

# DEVELOPMENT BANKING —

## AN OVERVIEW OF THE PERFORMANCE OF THE PEOPLE'S BANK

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The People's Bank the pioneer in rural credit at a time when the Round I of the government's poverty alleviation programme Janasaviya is near completion celebrates its 30th anniversary. On this occasion, it is appropriate to review and relate some of the attempts by the People's Bank over the last 3 decades in banking for the poor.

People's Bank was established on 1st July 1961, by an Act of Parliament to satisfy the pressing need for institutional credit to flow to the rural sector and other low income groups. The groups have been neglected by the existing financial institutions, which catered more to the needs of the affluent people in keeping with the principle of conservative traditional banking of financing commerce and other safer avenues of lending.

It is to fill this wide gap, section 4 of the Act mandated to People's Bank "to develop the co-operative movement, rural banking and agricultural credit by furnishing financial and other assistance to co-operative sectors, approved societies, cultivation committees and other persons". Thus the People's Bank was established as a bank for the poor man. The first Chairman of the bank, Mr. Vincent Subasinghe, a dedicated, veteran co-operator with a broad vision of the economic needs of the rural masses ensured that all the energies of the new banks were diverted towards the economic upliftment of the rural poor.

People's Bank adopted strategies which in a way revolutionized the concept of

banking in Sri Lanka. Thus it would not be an exaggeration to say popularisation and peoplisation of banking in Sri Lanka commenced with the establishment of People's Bank.

### Pawn Brokering

At the inception itself, People's Bank launched a scheme of pawn brokering to provide relief to ordinary people from indebtedness. This was first such project by commercial bank in the world.

Prior to the 1960's, pawning was the monopoly of a few, non-nationals who fleeced the people by charging exorbitant interest rates. The high cost of security and insurance forced the bank to charge a high rate of interest (compared with other lending rates of the bank). Still even the present rate of 30% p.a. is definitely much lower than the rates charged by private pawn brokers. The bank has also taken steps to charge a differential lower rate of interest of 20% p.a. for smaller advances upto Rs. 1000 in order to provide relief to the lower income groups. The bank has as at 30.04.91 advanced Rs. 3,067,000 to 967,792 pawners. The bank has been able to win the confidence of the large segment of the population over the years through this scheme.

### Co-operative Rural Banks and Co-operative Sector Lendings

The decision to set up co-operative rural banks was made in 1964 within 3 years of the bank's establishment. Over a period of 25 years over 1000 co-operative rural banks have been established all over the island. The co-operative rural banks have been successful in mobilising deposits from rural areas. As at 31.12.90, the total deposits of the rural banks stood at Rs. 2,497,322,703 from

2,714,372 depositors. However, the lending to the rural sector by the CRBs has not been adequate. The volume of loans granted by the CRBs in relation to their deposits is low. However a substantial sum of Rs. 1,450,886,682 has been disbursed by the rural banks all over the island, mostly in rural areas. The People's Bank, as financier to the co-operatives, has granted a sum of Rs. 1,406,972,806 to the co-operative sector to finance the government food distribution and food stamp programme. Almost the entire financial requirement of the Multi Purpose Co-operative Societies are provided by the People's Bank at a comparatively lower rate of interest.

### Lendings to the Agricultural and Fisheries Sector

In the year 1967, for the first time in the history of agricultural credit in Sri Lanka, the People's Bank took steps to provide credit to the agricultural sector with government guarantees and refinancing from the Central Bank. Prior to 1967, agriculture credit was disbursed through government departments while due to lack of post and pre sanctioned supervision, recovery has been very poor and over the years, these loans had to be written off.

With the taking over of the agricultural credit scheme by the banks the volume of credit disbursed increased. Though the recovery had not been that encouraging under the banks agricultural credit scheme, People's Bank has advanced a sum of Rs. 2,313,968,000 and recovered a sum of Rs. 1,496,383,000. A balance of Rs. 817,585,000 is outstanding as at 31.12.90. Agriculture credit had remained a complex problem so that banking sector alone is not in a position to remedy these problems which should be viewed from a broader perspective.

