

VIEW-POINTS ON RURAL BANKS

AN INTERVIEW WITH THE PEOPLE'S BANK'S FIRST CHAIRMAN,

MR. VINCENT SUBASINGHE

Q: The Rural Bank Scheme was your brain-child and these banks were originally set up when you were chairman of the People's Bank. How did you conceive of such a scheme?

A: The People's Bank was established in the year 1961. Its first branch was opened in a section of the YMBA building in Fort, Colombo and gradually more branches were established in various parts of the island. At the end of the first two years there were a total of 20 branches spread throughout the country. At this stage visits to these branches were undertaken by me and some other bank officials to ascertain how effectively these branches were functioning and we had detailed discussions with the officials of the Co-operative Societies during such visits. We were informed that although the Bank served the businessmen and middle class in these areas, the services rendered by it to the rural sector, such as the small scale farmer or persons engaged in animal husbandry, carpentry, the handloom industry and in various domestic industries was at a minimal level. This fact prompted us to consider and conceptualise ways in which we could assist these neglected sectors as well.

An article I read in a journal, when I was a boy, about the "Penny Banks" came to mind. All students of a school were called upon to deposit a penny per week in the Children's Bank in their school. The money thus collected was used to purchase and supply items that were useful to them, such as books and stationery, at wholesale prices from the merchants and these were retailed at a minimum price.

It also reminded me of how, during my young days, the peasants of our village used to deposit sums of money weekly with certain merchants of the village. This scheme was called the "Box Scheme" or "Chettu System" and even my mother and the domestic aids in our house used to deposit money in this manner. At the end of a year

or two years, the merchant repaid the sums collected from each depositor with an additional amount which could be called the interest in today's context.

Another important episode which influenced my conceptualisation of the Rural Bank Scheme was in the year 1952 when I had to pay a visit to Oxford in England with my son, who was taken there for medical attention. During this visit I had the opportunity of meeting certain individuals who had undertaken a consumer business in the city and the district. A prominent feature I observed in their business was the depositing of money by a majority of the members of this society, on a particular day of the week, at their society centre. This activity amounted to a banking function to some degree. This example was adopted by me later when I returned to my village and started the

"Oxford Co-operative Society Deposit Scheme, among the members of the Sandalankawa Co-operative Society. The rural peasant could come to the Society and deposit a minimum sum of cents 25 or more at a time and the receipt was acknowledged in the form of a label which was pasted onto the pass books they were issued. The total sum collected in this manner exceeded Rs. 8 million. An annual interest of 6 percent was also paid on these deposits. The successful implementation of this scheme was a major factor that influenced my conceptualisation of the Rural Bank Scheme.

Q: Could you now elaborate more on how you endeavoured to implement your new concept through the People's Bank and the action that followed in this connection.

A: Before the commencement of the Rural Bank Scheme here I had the opportunity to visit the Madras region in India, where such a scheme was already in operation. I used this opportunity to observe and examine the activities of some selected Co-operative Rural Banks in this region, through the courtesy of the Registrar of Co-operatives of Madras. On this visit undertaken by me at my own expense, I gathered valuable information and experience about various aspects of

the Co-operative Banking sector in Bombay and other places. I also furthered my knowledge in these aspects as a result of some briefing sessions I underwent for a number of days with some key officials of the Reserve Bank of India. After these experiences, steps were taken to send the then General Manager, Mr. Solomons and also Assistant General Manager, Mr. Amerasinghe to these places which I toured in India and they too came back with invaluable experience. Although Mr. Ranjith de Livera could not undertake this tour himself he was well briefed of the developments and was a prime force in the establishment of the Co-operative Primary Banks.

Q: What are your observations about the present condition of the Rural Banking Scheme, and what measures would you recommend to overcome any shortcomings and weaknesses prevailing in the system?

A: Today the rural banks numerically amount to nearly 900 with special branches. At the present trend I expect the number to exceed 1,000 by the end of 1984. If this happens, within a time span of 20 years the number of rural Banks would have exceeded 1,000. My wish is that at the end of the next 20 years of its operation, every Grama Sevaka Division should see the establishment of a branch of its own. What is clear by this situation is that the Rural Bank scheme has not only lived upto its original expectations, but also has become a most important institution helping the rural sector. I take this opportunity to express my gratitude and thanks to the various Chairmen, Board's of Directors and the officials of the People's Bank who have endeavoured to develop and expand the Rural Bank Scheme which I initiated in order to disseminate its services among the rural community. At the same time I believe though the Rural Bank Scheme has expanded there yet exists a considerable capacity for the expansion of its services. If new schemes could be implemented to utilise the funds deposited at the Rural Bank's through Regional Co-operative Societies, to commence various new industries, small scale business concerns etc. with a view to uplift the rural economy, it would be a great step forward.

