

ORIGINS OF COOPERATIVE RURAL BANKS AND THEIR EARLY YEARS

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The Rural Banks Scheme started by the People's Bank in 1964, through the Multipurpose Co-operative Societies, after three years of the Bank's operation, was aimed at expanding banking facilities among the rural population and thereby intensifying economic activities in the rural sector. This was considered an essential step in the People's Bank's programme of mobilizing rural savings for rural credit through the Co-operative Movement. At a time when almost all the existing commercial banks' services offered were mainly outside the rural sector, the beginning of the Rural Banks Scheme, which was devoted to the development of the rural sector, was an innovation in the country's banking system.

People in the rural sector, who represented about three-fourths of the population in the country at that time, were engaged mainly in small scale farming, and other economic activities such as fishing, handicrafts, other cottage and small industries and trading; and they made a considerable contribution to the national economy. These people in the rural sector obtained their financial assistance at a higher cost, as it came mainly from the informal money market. The only significant institutional credit source was the village Co-operative which provided short term credit facilities to a very limited level but at a lower price.

The history of the financial assistance from the Co-operative sector can be traced back to the beginning of this century. In 1906 there were two known Co-operative Credit Societies at Teldeniya in the Kandy district and at Weligama-Koralé in the Matara district.

Beginnings of Co-op Credit

The Agricultural Banking Committee appointed in 1909 pointed to the seriousness of indebtedness in the traditional rural sector. This Committee advised that Co-operative Credit Societies be established as they would give credit at a reasonable price to the village farmer, who could then invest in his economic activities and earn a reasonable profit. The Co-operative Credit Societies were legally established only after 1911 under the Co-operative Credit Societies Ordinance No. 7 of that

year. The first Co-operative Credit Societies under this Ordinance was of the unlimited liability type, where the members of these Societies were individually and jointly liable for the debts of the Society. The first society of this type was formed in 1912. There were two types of other Co-operative Societies in this early period namely (i) Co-operative Credit Societies of limited liability and (ii) Co-operative Thrift and Savings Societies. Co-operative Thrift and Savings Societies mainly comprised of government servants and therefore these societies largely catered to them. Although the main objective of these Societies was savings promotion, they also granted loans upto 75 percent of savings. In later years a good number of these societies were transformed into credit societies of the limited liability type and thereby the credit accessibility of these members was expanded. The Co-operative Credit Societies of limited liability were basically located in urban centres and served the middle class people, like traders and small industrialists, in these areas; though these societies had some roots among village farmers too. Only the Co-operative Credit Societies of limited liability helped the rural farmer by providing him institutional credit even to a limited extent. Over the years all these types of credit societies increased in number, and so did their membership and the amount of loans they granted. For example the total number of credit societies of unlimited liability, Credit Societies of limited liability, and Thrift and Savings Societies increased from 315 in 1926 to 1,786 by 1942. The membership of all these societies (including other types) increased from 41,164 in 1926 to 91,988 by 1942. The resources of these societies were not sufficient to cover the granting of credit and therefore to meet this gap in funds they obtained funds from the Local Loans and Development Fund established in 1916 by the government.

In the late 1920s the State Mortgage Bank was set up by the government to provide long term credit facilities. But the small farmer in the village could not benefit from the facilities of this bank since it was operated from Colombo, and had no branches in rural areas. Also,

it adopted a strict standard of valuation and examination of land titles on which mortgage loans were granted by this bank.

Co-operative Banks

With the formation of Co-operative Banks at the end of the 1920's a new period was started in the Co-operative Credit system. These banks were called Co-operative District Banks or Co-operative Provincial Banks, and were formed by affiliating the Primary Co-operative Credit Societies in the respective areas and regarding these societies as the members of the banks. While these banks accepted time and savings deposits from the Co-operative societies as well as the public, demand deposits were accepted only from the Co-operative societies. The first Co-operative Bank - The Central Bank of Jaffna - was set up in Jaffna in 1929. During the next two years another two banks were set up in Kandy and Colombo. By the beginning of the 1960's there were 4 Co-operative Provincial Banks and 11 Co-operative District Banks in the country. However with the increase in number of Co-operative Credit Societies there was a feeling that an apex bank, to serve the entire island's Co-operative sector was needed.