However, the farmers who have been borrowing and paying regularly over a period of time are served satisfactorily by the bank. Recently, the bank in order to encourage farmers to pay up their loans, introduced the farmers' credit card and a certificate which entitles them to get a wide range of concessions from the bank.

Besides lending to the agricultural sector, the bank has been actively financing the fisheries sector too. The bank extends credit to fisheries sector and over the years large sums have been granted as fisheries loans under several

credit schemes designed to assist the fisher folk. As at 31st May 1991 a sum of Rs. 111,589,913 has been granted as loans to 2435 fishermen.

### Inculcating banking habits

In an article of this nature, it is noteworthy to analyse to what extent People's Bank contributed towards inculcating the banking habit among the people of this country. The bank started its banking activities by lowering the initial deposit requirements for opening both current and savings accounts. This measure attracted a large number of clients to the bank from among the lower income groups. Besides, the bank took bold decisions to cater to the credit needs of the poorer sectors of the society by lending very small sums as advances, most of which ranged from around Rs. 250 to Rs.500. Those of us who are familiar with this period can recollect long queues of ordinary persons, in front of the People's Bank branches awaiting their chance. Most of those who queued up were workers (like Port workers, Railway employees, C.T.B. workers, Hospital workers, Minor employees of government departments, Clerks and School teachers) who were denied banking facilities by the established banks.

The bank's dynamic rapid branch expansion programme in the urban and rural areas too had a significant impact in

popularising the banking habit among the people throughout the island. Today the People's Bank has 324 branches. This expansion programme spurred the other banks to open branches in semi urban and rural areas to provide quality banking service to the people. People's Bank was also the first bank to use Sinhala and Tamil in the daily transaction of business with the customers.

### Recent attempts at development lending

Through the People's Bank was actively engaged in development banking activities in the first decade of its existence, in the second decade, one would notice a change of emphasis from development banking to that of commercial banking. More attention is being paid to enhancing profits of the bank. There is competition between the two State Banks for commercial banking activity. As a result, bank employees and managers have begun to take the easy way to increase profits by lending to people who come to them rather than going to the people doing development type of banking. Thus during this decade, one would notice the drift of emphasis from serving the poor to serving the affluent with the motive of making high profits to make People's Bank a leading commercial bank in Sri Lanka.

In the latter part of the third decade,

there has been a reversal of this trend. The poverty alleviation programme of the government has prompted State Banks to re-design their policies accordingly. Therefore, the bank has launched several credit schemes to cater to the needs of the lower income groups.

The main objective of these loan schemes is to create self-employment. These loan schemes have been so designed that the emphasis is on the ultimate viability of the project and not of collateral.

There are twenty two development credit schemes launched during the last few years, mainly during the last three year period. Some of these schemes are implemented with the Sri Lanka Central Bank refinance arrangements. It has been noted that during the short period of operations, some credit schemes have become very popular and the bank has been able to grant a large volume of loans to the poor and the needy in the rural sector.

Praja Naya Niyamaka Scheme is another innovative credit scheme implemented by the two State banks on the decision of His Excellency, the President.

The following figure highlights the progress of some of the popular development loan schemes.

In implementing this scheme first, the bank had to face certain teething problems. But after three years of operation, it is clear that this scheme is viable and is immensely beneficial to overcome informal rural indebtedness with very little risk to the Bank.

As at 31st May 1991, the number of Praja Naya Niyamakas affiliated to People's Bank is 4155. The amount of loans granted to them is Rs. 185,590,000 and the number of beneficiaries (sub-borrowers) is 49,153 to whom a sum of Rs. 192,672,360 has been granted.

### Conclusion

In conclusion one could say that over the past thirty years, the People's Bank had taken several innovative measures to uplift the socio economic conditions of the poorer sectors of the society. In these attempts, it has deviated from traditional areas of commercial banking activity and ventured into areas of developmental banking activity keeping a very delicate but a fine balance between the two.

