary education, while 32.9 percent have only received their education up to Grade 2. There are none who have gone beyond Grade 10, to Grades 11 and 12. Of the evacuees from the Victoria reservoir area, those with higher educational standards appear to have preferred to emigrate to areas other than the System 'C'.

(4) *Fonseka, Prof. H. N. C., Land Settlements in the Dry Zone of Sri Lanka; A geographer's View - 17th June 1980 - Page 2.*

(5) *MASL Implementation Plan - System 'C', Zone 3-6 Dec. 1981 - Annex.7*

**Table 2 Age Structure of Settlers**

No.	Name of Village	20-30	31-40	41-50	51-60	61-70	70+
1.	Pahala Ratkinda	15	06	02	01		01
2.	Wewagama		06	09	03	05	02
3.	Medagama	02	07	09	06	01	
4.	Pahalagama	04	06	05	03	05	02
5.	Kudagama	03	09	04	04	02	01
6.	Ihalagama	02	09	05	03	04	03
7.	Paranagama	03	05	07	06	02	02
8.	Kelegama	06	04	05	06	04	
9.	Henanigala South	04	04	06	07	02	02
Total		39	56	52	39	25	14
Percentage		17.3	24.9	23.2	17.3	11.1	6.2

Settlers at Pahalagama, Wewagama and Kelagama have had more of secondary education than those in the other villages, while Ihalagama ranks lower in this regard. At Henanigala 84 percent have had their primary education; and this village happens to be the one where the largest number have had a minimum education.

(f) Occupation

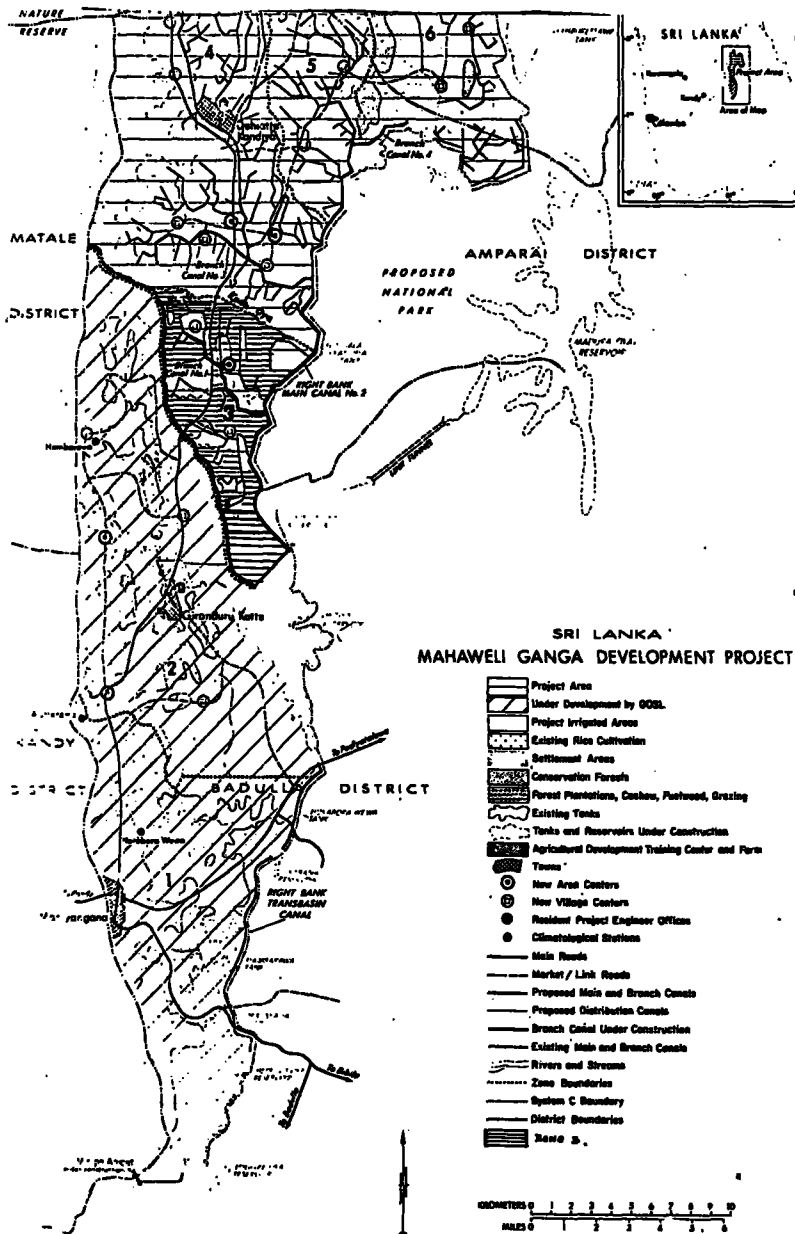
Of the villages disposed of their lands in the Victoria reservoir area, 3,000 families have agreed to come to System 'C', and the house holders who have opted to this are invariably farmers. This is evidenced by the fact that as much as 87.6 percent of these settler house-holders are farmers by occupation. Those residents of the reservoir areas who are not used to cultivation have opted to go elsewhere.

