

SAVINGS AND INVESTMENTS: MANAGING THE CRBs PORTFOLIOS

A Study of four selected CRBs in the Kelaniya MPCS Area

U. Ajitha Tennakoon

Lecturer in Economics,

University of Kelaniya

Rural Banks in Sri Lanka mark their 25th anniversary of operation in March 1989. The People's Bank sponsored a scheme of rural banks from 1964 and this was a significant innovation in extending the limited banking facilities then available to serve the rural areas. The People's Bank was to be the apex hub of a network of rural banks in a system which would be a blend of the advantages of unit banking and branch banking. In the last two decades and especially since the re-organization of the co-operative sector in 1972, the Rural Banks have grown rapidly. After 1972, the Rural Banks came to be named Co-operative Rural Banks (CRBs). In mid 1988 (30.06.88), 282 Rural Banks were in existence and there were a further 685 special branches affiliated to them. The expansion of the institutional financial network to the rural sector made a notable contribution to its upliftment in recent years.

Recently there have been many reports studies and theoretical discussions of the role of credit in rural development.

The importance of credit in the economy of the rural sector, and especially for the paddy farmer is a factor that engages in all these discussions. In these circumstances there have been great expectations in Sri Lanka from the banks as well as developmental agencies. One advantage of using the Rural Banks

to channel credit to the small farmer is that they are part of a very wide network throughout the island serving the highly scattered rural people. Another advantage is that people even in the remotest villages have been associated with the co-operative movement known in Sri Lanka for almost 70 years. How far these banks have served the varying needs of the rural people and their potential is the subject of this study.

Objectives of the Study

The study objectives are listed below as follows:

1. To examine the trends of the Deposits and Advances portfolios of the selected CRBs.
2. To analyse how far the selected CRBs have been successful in mobilizing rural savings for the development of the sector.
3. To compare the study results with the overall performance of CRBs in Sri Lanka.
4. How modifications could be introduced to the CRBs.

Methodology

As at end of 1988, the total number of CRB offices stood at 6 in the Kelaniya MPCS area in the Gampaha District. This study is based on field work carried out in 4 selected CRBs in the Kelaniya MPCS area namely Wedamulla (1973), Kelaniya (1981), Wanawasala (1981) and

Peliyagoda/Pattiya (1986). Since there are six CRBs spread all over the Kelaniya MPCS area, it is difficult to make an indepth study of savings and investment portfolios of all the CRBs. Therefore, 4 CRBs are selected on a purposive basis.

A detailed study of the performance of these selected CRBs with varied experience was undertaken for the period 1981-1988. Accordingly, from the available records at the Kelaniya MPCS and the CRBs, their savings and advances were obtained for the period from 1981 to 1988. When clarifications were necessary, they were obtained from the officials of the MPCS as well as the CRBs. The figures are regularly audited by the officials of the Co-operative Department.

Further, for the purpose of comparison with the overall performance of CRBs in Sri Lanka the published data on deposits and advances were also collected from available sources.

Deposits of the Selected CRBs

Under the rules of the CRBs any member of the public, whether a member of the MPCS or not, could deposit money in the rural bank.

Total Savings and Fixed Deposits of the selected CRBs by the end of 1988 amounted to Rs.9,546,000. This was an increase of Rs.1,690,000 or 22 percent compared to the position as at the end of 1987. All these four CRBs have made remarkable progress in deposit mobilization as shown in Table 1. For example, the deposits with the Wedamulla CRB at the end of 1981, was only Rs.1,276,000