The Banking Commission of 1934 which examined the Co-operative Credit system, accepted that this system had developed satisfactorily and it was this institutional credit system that served the "natives" since the British based exchange banks, at that time, served only the export oriented Plantation and Commerce sectors. The Commission further Central Banks may be setup, an apex bank for the Co-operative sector was not necessary. Instead of an apex bank, they suggested that Co-operative Societies could deal with a state aided indigenous commercial bank which they recommended should be set up. The Bank of Ceylon, the first local commercial bank, was set up in 1939 on the suggestion of this Commission and others. But it failed to associate directly with the Co-operative Societies as originally envisaged. It had very little connections with the rural sector and soon became another export sector oriented commercial bank.

During World War II when the country had to undergo a severe food shortage the government attempted to use the Co-operative system to solve that problem. Co-operative Stores Societies were set up throughout the country

to distribute limited supplies of commodities, and Co-operative Agricultural Production and Sales Societies (CAPS) were established to encourage local food production. Although the main function of the CAPS was to purchase food commodities under the Guaranteed Price Scheme (GPS) these societies were used as agents by the government to channel the loans for cultivation purposes to the farmer. The number of these Co-operative Societies as well as their membership increased rapidly upto 1957 though they were basically state creations rather than voluntary organisations.

Co-op Apex Bank

The setting up of the Co-operative Federal Bank of Ceylon Ltd., an apex bank to the Co-operative Sector, was a further development in the Co-operative Credit System. The failure of the Bank of Ceylon to deal directly with the Co-operative Sector, particularly the development of the Co-operative Societies and the Co-operative Provincial and District Bank led the way to establishment of the Co-operative Federal Bank by the late 1940's. The Federal Bank was registered under the Co-operative Societies Ordinance of 1936. Its objectives were to carry on banking and credit business, to act as a balancing medium for the surplus funds of societies, to supervise inter-lending among Societies, and to provide educational assistance to the staff of the Societies. The Co-operative Provincial and District Banks, the Co-operative Societies and a limited number of individuals were eligible to become share holder members of the Banks. The capital of the Bank was composed of shares, deposits, loans and profits. The Bank received financial assistance from the government by way of loans; and it was granted an initial loan of Rs.2 million in 1949; and an additional loan of Rs. 4 million in 1953 by the Government. Basically, the Bank could grant loans to the Provincial and District Banks and to the Primary Co-operative Societies in areas not served by Provincial or District Banks, and also to the Primary Co-operative Societies which served more than the area of one Provincial or District Bank.

Though there were many hopes in the Federal Bank it was later realized that it could not carry on banking and credit business efficiently mainly due to its structural weaknesses. The Federal Bank could not sufficiently provide credit facilities to the Co-operative Provincial

and District Banks and Co-operative societies due to a lack of resources this Bank faced. The Federal Bank could not attract all the deposits of the Co-operative Societies due to the insufficiency of legal provisions for that purpose; it could not raise funds on debentures since no guarantee was provided by the government; it could not raise share capital since the Co-operative Banks and Societies bought shares not as an investment but merely to become eligible for loans; and it could not earn a good profit due to a variety of reasons such as an insufficient gap in the interest between its borrowing (3 percent) and its lending (3½ percent - 4 percent), and funding on high risk agricultural activities without government guarantees. After several years of operation the Federal Bank found that its business with the Co-operative Societies was decreasing. Over the late 1960's deposits made by the Co-operative Societies in the Federal Bank and loans granted by the Federal Bank declined dramatically. The Federal Bank was not able to win the confidence of the Co-operative Provincial and District Banks and Co-operative Societies in order to either act as a balancing medium for surplus funds of societies or to supervise lending among Societies due to the lack of skilled and experienced personnel in the Board of Directors of the Federal Bank. In most cases the directors acted in favour of the Co-operative Societies they represented, rather than in the interest of the Federal Bank or Co-operative Credit system as a whole. The Federal Bank also could not provide any educational assistance to the staff of the Co-operative Societies since the Bank did not have necessary staff for it.

Survey of Rural Indebtedness

By the late 1960's the Co-operative Credit System as a whole could meet only a very limited part of credit requirements in the rural sector. The Survey on "Rural Indebtedness in Ceylon" 1957, disclosed the gravity of this problem. According to the Survey 54 percent of the village families were in debt and the average debt of a village family was Rs.750/-. Total debt of the rural population was estimated at over Rs.500 million at that time. The survey also revealed that out of this total debt only 4.1 percent was due to the Co-operative Societies; and only 2.6 percent and 1.1 percent, respectively, were due to the Government and Commercial Banks. The remaining large majority (92

percent) of debt was due to non-institutional sources like professional money lenders, landlords, boutique keepers and traders.

