

THRIFT AND CREDIT CO-OPERATIVE SOCIETIES IN SRI LANKA AND THE QUESTION OF THE APPROPRIATE ECONOMIC BACKGROUND OF ITS MEMBERS

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Sunimal Fernando, Willie Gamage, Charmawansa Peiris, M. Sri Shanmugarajah and R.M. Ranaweera Banda facilitated a study on "Aspects of Support-Based Rural Housing in the Galle, Matara, Jaffna and Puttalam districts of Sri Lanka" and a report was prepared in late 1987 by IRED-Development Innovations and Networks. This extract from the Study of the working of 5 out of 4,500 Thrift and Credit Co-operative Society (TCCS) functioning in the island provide a useful insight into the credit requirements and operations in four different districts of the country. The focus is mainly on the rural though some comparisons of the urban situation are also given. This account from the larger study is particularly useful in the context of the investment component that is to be provided to a large number of families in Sri Lanka under the Janasaviya Programme and the Agency Bank Scheme (PNNs) to be launched by the state banks.

The Thrift and Co-operative Credit Society (TCCS) is a village level organisation which serves to mobilise rural savings and make credit available to its members when required at rates of interest well below those prevailing in the non-institutional credit market (i.e. with money-lenders). The rates of interest vary in different TCCSs. The Hirigama and Pahalagama TCCSs in the Matara district offer 14 percent interest on ordinary deposits while the Minirankuliya TCCS offers 15 percent interest on ordinary savings and 18 percent interest on fixed deposits. The rates of interest on savings offered by TCCSs are generally higher than those offered by commercial banks. Similarly, the interest charged by a TCCS on loans is lower than the interest on loans charged by commercial banks.

The upper limit of loans as well as the conditions under which loans are given vary among different TCCSs. At Sarumellagaha (Galle district) the upper limit of a loan is Rs.15,000/-; at both Pahalagama and Hirigama (Matara district) it is Rs.5,000/-; while at Minirankuliya (Puttalam district) it is Rs.10,000/-. At the Pahalagama TCCS in the Matara District, within the Rs.5,000/- limit, the maximum loan a member could obtain is 3 times his savings in the TCCS; at Minirankuliya, within the Rs.10,000/- limit, it is 10 times his savings in the society; while at the Hirigama TCCS in the Matara district the norm varies from 5 times the savings for loans upto Rs.1,000/- to twice the savings for loans between Rs.2,500/- and Rs.5,000/-. In respect of all NHDA

housing loans, however, a member is entitled to a loan upto 10 times his total savings in the society. The period of repayment for ordinary loans and self employment loans varies from 1-3 years; for NHDA housing loans, from 5-15 years and for small emergency loans it is usually one month. A member seeking a loan from a TCCS has to produce two guarantors who should be members of the society. Most TCCSs stipulate that a guarantor too should have savings in the society to the value of 10 percent of the loan requested. Certain TCCSs make additional requirements of guarantors: For instance, the Sarumellagaha TCCS (Galle district) lays down that a guarantor should also have a good attendance record at TCCS meetings, while the Minirankuliya TCCS maintains that a guarantor should have the confidence of the office bearers. The TCCSs studied from the Galle, Matara and Puttalam districts further stipulate that, apart from other conditions, a member should have a share capital of Rs.100/- in the society before he is entitled to loan facilities. The TCCSs studied from the Jaffna district, on the other hand, do not

have such a rule.

The rules, procedures and financial norms of the TCCSs studied apply to the various economic and sociological categories in a village in different ways. In the cases studied, the low income families would generally not be able to participate in the TCCS process because they would find it difficult to conform with TCCS procedures and financial norms. To start with a poor family will find it difficult to get two guarantors acceptable to the TCCS, even if it is able to subscribe the minimum share capital and meet the 'minimum savings' qualification. The rich, on the other hand, would not require the TCCS for a different set of reasons. The rural rich have good connections outside the village, not merely with businessmen and other influential persons from whom they could borrow money when they need to do so, but even with formal financial institutions such as banks and other lending agencies.