**AN INTERVIEW WITH THE PEOPLE'S BANK'S PRESENT CHAIRMAN,
DR. S. T. G. FERNANDO**

Q: Today the Rural Banking Scheme is being expanded despite a number of shortcomings. Could you kindly elaborate how such a situation could prevail, with particular reference to the responsibility of the People's Bank.

A: From the very start there existed a close association between the People's Bank and the Rural Banks. The Rural Banks were established with a view to meet the needs of the rural community. These Rural Banks assist the rural community by way of extending credit facilities for the agricultural and other investment needs and requirements of the sector. The People's Bank provides these credit facilities at very low interest rates. The extension of such credit by us to the Rural Banks and the Co-operative Societies, at very favourable interest rates, has been of tremendous importance of their development.

There is a common belief that the People's Bank invests the money that it earns, through the Rural Banks, in urban areas and thereby the greater benefit of this activity is directed towards the urban community. Although there is a certain truth in this belief to a large extent there seems to be a misconception. The majority of the People's Bank branches are located in rural areas and these are managed by well trained and experienced managers. When a proposal for an investment

I also would like to suggest a scheme to establish centres to support and service the newly settled villages under the Mahaweli Programme, and also marketing centres to assist them to market their produce.

Finally, I would extend my blessings for the future of the People's Bank, which has attained a commanding position among the other competing banks in Sri Lanka. It is my belief that if the People's Bank pays more attention than at present to the rural sector it would further enhance the development of this sector in all aspects.

is brought before them, it is carefully examined by them for its viability in all its aspects. This means that we cannot accept every proposal that comes to us. Thus, there occurs a considerable excess of funds in the Rural Banks, which in a way is a favourable situation. When credit is granted it has to be done adhering to certain accepted norms and principles and not arbitrarily.

There are a number of shortcomings in the Co-operative Societies which can appear in the Rural Banks too; while certain Co-operative Societies are in the red by trying to engage in types of investment which are beyond their capability, some of the officers of these societies are even inclined towards corruption. It is true that the People's Bank has been rather reluctant to invest in such Co-operative Societies. I do not say that all Rural Banks and all Co-operative Societies are in the same position but such a situation prevails in a number of Co-operative Societies.

Q: It is said that the weaknesses of the Co-operative Societies hinder the progress of the Rural Banks. What remedial measures would you suggest the People's Bank should take to avoid such a situation?

A: Well, in a way it is difficult for us to take the total responsibility here. We cannot accept the total responsibility since it is the Central Bank of Ceylon which has greater responsibility. It is required to appoint well trained experienced staff to the Rural Banks which are not in a sound position and this staff has to be adequately remunerated. Also a constant check on their activities is very necessary. An occasional check by an officer from our Bank is totally insufficient. Above all, prior to establishment of rural banks either the Central Bank or the Department of Co-operative Development must look into these Co-operative Societies and should take remedial measures and then we can help them to run smoothly by assisting them with guidance from our officials. We cannot im-

pose conditions on Co-operative Societies which fall within the purview of the Department of Co-operative Development. Our responsibility generally has been activity such as examining whether there is a proper maintenance of books, how they extend credit facilities or advice when a change in the rate of interest occurs. However, the People's Bank cannot closely scrutinise all activities of the Co-operative Societies.

Q: It has been two decades since the Rural Banks were established and there are almost 900 in operation today. If one is to envisage a development of the rural sector through these banks they would have to be highly efficient in future. Could you illustrate the future plans for them?

A: I do not think that it is a healthy practice to open Rural Banks rapidly. Before I was appointed Chairman of the People's Bank nearly 20 to 30 Rural Banks had been established annually. But since my appointment we have changed this system. Opening up Rural Banks without having the necessary trained staff and other facilities is not a prudent practice. If large amounts of advances fall into the category of past dues, what point is there in such an exercise? Therefore establishment of Rural Banks without necessary infrastructure clearly amounts to unproductive activity. Therefore what is required now is to have this staff well trained and effect proper management according to the banking rules and regulations. It is required to effect a change in attitudes of the public about the weaknesses of the Rural Banks and for this, as I said earlier, the proper management of these Rural Banks by trained staff is essential. When shortcomings and weaknesses are spotlighted in the media existing goodwill and public confidence is eroded.