Table 4 Educational Standards of Settlers

No.	Name of Village Grade	0	1	2	3	4	5	6	7	8	9	10
1.	Pahala Ratkinda	2		5	6	2	3	2	1	1	1	2
2.	Wewagama	5		2	2	3		2	3	4	1	3
3.	Medagama	5	1	5	2	5	1	2		1		3
4.	Pahalagama	5		2	2	3	1	1	3	4	1	3
5.	Kudagama	6		2	1	6	3	2		1	3	1
6.	Ihalagama	6		2	3	3	7	1		2		1
7.	Paranagama	5	1	2	3	2	4	2	1	3		2
8.	Kelegama	4		1	1	3	1	2	2	4	3	4
9.	Hemanigala South	11		2	3	3	2		1	1	1	1
Total		49	2	23	23	30	22	14	11	21	10	20
Percentage		21.8	0.9	10.2	10.2	13.3	9.8	6.2	4.9	9.3	4.5	8.9

Of those taking to other occupations, traders comprise 75.7 percent. Table 5 indicates that even those belonging to the lower middle class, such as clerks and drivers, have elected to emigrate to System 'C' area owing to the construction of the Victoria Reservoir.

At Pahalagama all are farmers while at Kelegama as much as 28 percent are engaged in various other occupations. Except for four villages, traders have been selected settlers in all the villages, social amenities like schools, hospitals and post offices have a very significant bearing on new settlement areas. Besides, trading units like tea boutiques, grocery shops and other retail outlets are also very important to a newly developing village. (6) As seen from Table 5 a secondary sector is almost non-existent. Those whose occupation has been described as farming will no doubt take to carpentry, iron mending, bicycle repair work, etc. during their off seasons. The secondary sector development will take place with the expansion and multiplication of activities. (7) With trade taking up second place in the sphere of occupations, secondary sector development is bound to occur in due course.



(6) Silva, Dr. W. P. T., Land Settlement & Urban Development in the Dry Zone - Page 7

(7) Lundquist, Dr. Jan, Trade and Formation of sectors of Production - The Build-up of Mahaweli Economy, 1978, - Page 80

Table 5

## Occupations of Settlers

No, Name of Village Occupation	Cultivation	Merchant	Clerk	Driver	Retired	Teacher	Textile Printing	Others
1. Pahala Rathkinda	24			1				
2. Wewagama	22							3
3. Medagama	22	2	1					
4. Pahalagama	25							
5. Kudagama	21	2		1				1
6. Ihalagama	24		1					
7. Paranagama	20	2				1		2
8. Kelegama	18	2		2	2		2	
9. Henanigala South	21	2			1			1
<b>Total</b>	<b>197</b>	<b>10</b>	<b>2</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>7</b>
<b>Percentage</b>	<b>87.6</b>	<b>4.4</b>	<b>0.9</b>	<b>1.8</b>	<b>1.3</b>	<b>0.4</b>	<b>0.4</b>	<b>3.2</b>