Based on this survey in 1957 the Co-operative Movement was reorganised by amalgamating Single Purpose Co-operative Societies into Multipurpose Co-operative Societies (MPCS) which were expected to do village banking by providing credit and organising savings in the rural sector. Among the package of facilities they were due to provide were services such as marketing of produce; provision of consumer goods, agricultural inputs, stores facilities, employment for members etc. The MPCS was expected to function as a primary rural bank to stimulate economic activities in the rural sector.

Establishment of People's Bank

With the introduction of the MPCS system there was a crying need for a specialised credit institution with high efficiency, structural strength, and adequate financial ability to support the Co-operative Movement in achieving its aims and for developing rural banking and agricultural credit. After much discussion, debates and controversy over a number of years in and among the various institutions like the Ministry of Agricultural and Food, the Central Bank of Ceylon, the Cabinet of Ministers and the Parliament, the People's Bank Act No. 29 of 1961 was passed and the People's Bank was set up in the same year to meet the above needs. At the commencement of the People's Bank the Co-operative Federal Bank was dissolved and its assets and liabilities taken over by the People's Bank. Nine out of the 15 Co-operative Provincial and District Banks that existed at that time were turned into branches of the People's Bank. The People's Bank was empowered to be a viable financial institution by providing it (1) Government participation in holding 50 percent of shares of the Bank (while the balance 50 percent of the shares were allocated to the Co-operative Societies). (2) the statutory requirement that all Co-operative Societies deposit their funds only with the new Bank. (3) powers to the Bank to engage in commercial banking activities and practice, (4) powers to the Bank to obtain government funds or outside debentures with a government guarantee.

The purposes of the new Bank as stat-

ed in the People's Bank Act were to develop the Co-operative Movement of Ceylon, Rural Banking and Agricultural Credit by furnishing financial and other assistance to Co-operative Societies, Cultivation Committees and other persons. The Bank was also expected to set up a network of branches throughout the country, particularly in the rural areas, to assist the vast majority of the people to promote economic growth and to transform the rural economy.

Soon after its establishment the People's Bank realised that it was not feasible to extend its branch banking to the remote areas where the bank had to incur a high operational and administrative cost, with a higher risk, to continue a direct relationship between the branch bank and the individual small farmer. This was due to the peculiar characteristics of the rural economy and the peasantry, such as a lack of bankable securities and uncertainty and irregularity in their income. The bank was also informed during its initial stages of operation that though it opened a number of branches in rural areas, which were not yet served by the Commercial Banks, these facilities were enjoyed mostly by the fixed income earners among low income levels and some middle class people in these areas.

Emergence of Co-operative Rural Banks

The People's Bank, with the purpose of overcoming this problem, started a new loan scheme, the Extended Rural Credit Scheme, in 1963 through selected MPCSS on an experimental basis. Under this scheme the People's Bank granted overdraft facilities to the selected MPCSS for re-lending to their members for a variety of purposes. However, this scheme too did not work out satisfactorily to fulfill the aims of the Bank in meeting the credit requirements of the rural sector through the MPCSS at a comprehensive level. The failure of this scheme and some experiences gained through it led the People's Bank to formulate a device to provide the required banking services to the rural sector through Co-operatives, and the final result was the setting up of the Rural Banking Scheme in 1964.

The Rural Banking Scheme was a more ambitious one than the extended Rural Credit Scheme. The duration of operation of the Rural Banks may be divided into two main phases, namely:

- (1) from 1964 to 1971, the initial period on an experimental basis;
- (2) the period from 1972, when operations underwent a rapid expansion.

The People's Bank was allowed to open up Rural Banks only in selected Co-operative Societies during the initial period. The Bank conducted surveys, investigations and inspections in selecting societies, although selections were also made on the recommendation of the Department of Co-operative Development. Among the eligibility criteria applied in selecting societies to ensure efficiency and viability included the following: (i) large membership of about 400, (ii) regular payment of their share capital by members (iii) good record of repayment of loans taken from Government Departments or other institutions (iv) operating with profits for at least three years (v) it's housing was satisfactory from a security point of view. Priority was also given to the societies which were operating the Extended Credit Scheme successfully and maintaining consumer sections and acting as an agent under the Guaranteed Price Scheme for the purchase of paddy.