Q: Recently the Hon. Minister of Finance has proposed the setting up of a Regional Rural Banking Scheme under the auspicious of the Central Bank. If such a situation arises would this amount to a threat to the further development of our Rural Banks Scheme?

These 3 interviews are translated from the Sinhala original in the Bank House Journal, "Bank and You".

A: Well, if such a scheme is inaugurated by the Central Bank this will be a motivating factor for us to increase the efficiency of our Scheme just as in the case of what had happened with the arrival of foreign banks in Sri Lanka. Therefore, as I stated earlier we have to maintain a favourable image in the eyes of the public. We must reap the maximum benefits from this competition. We have a high degree of self confidence and we will be able to face up to any competition. If these proposed Rural Banks are established we shall endeavour to maintain our Rural Banks in an exemplary condition. If we work hard and efficiently there is no reason to fear any competition. For example, what were the effects on our activities from the competition of the foreign banks? Although this move stirred initial fears we have been doing much better ever since. Therefore, what I can say of the competition from the proposed Rural Banks of

the Central Bank is that we shall face upto this task through the internal necessity arising from such a situation.

**THE GENERAL MANAGER
PEOPLE'S BANK
MR. P. B. RATNAYAKE**

We have not forgotten the Rural Banks and are always willing to assist them in all their activities to increase their level of efficiency. The popularity of this scheme is amply demonstrated by the vast number of the Rural Bank branches that have been established so far and are to be established in future. Although, unlike at the inception, the direct inspection of these banks from the Head Office has become less practicable, we have continued to carry out this activity through our island-wide network of branches. This is done in three ways. There is a form of control and supervision from the Head Office; and also by the Regional Office and through the Bank branches. Further, we conduct frequent discussions with the officials of the Department of Co-operative

Development, and of the National Co-operative Federation, with a view to being constantly alert to the needs and developments of the system.

One may find while a particular Co-operative Society functions at a weaker level, yet the Rural Bank attached to it is strong and therefore there is the ability for this Rural Bank to develop the society with which it is associated. To activate this process smoothly it is essential that we overlook their functioning. It is most heartening to see the majority of Rural Banks and their associated Co-operative Societies function profitably today. As a result of these activities of the Rural Bank's we see a re-awakening trend in the rural sector today and we should endeavour to safeguard this trend in future. The capacity of the Rural Banks to develop economic, social and cultural bases of the rural community is tremendous. I believe if we could bring about this change effectively with the help of our Bank, it would amount to a development of not only a section of the community but of the whole system as well.

REGIONAL RURAL BANKS IN INDIA

The developments in the Co-operative credit structures were not free from distortions. There were constant allegations that the Co-operative credit flowed mainly to large cultivators, irrespective of the different legal and other provisions employed to safeguard the interests of the weaker sections of the society. As usual bulk of the weaknesses lie in the areas of deficient and ineffective lending policies, inadequate and untimely credit, lack of supervision over use of credit and the inability to develop the climate and culture for timely repayment causing heavy overdues. Thus the co-operative credit structure was not adequately equipped with fool-proof systems to ensure social equity aspect of credit. Secondly the increasing defaults, posed another serious question as regards to the viability of these institutions. Side by side with them came the problems of misappropriation and misuse of loan funds.

A view expressed was that "In the total scheme for bridging the credit gap in the agriculture sector, the major difficulty is that the co-operative banking sector which has a very

wide organization at the field level is unable to mobilize deposits",

A system of Regional Rural Banks was established in 1975 to combine the local feel and familiarity with rural problems which co-operatives possess and the degree of business organization ability to mobilize deposits, access to central money markets and a modernize outlook which the commercial banks have..." in the context of the vastness of the country and its rural economy, where bulk of the population are depending on agriculture and allied activity for living, the infrastructure for credit provided by the co-operative banking system side by side with the public sector banks was found to be quite inadequate. Therefore the decision to establish RRBs was taken with a view to supplement the present institutional arrangements for providing rural credit. Thus in India the RRBs emerged not as a competitor to the existing credit institutions but complementary to the massive rural development efforts of the government.