Though the village rich can earn a higher interest on their savings if deposited with a TCCS and borrow money (within the stipulated limits) paying a lower rate of interest than they would need to pay to a commercial bank, rural social norms will constrain them from doing so: The rural rich will consider it to be beneath their dignity to borrow money from a village level institution in which less affluent social groups also participate. They would borrow money at a higher rate of interest from outside the village, rather than compromise their status and dignity in the village by taking loans from the village TCCS. Had this social norm not been operative in rural society, it is possible that, especially in villages having a sizable 'rich class', TCCSs could have taken a course through which the rich families begin to progressively dominate and control the TCCS to their financial advantage. Fur-

* TCCSs are voluntary associations of poor people operating on a local basis. Membership of a TCCS usually ranges from 40-60 while there were some societies which could boast of a membership of 150 or more. TCCSs, as institutions, represent the collective strength of groups of poor people who normally do not have mortgageable assets or who do not have access to commercial banks. They are formed for the purpose of meeting the savings/credit/investment needs of the members.

There has been a steady expansion of TCCSs in the country since the movement started over 75 years ago with 37 societies. By 1963, after 50 years, there were 3,784 societies and by March 1987 nearly 5,300.

The strategy of the TCCSER is to set up at least one new TCCS in each of the Grama Sevaka (GS) administrative divisions in the country.

thermore, in so-called urban low-income communities such as at Navagampura where there exists a sizeable number of high-income families, if an urban TCCS (or an 'Urban Thrift') is established, it can very easily fall under the control of the relatively 'rich' class because the rural social norm that constrains such families from participating in a TCCS does not apply in an urban context. Navagampura, however, does not have an 'Urban Thrift'.

In the rural context, therefore it is to the middle-income families that the TCCS makes its appeal. Middle-income families constitute the largest category of families in any village. Among them, some persons work outside the village on a regular basis either for businessmen or else on plantations. Such families find it possible to obtain loans on easy repayment terms from their employers: The TCCS is therefore not a very relevant institution for them. Thus the TCCS is most relevant to that category of persons who are self-employed in economic activities which:

- Are small in scale and level of investment;
- Are confined to the village or its immediate outskirts; and
- Do not entail continuing economic/business relationships with affluent persons.

As the loans given out by TCCSs are small, they are useful only to such persons whose level of investment is also small. For instance in an up-country vegetable-farming economy where small farmers need to invest heavily on seed material, fertilizer and agro-chemicals, the TCCS system as it functions today cannot intervene to meet their credit needs. In a small-scale marine fishing economy too, where the credit needs of mechanised artisanal fishermen are high (e.g. for repairs to boats and engines, replacement of damaged fishing gear etc.), the TCCS does not appear to be a useful credit institution. In the rural context therefore, the TCCS can usefully service middle-income level self-employed families engaged in economic activities with a relatively low level of investment in or around the village itself. Sarumellagaha (Galle district) Hirigama and Pahalagama (Matara district) and Minirankuliya (Puttalam district) provide a substantial number of families having the appropriate economic background for meaningful partic-

pation in a TCCS. It is also seen that it is such families whose economic ties are largely within the village rather than outside the village that have a vested interest in making a success of a village level institution that bases itself on the mobilisation of village level resources; those whose economic horizons are largely outside the village would not commit themselves in the same way to making a success of a TCCS.

When a TCCS evolves and develops on its own, the above defined categories of families would comprise its membership. But when the process is expedited so that TCCSs may be formed at village level to handle NHDA housing loans under the RHSP, families which on account of their socio-structural position cannot contribute to the long term success and stability of a TCCS may join it merely in order to get access to NHDA housing loans. These would include families whose economic horizons largely lie outside the village; families whose economic activities are not based primarily in or around the village but outside. It is such families, which, not having a vested interest in making a success of an institution such as a TCCS, tend to default in loan repayment; not because they cannot afford to pay but because they are not willing to do so.