## Basic Data on the Members of a Family

## (a) Family Size

The highest average family size is found at Henanigala (See Table 6). As this is a Purana (old) village, in addition to the usual members of a family, the extended family members are also included. Though these extended family members were also taken into account when allotments of land were made to those displaced from reservoir areas and other Mahaweli work sites, in other areas the family size has not tended to become large. The family size in Sri Lanka was considered to be a little over six (8); however, what is found in the study area does not seem to be as large as that. Medagama with 4.2 members has the largest, as regards average family size, while Pahalagama has the smallest with 3.4 members. Here, with the extended family members also getting land, (for example, one allotment to the parents, separate allotments to married children), the average family size tends to be large in contrast with the other villages.

Table 6

## Family Size

No. Name of Village	Average Family Size
1. Henanigala South	4.6
2. Medagama	4.2
3. Pahala Rathkinda	4.2
4. Paranagama	4.2
5. Ihalagama	4.1
6. Wewagama	3.8
7. Kelegama	3.8
8. Kudagama	3.8
9. Pahalagama	3.4

## (b) Male Female Ratio

As seen from Table 7, the females seem to outnumber the males in the area, the ratio being 13:10. At a survey (9) carried out in 1976, when re-settlement of the Purana villages were taking place in System H of the Mahaweli Development Scheme, the female - male ratio was 5:9. The contrast to that of the study area is therefore evident. The only dry zone purana village in the study area is

Table 7

## Male Female Ratio

No. Name of Village	Family Size	Female	Male
1. Henanigala South	02	01	01
2. Medagama	11	06	05
3. Pahala Rathkinda	12	07	05
4. Paranagama	21	11	10
5. Ihalagama	23	13	10
6. Wewagama	21	11	10
7. Kelegama	14	09	05
8. Kudagama	05	03	02
9. Pahalagama	14	05	09
<b>Total</b>	<b>23</b>	<b>12</b>	<b>10</b>

Henanigala. Here the female - male ratio is very much akin to that found in the Mahaweli 'H' System that is, 1:1. Another Dry Zone purana village, Pahala Rathkinda has a female - male ratio of 7:5, but this being a village in the Maduru Oya National Park area and one with low socio-economic levels, cannot be compared with the Dry Zone Purana villages. The ratio of females to the number of males seem to be higher in all the villages, with the exception of Pahalagama.

## (c) Age Structure

Those under 15 years and over 60 years of age are considered dependents. On this basis, as shown in Table 8, dependents constitute 50 percent of the population. The child dependency ratio is 48.4 percent, while the dependency ratio of the aged is 1.6 percent; with the dependency line at 61 years. Pre-school children amounted to 15.5 percent. The actual breadwinners in a family accounted for less than 50 percent when those engaged in secondary education, invalids, etc. are excluded. The expenditure pattern in regard to dependents indicated the following main items of expense: Milk powder for children under 5 years; Medical care and medicines for them; Food for pre-school children; Medical Care and medicines for them; and, Education of school going children.

According to the 1972 mid-year population statistics of Sri Lanka, children under 5 years accounted for 15.6 percent while all those below 15 years constituted 41.9 percent. (10) Accordingly there does not seem to be a significant disparity between the dependency ratio (of children) in the area and that of the country as a whole.

Since those in the most fertile ages are considered to be between 20 and 30 years, (11) a proportion of 18.9 percent of this age group in the area would appear

(8) Karunatilake, Dr. Dingi. *A Study of socio-economic conditions and investments promotion potentialities of the settlers of Mahaweli Development Project*, Page 5

(9) *Statistical Abstract of Sri Lanka, 1973 Page 30*

(10) *Ibid.*

(11) *United Nations—Comparative Study of Population Growth & Agricultural Change*, Page 13.