TABLE 1 DEPOSITS OF SELECTED CRBS IN THE KELANIYA MPCS AREAS 1981 TO 1988

Year	Wedamulla			Kelaniya			Wanawasala			Paliyagoda-Pattiya		
	Savings Amount	Fixed Amount	Total Amount	Savings Amount	Fixed Amount	Total Amount	Savings Amount	Fixed Amount	Total Amount	Savings Amount	Fixed Amount	Total Amount
1981	845	431	1276	57	16	73	-	-	-	-	-	-
1982	1366	619	1985	207	81	288	166	43	209	-	-	-
1983	1632	657	2289	457	58	515	345	103	448	-	-	-
1984	2057	534	2591	551	82	633	599	153	752	-	-	-
1985	2916	244	3160	856	33	889	575	154	729	-	-	-
1986	3207	292	3499	1167	108	1275	933	158	1091	182	15	197
1987	3861	451	4312	1414	104	1518	1255	263	1518	499	9	508
1988	4576	402	4978	2014	95	2109	1574	110	1684	768	7	775

* Pattiya CRB established in 1986.

Source: Survey of selected CRBs in the Kelaniya MPCS Area.

TABLE 3

TOTAL ADVANCES OF THE SELECTED CRBS - 1981-1988

(Rs.1000)

Year	Wedamulla			Kelaniya			Wanawasala			Peliyagoda-Pattiya		
	Pawning Amount	Short-term Amount	Total Amount	Pawning Amount	Short-term Amount	Total Amount	Pawning Amount	Short-term Amount	Total Amount	Pawning Amount	Short-term Amount	Total Amount
1981	791	31	822	156	-	156	-	-	-	-	-	-
1982	641	31	672	295	22	317	52	20	72	-	-	-
1983	856	24	880	542	53	595	219	53	272	-	-	-
1984	1389	40	1429	728	13	741	426	46	472	-	-	-
1985	1872	127	1889	817	17	834	606	39	645	-	-	-
1986	1956	175	2131	1078	12	1090	735	89	824	-	-	-
1987	1834	181	2015	978	118	1096	688	78	766	384	5	389
1988	2418	174	2592	1406	160	1566	856	50	906	1356	15	1371

Source: Survey Data

and the deposits with the P/Pattiya at the end of 1986 was only Rs.197,000 and the deposits increased nearly four-fold to Rs.775,000 by the end of 1988. Similar progress in deposit mobilization could be seen in the use of the two other CRBs. Increases are more significant in savings deposits than in fixed deposits.

It is significant that these banks have been able to mobilise a large volume of savings from the area, which means that they have acted as a catalyst in mobilizing savings from the operative area.

As at 1981 the number of deposit holders stood at 2818 while in 1988 there were 11,717 deposit holders. This was an increase of 8899 deposit holders or 315 percent compared to the position as at the end of 1981. Although there has been a dramatic increase in the number of deposit holders, the same does not seem to have occurred as far as loan recipients (short-term) are concerned. Thus in 1981 the number of persons making use of loan facilities in CRBs stood at 60. The corresponding figure for 1988 is 145. This was an increase of 85 loan recipients or 141 percent compared to

the rural banks. The line of financing of the CRBs covers agricultural production, animal husbandry, cottage industries, debt redemption, electrification, consumption and relief of distress.

The total amount of short-term loans granted by the four CRBs stood at Rs.399,000 in 1988. The total advances made by the four CRBs under the pawn broking scheme were Rs.6,036,000 by the end of 1988. Thus the total amount of loans (Pawn-broking and short-term) granted by the selected CRBs amounted to Rs.6,435,000 in 1988. Of the total loans granted in 1988, 40 percent had been granted by the Wedamulla CRB and 25 percent by the Kelaniya CRB. The Wanawasala CRB's share of total loans was 14 percent. The relative share of the P/Pattiya CRB in total loans granted was 21 percent. (Table 3 and 4).