The major objectives of the RRBs according to the RRB act was to development of agriculture, trade commerce, industry and other productive

activities in the rural areas, credit and other facilities, particularly to the small entrepreneurs...". The lending activities of the RRBs were restricted to the weaker sections of the rural community and the jurisdiction of each RRB was confined to a specific district or a number of districts. The paid up share capital of a RRB is subscribed by the Central Government, State Government and the sponsor bank in the ratio of 50:15:35.

The operational guidelines of RRBs are prepared and issued by the Government of India, Reserve Bank of India and the National Bank for Agricultural and Rural Development (NABARD).

The performance of RRBs are given in tables I and II, which indicate a very impressive rate of growth of this scheme in India. The total number of RRBs that stood at 6 by the end of 1975 increased to 60 in 1979 and further 141 towards the end of the

first quarter of 1983. The number of branches grew at a much faster rate and by the first quarter of 1983 there were 6458 branches covering 246 dis-

TABLE I
OVERALL PROGRESS OF THE REGIONAL RURAL BANKS
(DECEMBER 1975 – MARCH 1983)

(Rupees in lakhs)

Sl. No.	Performance Indicators	December 1975	December 1979	March 1983
1.	Total number of RRBs	6	60	141
2.	Number of RRBs setup during the year	6	9	17
3.	Total number of branches	17	2420	6458
4.	Number of branches added during the year	17	667	267
5.	Average number of branches per RRB	3	40	46
6.	Number of States covered	5	17	22
7.	Number of districts covered	11	121	246
8.	Percentage of (7) to total districts	3	31	63
9.	Deposits:Accounts			
	a) Overall	N.A.	2580274	8146641
	b) Per RRB	N.A.	43005	57777
	c) Per branch	N.A.	1066	1261
10.	Deposits: Amount			
	a) Overall	20.00	12321.63	50154.37
	b) Per RRB	3.32	205.36	355.70
	c) Per branch	1.17	5.09	7.77
12.	Advances: Amount			
	a) Overall	10.00	16740.85	60284.81
	b) Per RRB	1.71	279.01	427.55
	c) Per branch	0.60	6.92	9.33
13.	Per Account			
	a) Deposits(actual)	-	478	615
	b) Advances(actual)	-	1021	1578
14.	Credit-Deposit Ratio	50	136	120

N.A. = Not Available

districts and 22 states in India. Another notable feature is the impressive growth recorded in the areas of deposits and advances that demonstrate an emergence of a favourable credit deposit rate of 136 in 1979 and 120 in March 1983.

This impressive performance however should not be overestimated, since the RRB scheme was not free of

constraints and shortfalls. There are a number of serious constraints which scheme in India. Although the RRB programme receives a considerable subsidy from the state, it also undergoes a severe pressure from the state itself to reach ambitious credit targets based on non objective credit criteria. When proper infra-structure and supporting services are not forthcoming the possibilities to reach full potential benefits get narrowed which ends up in increased credit delinquency. Thus

by March 1983, the overdues exceeded 22 per cent of the outstanding credit and there is fear that the future of RRBs will not be different from co-operative banks. The situation was aggravated by the decisions of some state governments to write-off or scale down the co-operative debt, that always adversely affect the overall repayment climate.

Another issue worrying RRBs is the question of the viability of this institution. Though the viability and profitability of RRBs have to be reconciled with the social objectives for the setting up of RRBs it should be noted that no institutional structure will survive if they make continuous losses. Studies conducted by the Reserve Bank of India have shown that on an average, a RRB would require about 6 years time and a network of 70 branches to become viable. It had further noted the necessity of reaching "an outstanding loan business level of Rs. 80 million and also enjoying a margin of 5 per cent between the borrowing and lending rates. However in the light of the increasing deposit rates and establishment of upper limits of lending rates by the National Bank for Agricultural and Rural Developments the possibilities to maintain a 5 per cent margin may not be practicable.

Although RRBs are expected to be treated as the development wing of the state, in a number of states these banks had not received the minimum expected patronage. As a result of the lack of minimum basic amenities, shelter and other infra-structure which have to be provided by the state governments the initial enthusiasm of the RRB employees is slowing down. All these problems would suggest that the future of the RRBs depends on the effectiveness of the Union Governments, the State Governments, the Reserve Bank of India and the NABARD in overcoming these constraints that more or less hampers the proper operation of the co-operative banking structure.