**Table 8 Age Structure**

Age Group	Population	Percentage
0-5	140	15.5
6-10	138	15.3
11-15	159	17.6
16-20	137	15.2
21-30	170	18.9
31-40	75	8.3
41-50	39	4.2
51-60	31	3.4
61-70	09	1.3
71-80	03	0.3
<b>Total</b>	<b>901</b>	<b>100.0</b>

to be fairly high, with a resultant 'baby crop' likely in the near future. The child dependency ratio, consequently, may rise in the future. Pahala Rathkinda has only two inhabitants below 40 years of age and is the only village with such a minimum in this low age group. Kudagama, Paragama and Wewagama have one each of those above 70 years. Henanigala has 19 inhabitants over 40 years of age; since this is a Purana village the tendency is for the elderly family members to continue to remain in the village. It may be that the elderly family members of the other villages have either received land allotments themselves or that they have left for other areas to settle down with other members of their families.

**Table 9 Educational Standards**

Standard of Education	Population	Percentage of total population	Percentage of schooling population	Remarks
-	455	50.5	-	Non school goers
0-15	313	34.7	70.4	Primary
6-10	123	13.8	27.5	Secondary
11-12	10	1.0	2.1	Secondary
<b>Total</b>	<b>901</b>	<b>100.0</b>	<b>100.0</b>	

**(d) Education**

According to Table 9 about 50.5 percent of the members of a family were non school goers; they may constitute either adults or non school going children. Of the school going population, 70.4 percent were those receiving primary education. Since a primary school has been planned for every village, their requirements can be met.

At Pahala Rathkinda, only four had any education above Grade Five. People displaced from the Maduru Oya National

Park area have been settled here, and it would appear that the educational levels of settlers from that area are comparatively lower than that of those from other areas. The low educational levels of these children originating from the backward areas, have to be upgraded to those of children of the areas.

**Occupation**

According to Table 10, people of different occupations have emigrated to the area. As many as 86.3 percent, however, are farmers. A considerable number are employees in the state sector, cons-

Settlers who have taken to different occupations are mainly confined to the two villages of Wewagama and Pahalagama.

**Conclusions**

**(a) Settlement Criteria**

The force of circumstances has led these people who were displaced from the Mahaweli Construction areas to be settled in the area. As such it may seem that they would have not conformed, nor indeed were expected to conform, to the settler selection criteria as laid down by the Maha-

**Table 10 Occupation**

No.	Name of Village	Agriculture	Govt. Servants	Labour	Carpenters	Trader	Textile Printing
1	Henanigala South	32			2	1	
2	Medagama	09	1			1	1
3	Pahala Rathkinda	29					
4	Paragama	30					
5	lhalagama	04		1			
6	Wewagama	09	9				
7	Kelegama	08	2	1			
8	Kudagama	21					
9	Pahalagama	28	7	2			
<b>Total</b>		<b>170</b>	<b>19</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>1</b>
<b>Percentage</b>		<b>85.9</b>	<b>9.6</b>	<b>2.0</b>	<b>1</b>	<b>1</b>	<b>0.5</b>

well Authority of Sri Lanka. Yet the analysis reveals that when it comes to the actual application of criteria such as the allotment of land to married people, giving priority to farmers, conferment of greater advantages to young men in the grant of allotments, emphasis on small families, etc., most settlers in the study area have in fact qualified on those requirements.

**(b) Educational Facilities**

About 86.2 percent of the settlers hail from a comparatively developed district like Kandy. In terms of availability of facilities such as science graduates, laboratories, libraries, etc. that are required for senior secondary schools, the Kandy Education Region ranks 11th in the classification of Education Regions; (12) while in contrast, the study area which is part of the Amparal district ranks 16th. Hence there is a danger of the emigrant children from the Kandy district, who have been studying in schools where such facilities (as outlined above) were available, finding themselves in schools without such facilities in the study area. Although the schools being constructed in the Mahaweli Area do conform to the requisite standards

tituting 9.6 percent, and are mainly teachers, co-operative employees, health workers, etc. If their experience is to be availed of in the study area, the amenities required must be introduced without any loss of time.