Pawn Broking Activities

CRBs also function as a pawn broking agent of the People's Bank. This may be considered the most successful lending operation of the CRBs. CRBs could

TABLE 2 NUMBER OF TOTAL DEPOSIT HOLDERS & LOAN RECIPIENTS OF SELECTED CRBS ON 1981 TO 1988

Year	No. of Total deposit holders (Savings & Fixed)	No. of Loan recipients (Short-term)	No. of Loan recipients (Pawning)
1981	2818	60	1385
1982	5012	72	1258
1983	7466	90	1919
1984	8189	77	2725
1985	8890	63	3388
1986	10040	115	3963
1987	10995	156	4122
1988	11717	145	4517

Source: Survey Data

Both the volume of savings and the number of savers bear witness to this phenomenon (Table 2). The pooling of all these idle funds would make substantial amounts available in the hands of banking institutions for their lending operations. Hence streamlining of the banking operations of these institutions could help a great deal to increase the rural savings and popularize the banking habit in rural areas further. However, it is most unfortunate that the successes achieved in terms of mobilization of deposits have not been matched by improvements in the supply of credit.

the position as at the end of 1981. This shows a very slow growth in number of deposit holders. (Table 2).

Loans and Advances - Short Term Investment Outlets

The CRB scheme recognises the importance of the village level co-operative societies as the medium through which members could obtain their credit requirements for a wide range of essential needs. Those eligible for loans from rural banks are those who are members of the co-operative society and those who already have deposit accounts in

TABLE 4 THE TOTAL AMOUNT OF PAWN-BROKING AND SHORT-TERM LOANS GIVEN BY THE SELECTED CRBS 1981-1988

(Rs.1000)

Year	Total Pawning	Total Short-term	Total Amount
1981	947	31	978
1982	988	73	1061
1983	1617	130	1747
1984	2543	99	2642
1985	3295	183	3478
1986	3769	276	4045
1987	3884	382	4266
1988	6036	399	6435

Source: Survey Data

engage in pawning either with their own funds or after obtaining overdraft facilities from the People's Bank.

In contrast to short-term loans, pawn broking activities have increased very significantly. In 1981 the number of persons who had pawned stood at 1385 whereas this figure had increased to 4517 by 1988. (Table 2). The total volume of pawning advances shows rapid increase. In 1981; the total amount of Pawning Advances, which stood at Rs.947,000 increased to Rs.6,036,000 by 1988.

The data provided in Table 5 shows the purposewise loans given by the selected CRBs taken together. As at the end of 1988, the total advances of the selected CRBs stood at Rs.6,402,000. The highest proportion of short-term loans, namely, 80 percent had been granted for Housing, followed by Debt Redemption (13 percent) and Trade (4 percent). The total amount of loans granted under pawn-broking was Rs.6,036,000 in 1988. Loans under Pawn-Broking accounted for 94 percent of the total advances (short-term and pawn broking). This is the highest item among the total advances.

TABLE 5

PURPOSEWISE LOANS OF SELECTED CRBS AT 31ST DECEMBER 1988

(Rs.'000)

Purpose	Amount	Percentage
Agriculture	1	0.3
Housing	293	80.0
Debt Redemption	47	13.0
Trade	15	4.0
Electrification	-	-
Other	10	2.7
Total (Short-term loans)	366	100.0
Pawn broking	6036	94.0
Short-term loans	366	6.0
Total Advances	6402	100.0

Sources: Survey Data

Savings Mobilization

The net deposit position of the four CRBs showed a significant improvement from 1981 to 1988. Table 6 shows that the total of all CRB deposits have every year exceeded advances (D/A). This table also shows that the banking activities of the four CRBs have increased

TABLE 6

TOTAL DEPOSIT ADVANCES AND NET POSITION OF THE SELECTED CRBS 1981 - 1988

(Rs.'000)

Year	Total Deposits	Total Advances	Differences between T/Deposits & T/Advances
1981	1340	970	+ 370
1982	2482	1061	+ 1421
1983	3252	1747	+ 1505
1984	3976	2642	+ 1334
1985	4770	3378	+ 1392
1986	6062	4045	+ 2017
1987	7856	4266	+ 3590
1988	9546	6435	+ 3111

Source: Survey Data

over the years and it appears that their capacity to mobilize savings has widened as shown by the improvement in the net deposits position. Between 1981 and 1988, the annual excess of deposits over advances has grown from Rs.370,000 to Rs.3,111,000.