A resident of Jaffna district, aged 50 is a postman having 2 sons and a daughter. His monthly income is around Rs.2,000/-. He lives in a mud based house thatched with Palmyrah leaves. He had collected sufficient money to build a house but applied for a NHDA housing loan to the TCCS. The TCCS President who was also a retired public servant recommended a loan of Rs.7,500/- and persuaded the housing sub-committee to approve his recommendation. This man took the first instalment of Rs.4,000/- but did not even commence building his house. He does not even repay the loan. He explains his failure to build the house or repay the loan by saying that both his sons had been arrested by the security forces and that all the money he had, including the loan instalment, has been spent on trying to get the sons released. Because of the arrest of his sons, the politically-oriented SSO has not taken any steps to get him to build his house and repay the loan. In real fact, he is an affluent man who has no vested interest

in making a success of a village level credit institution like the TCCS. His economic horizons are largely outside the village.

Another man of Matara district is a member of the TCCS. His monthly income is around Rs.3,500/-. He is a rich land owner with inherited wealth. He is a member of the TCCS committee. Living in a well constructed house of 1500 sq.feet, he obtained a NHDA loan of Rs.3,500/- from the TCCS for constructing a kitchen of 500 sq.ft. He was found to be the worst loan defaulter of that TCCS and had defaulted 8 loan instalments. Even though he is a member of TCCS Committee, he does not really have an interest in making a success of such a village level credit institution because his economic horizons are well outside the village.

On the other hand:

A woman (aged 58), a widow of Pahalagama (Matara district) who lives with her 3 daughters and earns by making coir and sewing clothes got a NHDA loan of Rs.2,500/- from the TCCS to tile her roof. Her brother-in law, a trader in Colombo, contributed Rs.3,000/-. The owner of a local timber depot gave her the necessary roofing timber on loan, while her daughter borrowed another Rs.2,500/- from the TCCS. This is how she mobilised resources to instal a permanent roof to her house.

A man (washerman) aged 55 from Jaffna district who built his house with the aid of a NHDA loan of Rs.5,000/- and by borrowing another Rs.15,000/- from a local money-lender at 36 percent annual interest is finding it very hard to meet his loan obligations as his monthly family income is only about Rs.650/-. He and his sons are now canvassing more work for their laundry in order to increase the family income and thereby meet their loan obligations. The family has also cut down on food in order to reduce family expenditure. Though poor, the family regularly repays its NHDA loan.

The economic context of the urban poor is qualitatively different from that of the rural poor. To start with, the eco-

conomic ties of urban garden families such as those of Navagampura are almost entirely outside the settlement : (See Fernando, Sunimal et al : December 1986). The urban garden is the place to which people return in the evenings after working in various parts of the city. These economic ties external to the local settlement enable the majority of urban garden families to obtain loans; when required, from various patrons and employers. The ties that could link rural families to a TCCS do not exist in an urban context.

Furthermore, the type of income-generating investment that is made by entrepreneurial families of the urban poor is generally a high-risk high-capital investment which differs qualitatively from the low-risk low-capital investment made by the middle-income self-employed persons in rural society. Whereas the latter type of investment can be supported financially by a TCCS, the former type of investment cannot fit into a TCCS loan portfolio. In May 1987, the 'Urban Thrift' at Nagagahapura, off Polhengoda road in Colombo, gave out 10 project loans of Rs.1,000/- each to members to start a small-scale business such as selling eggs, rice, vegetables, kerosene, firewood etc. These loans are payable in 1½ years at 14 percent annual interest. It is still too early to monitor the progress of such loans given through an 'Urban Thrift'.

A study of the Urban Thrift at Gotamipura off Gotami Road (TCCS established in February 1986) and Nagagahapura (TCCS established in November 1986) in the city of Colombo showed that in an urban context TCCSs perform an important function in providing emergency loans to its members. Whereas in the rural context an emergency loan of Rs.100/- or more can be very easily obtained on trust without any interest from a relative, friend or neighbour to be returned in a day or two, in an urban context such a loan carries an interest rate of 10 percent per day. Often such a loan of Rs.100/- or more also requires security in the form of a chair, a saree, a piece of clothing or a piece of furniture. In both 'Urban Thrifts' studied; a substantial number of emergency loans of Rs.100/-, repayable in one month, have been given out to members at an annual interest rate of 14 percent. The repayment rate of emergency loans in 1986 at Gotamipura was 94 percent. NHDA housing loans under the UHSP however have not been given through TCCSs in Colombo.