It would appear that all 28 non school going inhabitants of Pahalagama are engaged in cultivation; a correlation which is absent in the other villages. Those shown as labourers are the people engaged in hired labour.

laid down by the Department of Education as regards laboratories, libraries, etc., in the event of difficulties arising in regard to the availability of science graduates and other qualified teachers for the schools in the study area this situation could arise. They will consequently be deprived of a standard of education comparable to that which they were accustomed to.

### (c) Reciprocities End

A common feature observed in a settlement programme is that the settlers continue to maintain relations for sometime with the adjoining districts from which they hailed. They enlist the services of their relations and families during work time on the paddy fields, lend and borrow sums of money, and visit relations. (13) It may be that they will maintain such relations with their original home for a year at the most. Thereafter with the inundation, or reservation for forest, of the area concerned and the consequent departure of all humans from there, no more reciprocities will be possible.

### (d) Investment potential in money flowing in

With compensation payments being made in respect of land and disposal of dwellings a considerable amount of money is expected to flow into the study area. If this money is invested wisely, a significant change, distinct from the other settlement programmes in Sri Lanka, will be witnessed in the study area.

### (e) Need to expeditiously develop secondary and tertiary sectors

Services providing employment opportunities in the tertiary sector, falling outside the sphere of agriculture, have not been developed so far. No advancement has been observed in the postal, health, education and such other services. Neither have there been any signs of progress in the industrial sector, the main branch of employment opportunities in the secondary sector. In view of this situation it is very important to expeditiously develop the secondary and the tertiary sectors when an emigration of population is taking place from a more developed district like Kandy to an under-developed district like Amparai.

(12) *Wanasinghe, Dr. Jayampathi - The Equality of Educational Opportunity to Study Science at Senior Secondary Schools, Economic Review, May 1982 - Page 32.*

(13) *Bulankulama, Senarath, Social Heterogeneity and its influence on Settlement Development - Page 3.*

## Some Observations on the Income Side of Banker Customer Relationships

R. Sunderalingam

*In this personal viewpoint on banker-customer relationships, R. Sunderalingam of the People's Bank, Jaffna Regional Office raises the issue of whether banks should not return to the original goldsmith - custodians role of mutually sharing the surplus from borrowing and lending; and he makes the controversial claim that the ultimate cost of borrowing from the institutional sector often appears to be equal or higher than that available from money lenders.*

The banker customer relationship is essentially a debtor-creditor relationship however much we may couch it in legal jargon, super-imposed of course by additional aspects of relationships like trustee, bailee, adviser, match-maker, factor and so on.

When a bank accepts deposits it is a debtor to the depositor. When it lends those or other funds it is a creditor to the borrower. The purpose of this note is to see how far banks exploit, as it is alleged, their creditors as well as debtors leave alone others who may be considered those who pay directly for direct services.

A bank's debtor relationship is manifest in the maintenance of Deposit Accounts and Current Accounts. On a very superficial analysis, when Current Accounts are maintained on credit, the interest payable on retained deposits is not paid to the customer. But even if there is overdrawing by a few cents or rupees the bank charges the customer interest. Banks charge a commission on all cheques returned for want of funds or even those returned on countermand when there are no funds. In charging commission on returned cheques for want of funds there is a graduated scale and finally even a threat to close the account. In addition to obtaining interest free deposits, the base for their lending activities, banks charge commission when account holders write cheques when they have no funds or stop payments under the above circumstances.

Historically the gold smiths, by nature of their profession, had well secured vaults and people entrusted their money to them for safe keeping. At the beginning these custodians finding themselves in possession

of idle funds sought to utilise these on payment of interest to the persons who entrusted the money to them. This relationship of confidentiality gradually developed into conviviality when there was borrowing and lending but with actual sharing of the surplus. This relationship has apparently deteriorated subsequently to a position of confiscatory relationship when the deposit became only a fraction of the money lent. From a straight forward matching of deposits to loans banks took the risk of creating advances in excess of the deposits and the proportion of deposits to advances became one of 1:10 or 1:5 instead of 1:1 as was the case of the early money lenders. The moment the banks became creators of money the deposits became only one source of funds, though the primary and basic one. Banks started ignoring the importance of depositors and gradually denied them the reward for waiting.