Thus, the growing net positive deposit positions in the past indicate that the CRBs in the Kelaniya MPCs area have not been successful in utilizing the resources within the same area from where they were mobilized. There is considerable scope for increasing loans in the area for various activities. However, the total credit provided by the selected CRBs to the area, for a variety of reasons, falls far short of the requirements. This apart, their major emphasis in this sector has been on the provision of short-term finance to the neglect of investment credit which is vital for increasing productivity. Moreover, very little has been done by them for providing credit support to various other activities in the area. As mentioned earlier, the lending of CRBs were confined mostly to Housing, Debt Redemption and Trade Loans and very little had been done in the sphere of investment credit. From this situation it is evident that the rural banking system should adopt a more diversified and positive approach to the development problems of the area.

Considerable improvement observed in net positive deposit positions in an indication of the transfer of funds from the Kelaniya MPCs area to other areas, particularly to urban areas, in spite of the growing credit requirements in this area.

Hence, it is necessary to adopt efficient measures to retain some of these funds in the area for its own development. It is important that banks actively promote mechanisms siphoning off the surpluses that are being generated in the rural areas. A conscious effort must be made to increase availability of these surpluses through credit in the rural sector itself. This in turn would provide incentives for entrepreneurs to locate new economic activities in these areas. This would generate positive employment and income effects. Unless rural banks make an effort to play a more active role in providing credit in the operational area they will continue to be merely a channel through which resources are transferred out of the area to urban centres.

Investment of Surplus Funds

The People's Bank provides facilities for CRBs to invest their surpluses in the form of Fixed and Saving Accounts. In addition CRBs also invest their surpluses in the National Savings Bank when their rates are more favourable. Table 7 shows that investment of all CRBs in the period 1986-88 was at a much higher level than in the previous five years.

This trend shows that under the existing credit system a substantial portion of the deposits mobilized within the area are invested in activities located in other areas which promise a higher rate of return.

The CRBs themselves make their major investments in deposit accounts in the People's Bank and thereafter Rural Savings find their way into the general financial activities of the People's Bank. The more significant of these activities generally belong to the growth areas of recent times namely construction and external and internal trade. Such activities are certainly imported and vital for the development of the economy. But, the importance of this fact is that savings from the rural sector are not being fed back to the rural sector, but are being channelled elsewhere. In this context, one may even say that banks have contributed to the 'development of rural under development' by being instruments of resource transfer.

The WCARRD Report (Report of the High Level Mission on the Follow-up the World Conference on Agrarian Reform and Rural Development in Sri

TABLE 7

USES OF RESOURCES OF ALL CRBS IN THE KELANIYA MPCs AREA
1981-1988

Year	People's Bank	National Savings Bank	(Rs.'000)
			Total
1981	200	-	200
1982	600	250	850
1983	450	-	450
1984	200	-	200
1985	200	-	200
1986	1050	-	1050
1987	2550	-	2550
1988	1850	1000	2850

Source: Survey Data

Lanka, July, 1979, p.21) has emphasised in its study that "in effect the rural surplus is extracted by the banking process mainly for use outside the rural sector (viz. urban and rural elite consumption, industry, trade, services, etc.) leaving the rural sector in a chronic and worsening condition of rural under development." Under these circumstances, CRBs have been called upon to review their strategies and approaches to meet the needs of the rural people.

Overall Trend

We can now compare the result of overall performance in Savings Mobilization by CRBs in Sri Lanka with that of the study result. The data provided in Table 7 show the growth in number of the CRBs, and their aggregate deposit and advances since 1981. As at 30th June 1988, the total number of CRB offices stood at 967. As against total deposits of Rs.1,750 million, at mid 1988, total advances amounted to only Rs.742 million; resulting in a surplus of resources with the rural banks to the tune of Rs.1,009 million. Between December 1981 and June 1988, the annual excess of deposits over advances has grown from Rs.162 million to Rs. 1,009 million. According to districtwise data provided by the Central Bank of Sri Lanka, (Economic Review - 1987) only Trincomalee District had the reverse situation and the highest volume of excess deposits of Rs.161.6 million was reported from Gampaha District. An increasing trend in excess resources has been observed over the last 8 years. Despite, the substantial growth in resources, CRBs have made very little attempt at channelling funds for productive investment purposes locally.