A Rural Bank was not a sophisticated bank in the conventional sense; it was started only as a banking unit — a credit and savings department, — of the Multi Purpose Co-operative Society. Since the Co-operative Bank was a part of the MPCSS, it did not have a separate legal entity and it was governed by the by-laws of the MPCSS. During the initial stage, once an MPCSS was selected for setting up of a Rural Bank the Society had to enter into an agreement with the People's Bank to set out the necessary terms and conditions under which the Rural Bank was expected to be operated. Also, the selected MPCSS had to make some amendments in their by-laws to provide the legal grounds on which the MPCSS could set up a Rural Bank. The Co-operative Bank had to obey orders and instructions issued from time to time by the Co-operative Development Department, and the People's Bank as well. A Rural Bank did business in the names of its MPCSS while in the case of pawn broking business it acted as an agent of the People's Bank.

Rural Banks were often housed in the MPCSS buildings and the staff of the Banks were also a part of the staff of the MPCSS. The staff of a Rural Bank consisted mainly of the Bank Manager

(the Credit Manager) and a few assistants depending on the volume of activities in the Bank. The administration of the Rural Bank within the MPCSS was done by the Board of Directors of the MPCSS, through its General Manager.

Objectives and Functions of CRB's

The Rural Banking Scheme could be considered an effective instrument devised for extending credit facilities and mobilizing savings, even to a limited extent in the rural sector, and for contributing towards speeding up economic activities in this sector. The original main objectives of setting up of the Rural Banks included:

1. Provision of credit facilities in an effective manner to the low income segments in the rural sector.
2. Mobilization of savings in the rural sector in a well organised manner.
3. Providing adequate and detailed supervision of the credit facilities granted.
4. Improving efficiency in documentation and accounting systems.
5. Improving banking practices among the population in the rural sector.

To achieve these objectives the following functions were expected to be fulfilled by these institutions:

- (1) Granting credit to the members of the MPCSS for a wide variety of purposes, within the approved limits for each purpose;
- (2) Accepting deposits from members and non-members;
- (3) Provision of pawn broking facilities to members and non-members;
- (4) Linking credit with marketing.

Under the Rural Bank Scheme financial assistance was available to members for purposes of production (including agriculture, animal husbandry and cottage industries); housing; debt redemption; trade; consumption; electrification and other purposes, including emergencies. During the initial period the Co-operative Banks did not grant facilities for paddy production since a loan scheme for paddy production was being operated by the government through the MPCSS. At the initial stage maximum loan limits were fixed according to the purposes of the loans, that is, Rs.2,500/- each for production and Rs.200/- for emergencies. The loan facilities consisted of both short-term and medium term loans ranging upto five years, and the maximum duration

DEPOSITS AND ADVANCES OF RURAL BANKS 1965-1971

End of Year	No. of Banks	DEPOSITS						ADVANCES						Differences between deposits and advances in Rs.'000
		Savings Deposits		Fixed Deposits		Total		Short-term loans		Pawning		Total		
		No.	Amount in Rs.'000	No.	Amount in Rs.'000	No.	Amount in Rs.'000	No.	Amount in Rs.'000	No.	Amount in Rs.'000	No.	Amount in Rs.'000	
1965	8	2,924	492	9	5	2,933	496	1,153	915		253		1,167	- 670
1966	13	4,634	703	15	23	4,651	726	1,783	1,327	4,222	427	6,005	1,754	- 1,028
1967	27	8,792	1,306	41	65	8,833	1,371	2,897	2,029	6,598	633	9,495	2,663	- 1,291
1968	44	17,359	3,111	287	223	17,646	3,333	5,586	3,631	9,507	1,086	15,093	4,716	- 1,383
1969	68	28,626	5,713	724	461	29,350	6,173	7,893	5,572	14,325	1,524	22,218	7,096	- 922
1970	90	49,936	16,109	892	799	50,831	16,908	10,017	7,122	18,092	1,980	28,109	9,102	+ 7,806
1971	111	60,371	17,188	838	676	61,209	17,864	10,725	7,144	21,044	2,172	31,769	9,317	+ 8,548

of repayment was decided according to the purposes of the loans. Rural Banks also operated pawn broking from the beginning as authorised agents of the People's Bank.

The Rural Banks opened Savings Deposit accounts and Fixed Deposit accounts for both members and non members. Members were encouraged to deposit in their accounts at least a part of the cash they received from selling their produce to the Society. Members were granted credit through their Savings Accounts but not directly. Although Current Accounts were also opened to the members at the very beginning of the Rural Bank Scheme they were compelled to withdraw this facility quickly due to certain legal problems.