The situation now is that the banks have the whip hand so to say and even when accepting deposits banks lay down conditions, especially for Current Accounts. Though deposits in case of some commercial banks should not be allowed to fall below a certain amount, the banks do not pay any interest on these deposits; whereas banks recover commission for maintenance of accounts, commission on returned cheques and even postage.

When accounts are overdrawn even for a day the bank charges interest stipulating a minimum at that. The recognition of the necessity to pay interest on deposits is practised by the People's Bank in payment of compensatory interest on rural bank accounts. Even in deposit accounts like savings retained deposits are paid interest at the minimum balance for the quarter. This quarter is not the three months from the opening of the account but the quarter fixed by the calendar. If the deposit is made half way during the relevant quarter the depositor does not gain anything till the completion of the succeeding quarter. The National Savings Bank pays interest on the minimum balance for the month. As for the rate of interest though the bank's rate of lending or that of the open market does not move with the Bank Rate, and the Bank Rate does not appear to even remotely influence the movement of lending

rates, the bank sticks to the advantageous position of paying less than the Bank Rate which is the conventional practice in other developed countries, where there is a sensitive money market that registers and responds to even the slightest changes in the Bank Rate as a result of the vast volume of transactions in the money market. In our country until such time as the money market is developed to that extent, and Central Bank is in a position to effectively control and determine the deposit and lending rates of banks, the deciding factor will not be the Bank Rate.

In such a situation the bank deposit rate must have some rational relationship not to the Bank Rate but to the lending rate. That is what the bank earns out of the deposits at its disposal.

There is a tacit recognition of it in the payment of interest on Fixed Deposits. Fixed Deposits attract 18 percent now. This is 8 percent more than for Savings Accounts. Savings Accounts are now treated as Current Accounts minus the safeguards available for Current Accounts from the point of view of the banks. There is no restriction on the frequency of withdrawals for all practical purposes. Cheques drawn payable to a commercial bank on account of the Savings Account concerned are being accepted though the intention of the practice was to facilitate flow of regular deposits into the account.

This is used to accept any casual deposits or even as a devious means of using the Savings Account as a Current Account without bearing the responsibilities pertaining to a maintenance of Current Accounts. Avoidance of payment of interest is resorted to by permitting frequent withdrawals and allowing the balances to fall closer to the minimum.

If the practice of payment of interest on retained deposits in the Current Account is introduced, the popularity of the Savings Account may wane in the sense that more and more persons will resort to maintenance of a Current Account, as they will get both the advantages of the Savings Account and the facilities of the Current Account. Banks too will gain because an operative account will have sufficient retained deposits. Payment of interest will be as in a Savings Account, which means the bank pays interest on the minimum for the quarter. Even if the balance falls below the stipulated minimum called for to open the account

the bank need not pay. On the contrary, it can charge interest if overdrawn or charge a quarterly commission being the cost of maintenance of the account. An intelligent Current Account customer can achieve this by maintaining both a Current Account and a Savings Account and send all his deposits to the Savings Account and do all his withdrawals through the Current Account, by instructing the bank to transfer from his Savings Account to his Current Account when sufficient funds are not available in his Current Account to meet the payment of cheques, thus avoiding the retention of idle balances in a bank account.