The WCARRD report (1979, p.34) also emphasised this trend as follows:

"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,

(i) Unit banking functions have not 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."

In the majority of the districts in Sri Lanka deposits exceed advances and in effect, the rural surplus is extracted by the banking process mainly for use in the urban and trade sectors leaving the rural sector in a worsening condition of under development. The Central Bank of Sri Lanka has emphasised this situation in its Review of the Economy for 1986 as follows:

"The growing excess of deposits over the loans indicates that over the last decade an increasing volume of resources had moved to urban centres from rural areas. However, such transfer of funds from rural areas may not be due to a lack of demand for credit in rural areas. There is a demand for capital, particularly medium and long term investment capital, for development purposes such as agriculture, fisheries, animal husbandry, and small industries in rural areas. Therefore, as repeatedly pointed out in earlier years, the Rural Banks should explore the possibilities of expanding their credit portfolio for development oriented purposes. The Rural Banks should develop necessary institutional infrastructure for expansion of their lendings for various economic activities in the rural sector. (p.51)

Conclusion

Rural development has always been regarded as of crucial importance for promoting economic development of the country. Similarly, the role played by credit in promoting economic activities have never been in doubt. Traditionally the rural sector in Sri Lanka has depended on non-institutional sources for

TABLE 8

TOTAL DEPOSITS, ADVANCES & NETT POSITION OF THE ALL CRBS
IN SRI LANKA - 1981 - 1988

Year	No. of CRBs	Deposits Total Amount	Advances Total Amount	(Rs.'000)
				Difference between T. Deposits & Advances
1981	746	434048	262596	+ 162453
1982	804	541484	329272	+ 212272
1983	843	717981	391612	+ 326369
1984	888	905490	508247	+ 397243
1985	914	1087536	574811	+ 512725
1986	932	1295595	657775	+ 637820
1987	955	1560178	708782	+ 851396
1988	967	1750845	742273	+ 1008572

21

credit. The major problem of informal lenders is the high interest rate, which necessarily increases the cost of production when used for productive purposes. On the other hand, if credit is supplied from institutional sources at cheaper rates the cost of production can be reduced substantially. In this respect, there have been great expectations from CRBs as rural level development institutions. Moreover, the vicious circle of poverty in the rural sector provides the key note to the use of banking as a tool for development.

Despite the substantial growth in resources, rural banks have made very little attempt at channelling funds for productive investment purposes. Instead, CRBs were attracted to short-term investment outlets in the money market.

The growing net positive deposit positions of the CRBs indicate that the banks have not been successful in utilising the resources in the same areas from where they were mobilized. However, this may not be due to the lack of demand for credit in these areas as undoubtedly there is considerable scope for increasing loans in these areas for agriculture, animal husbandry, handicrafts, trade, services and various activities. On the whole, it appears that transfer of resources from rural areas to urban and trade areas continues to take place via the CRBs as indicated by excess of deposits over advances made by these institutions.

Since the rural economy requires a substantially higher amount of institutional finance than what is granted now for its development this situation has to be changed soon enabling the rural sector to obtain a larger volume of credit. However, experience shows that the CRBs developed under People's Bank are influenced and have developed on the same lines as the People's Bank itself and do not appear to have an identity of their own as a rural based institution. It can be said that rural banking in Sri Lanka still suffers from deep structural weakness in relation to the development requirements of the rural economy. A new approach, a new attitude, and a different methodology is therefore necessary to meet the needs of the rural people. Their main emphasis will be on providing credit support to the activities which are capable of generating employment and raising income levels of households in rural areas.