Though the Rural Banks were started as Departments of the MPCSS they had a unique link with the People's Bank in their organizational system. The People's Bank continued to extend its fullest co-operation to the Rural Banks by way of financial, managerial, supervisory and other assistance. It provided funds to the Rural Banks in the form of both overdraft facilities and term loans for re-lending to the members of the Rural Banks. In the early years loans granted by the Rural Banks exceeded the deposits made in them and the difference was provided by the People's Bank. The People's Bank employed a member of its staff to advise and assist each of them on all aspects of the business conducted by the Rural Banks. Training facilities were provided to the Credit Managers of the Rural Banks at the branches of the People's Bank. A monthly checking was conducted by the nearest branch of the People's Bank; while regular inspections were carried out by the Head Office of the Bank. The Rural Banks were required to regu-

larly provide performance reports and statistics on their business to the People's Bank. The People's Bank also provided safes, counters, stationery and equipment for pawning to the Rural Banks, on easy credit terms.

CRB's advantage over Commercial Banks

In providing even limited banking services to the rural sector the Rural Banks were at a certain advantage over the branches of the commercial banks. The Rural Banks were running, at a lower operational cost than the Commercial Banks. For instance, Rural Banks were very often housed in the MPCSS building and staff which was a part of the MPCSS staff was provided at much lower salaries and other economic benefits compared to that of commercial banks. Unlike the commercial banks, rural banks did not have to provide a comprehensive set of services but only a limited service required by and sufficiently to a large extent for the villagers. Such limited operations in the Rural Banks limited their operational costs too. In villages where branches of commercial banks could not exist most of the Rural Banks were operated viably due to their low operational costs. The functions of a Rural Bank were mostly confined to the limited area of operation of its Co-operative Society and the officers of the bank were also most probably from the same area. This local staff had a fair knowledge of conditions of the area as well as of their clientele and therefore they could use that knowledge to assess the borrower's credit needs, as well as credit worthiness in making credit decisions. With this close knowledge the Rural Banks could relax borrower's securities in their credit business; that is granting loans on personal guarantees

rather than demanding fixed assets as securities. This was a great advantage the Rural Banks had in the field of rural credit, since most of the fixed assets available with the villagers were inherited undivided lands which did not qualify enough as securities for loans in commercial banks.

On the other hand, the local staff of the Rural Banks who were housed in the Co-operative buildings found it easier to help the villagers to get more familiar with the new institution, than staff in the branches of conventional types of commercial banks which was almost foreign to the villagers at that time. The less educated and less sophisticated village farmers preferred the Rural Banks where they could obtain limited, but necessary banking facilities without having to face more elaborate banking procedures and many formalities. Being a less bureaucratic banking institution the Rural Bank was in a better position to maintain a close relationship with its village clientele. Operational time of the bank which was convenient to the clientele became an advantage for both parties. The pawn broking system operated by the Rural Banks was a traditional lending system which the village people were familiar with. Linkage of banking with marketing and sales in the MPCSS enabled the village producer to obtain timely credit and also easily; while they were encouraged to save part of the income from their production in the Rural Bank. Since the Rural Banking system was operated through the Co-operatives an organization which had wide geogeographical coverage throughout the country the new banking system was capable of reaching a large majority of both producers and consumers in the rural sector. According to the nature of the rural economy -- the large majority of income earners in this

sector were paddy farmers, with small plots of land and high seasonal variations of income. They received their income at the time of the harvesting seasons, most probably twice a year, while both their production and consumption expenditures had to be incurred throughout the year. During the harvesting seasons their surplus income was absorbed by the Rural Banks by way of deposit mobilization, and these resources were transferred to the other areas for investment in other economic activities. During the off seasons when the village farmer needed money, the Rural Banks obtained resources from the other sectors of the economy and disbursed them among the villagers. If the Rural Banks were taken individually in their respective areas, in general some banks were beyond the level of self-sufficiency in funds while others were below that level. The excess funds of the banks which were beyond the level of self-sufficiency were transferred to the banks which needed the resource support. In addition to these resources if the Rural Banking system is taken as a whole, in the early years of the initial phase of the scheme this system faced the problem of deficit funds. These funds were provided from the outside sectors to be employed in development activities in the rural sector. All types of such transmission of funds within the Rural Banks and between the Rural Banks and the other sectors were smoothly carried on through the network of the branches of the People's Bank.

The Rural Banking Scheme was a device formulated to enjoy both the benefits of unit banking like use of local knowledge in lending, low cost operation, ability of reaching a rural clientele; and branch banking in various types of assistance extended by the People's Bank.