Banks stand to gain by paying interest on retained balances in Current Accounts. Payment of interest induces retention of balances in addition to attraction of more deposits. This would result in the broadening of the base, namely the deposit base which is the basis for creation of credit. If the base becomes broad the superstructure too can be broadened further without relying on other sources of funds like borrowing at a penal rate from the Central Bank or borrowing from the call money market or even resorting to inter-bank borrowing. The attraction of deposits leaves a bigger margin for the banks. Moreover, the syphoning of idle funds from the economy and bringing them into the banking sector, and in addition, the mobilisation of idle funds, would also soften the inflationary impact. Funds which will be dissipated on consumption will in the first round become productive in that they yield interest to the depositor and leave more funds at the disposal of the banks for investment purposes. As has been emphasised elsewhere what is required now is attracting of not the excess funds which may find more lucrative avenues of investment or depositing but those funds available for consumption in the near future or the next round. These have to be brought into the banking system to be of effective use to the community. One method of attracting these funds into the banking system or institutional channels and at the same time preventing free withdrawals to satisfy their requirements, is the payment of interest on Current Accounts. This permits ready withdrawals even without going into the bank, ensuring at the same time reward for waiting or postponement of consumption. As it is, since the deposits in Current Accounts do not yield any income, individuals would prefer to keep them as idle funds at home rather than keep them as barren funds in an institution after going through all formalities of opening accounts. In the modern

context of sophisticated operations robbery on a small scale may not be worth the money spent on equipment for the job. In such a situation keeping a few thousand rupees at home may not be that risky. If even such funds are to move out and become lactative the banks have to make it worthwhile by offering interest on retained deposits even in Current Accounts.

Of the sources of funds for banks, for their lending activities, the cheapest has to be from this source. For what they pay is the nominal rate but what in practice they will be called upon to bear will be almost a negligible amount compared to the profit generated by lending, by creating multiples of the deposits reflected as retained in particular key periods. What is payable on the minimum stipulated balance kept for a quarter or any other determinable span of time is the lowest rate for any deposits. When these deposits fall below the stipulated minimum even once during the period banks do not pay interest for the period though the banks have the funds at their disposal for the major period for their lending activities. In effect, in their drawings and due to the time lag between receipt of reimbursements and drawing the existing funds will definitely get depleted and it is possible that drawings may be permitted against effects. In such a situation banks gain by way of interest in view of the depletion in balances below the stipulated figure.

When one turns to the lending functions we observe that recovery of interest is done in two ways (a) on balance including interest as in Fixed Instalment loans (b) on the balance reflected as in Overdrafts or Block Loans. In the former the borrower gains if he is tolerably regular: For the interest component though added to the instalment is based on the progressively reduced principal. He does not pay interest on the amount borrowed from the first day to the end of the final payment. He pays interest for the full amount upto the date of payment of next instalment. He then pays on the new balance upto the date of repayment of the next instalment. This process goes on till the final instalment is paid thus progressively reducing the commitment on interest paid on an equated instalment basis.

Under the Block Loan system the bank recovers on the diminishing balance but retains the advantage of recovering for the exact number of days the balance

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remains unsettled. Under both systems the bank recovers interest for its actual outlay.

Superimposed on this interest commitment are certain service charges varying from bank to bank. It includes stationary charges, inspection charges and certain others.

The grouse appears to be that a borrowing firm wishes to have all that it pays to the Bank in the form of charges, interest etc. permitted to be reflected as its allowable charges on accountable debits. The practice of debiting the customers account on account of inspection charges in addition to the interest component of the loan needs review. What is expected appears to be one particular charge say, as an interest rate, that will cover all the bank's expenses or the bank's profit additive; and for the banks to refrain from charging under various heads including BTT. All the bank's expenses should be met out of one recovery made from the customer.

The comparative cost of borrowing from available sources is studied by a firm or individuals before borrowing.

When they indulge in informal borrowing, may be backed by post-dated cheques, they pay as much as 70 percent or more still they patronise this source, inspite of the liberalised credit available at half the cost as advertised by the banking sector. The reason is not far to seek. The ultimate cost of borrowing often appears to be equal or higher than that available from money lenders; the reason being the various items of levy imposed when borrowing ranging from inspection, valuation, registration, stamping and even other gratifications as they say. If all these items are added up it works out to more than the straight 70 percent paid to the money lenders, minus all other delays, documentation and other inconveniences undergone. This bitter experience of the disgruntled customer has to be rectified, and banks have to get back to their original position of bankers instead being mere money lenders or creditors. If the banks accept the necessity for some of the levies in view of the nature of the institutions obligatory dues to the state is still another unaccountable item of expense that has to be weeded out.