Performance During Initial Period

The Co-operative Rural Banking Scheme was launched with the opening of the first Rural Bank, named the "Menikhinna Rural Co-operative Bank", on March 26, 1964. This was a Branch of the Co-operative Society at Manikhinna in the Kandy district. Another two Rural Banks were started in April and May in the same year, and during the next two years of 1965 and 1966 the Scheme was extended by setting up of 5 banks in each of these years. With the initial experience that the Scheme was running satisfactorily the expansion rate was increased. From the end of

1966 to the end of 1971 the number of banks were increased to 111 at the average rate of 20 banks per year. Though the expansion of Rural Banks from 1966 to 1971 showed a steady growth, this growth was comparatively slow if we consider the period after 1971. This was because during the initial period of the Rural Bank Scheme, banks were set up on an experimental basis only in selected Co-operative Societies.

The number of savings account holders in the Rural Banks increased to only 4,600 upto the end of 1966 but thereafter it increased rapidly to 60,400 by the end of 1971. There was a sudden increase in the number of savings account holders, going up from 28,600 at the end of 1969 to 49,900 at the end of 1970. Of this increase 54 percent occurred during the last quarter of 1970 due to the demonetisation of the currency within this period. Following a similar trend saving deposits too increased from Rs.703,000 at the end of 1966 to Rs.17,188,000 at the end of 1971. During the fourth quarter of 1970 savings deposits nearly doubled from Rs.8,255,000 to Rs.16,109,000; due to both an increase in the number of savings accounts and also the average amount of deposits in savings accounts increasing as a result of the demonetisation. At the end of 1971 savings deposits had increased very marginally because a good part of the funds deposited during the demonetisation period was withdrawn during the early months of 1971. The Rural Banks had a limited number of fixed deposit accounts but a higher average amount of deposits compared with its savings accounts. During the later years of the initial period of the Rural Bank Scheme more people opened fixed deposit accounts even if the deposits were small. For example in 1967 there were only 41 Fixed Deposit accounts with an average deposit of Rs.1,595 whereas in 1971 there were 838 of these accounts with an average deposit of Rs.807.

The number of loans and total amount of loans granted by the Rural Banks which stood at 2,897 and Rs.2,029,000 at the end of 1967 increased rapidly to 10,017 and Rs.7,122,000 by the end of 1970. However, the increases in both these figures were very marginal in 1971 since a good part of the money withdrawn from savings accounts early in 1971 may have been used to fulfill their credit requirements, and therefore there was limited need to take more loans and advances. The number of advances and

total amount of advances made on pawn broking also followed a similar trend over this initial period. The average size of an advance made on pawn broking ranged from Rs. 96 in 1967 to Rs.114 in 1968, and was smaller than that of a loan which ranged from Rs. 650 in 1968 to Rs.793 in 1965. Contrary to the period after 1972, during the period before this the total amount of advances made on pawn broking were much lower than the total amount of loans granted. When the total loans excluding advances on pawn broking were analysed, according to purpose, similar to the period after 1971 the highest share had been granted for housing purposes and it was increasing during this period, while the next highest share was for agricultural purposes and these were on the decrease. The share of housing loans had increased from 23.4 percent in 1964 to 36.2 percent in 1971; while those for agriculture had decreased from 36.5 percent in 1964 to 18.8 percent in 1971. When the operation of the Rural Bank scheme was examined as a whole, during its first six years we observe that, it had given more credit (including advances made on pawn broking) than the deposits it had mobilized. However, before the end of this initial period it was able to become self-sufficient in funds with its deposits exceeding credit in the second part of 1970.

During the seven year initial period the experimental phase of the Scheme - it appeared to be a viable scheme which could achieve the objectives for which it was set up. Though during this period the scheme was confined only to limited functions and limited areas in the rural sector it was able to mobilize a substantial amount of rural savings and, by reaching a level of self sufficiency to use those local resources for investment in the rural sector. Many villagers who used to deal with the informal sector, in regard to their savings and also their credit requirements were now also looking to the banking sector. This was a very positive aspect of the Scheme, as it succeeded in introducing the banking habit to wide sections in the villages by the end of its initial period. The experiences and achievements gained in the experimental phase of the scheme led to a rapid expansion in the scheme in terms of numbers of branches, area of coverage, volume and types of functions; in addition to re-designation of the name of the bank as the "Co-operative Rural Bank", consequent to the re-organisation of MPCSS in 1972.