

# The Role played by Thrift and Credit Co-operative Societies in the upliftment of Rural Economy

By: P. Stephen Fernando

- (1) Voluntary organization
- (2) Democratic Management
- (3) Interest on deposits/savings
- (4) Rewards for participation
- (5) Education on cooperatives
- (6) International relations

However, the above objectives could be recaptured into four major objectives as follows:

- (1) Voluntary organization
- (2) Democratic management
- (3) Rewards of participation
- (4) Knowledge through International Relations

An important feature of TCCS is the greater interest shown by the whole fraternity of membership to help their brother members in their needs. Their mutual relations and the self confidence developed over the past form the main basis for this feature of the Society. In the event of members' failure to make repayments of a loan, the incidence of legal action taken by the Society is either minimum or not at all. Although the TCCS is empowered to bring such persons

## Introduction

The Thrift and Credit Co-operative Societies (TCCS) have become an institution which has spread in almost all Grama Sevaka Divisions of the country.

These Societies which have experienced a massive growth were introduced into this country in the 1940s. But their growth before 1976 has been very slow. However, on recognition of their potential they were accorded a greater significance thus facilitating a rapid growth all over the country with about 7000 Societies. The table 1 will substantiate the rapid expansion of these societies particularly after 1984.

It is important at this juncture to examine the factors which have contributed to such a massive growth of the TCCS all over the country within a period of over 50 years. It is also important to note here that the Co-operative characteristics of TCCS are nothing but those intrinsic to the cooperative movement in the country. As accepted by specialists in this subject the objectives of Co-operatives could be categorized as follows:

Table 1  
Expansion of Thrift and Credit Co-operative Societies from 1980-1991

Year	No. of Societies	No. of Members Societies	Deposits/shares Rs. Million
1980	1,320	206,556	111
1981	1,448	207,856	114
1982	1,570	169,201	153
1983	1,685	220,651	173
1984	2,168	241,615	188
1985	2,420	340,100	220
1986	4,387	470,200	310
1987	5,215	345,100	352
1988	5,885	568,320	388
1989	6,761	633,092	418
1990	6,821	675,000	491
1991	7,245	702,238	622

Source: Federation of Thrift & Credit Co-operative Societies Ltd.

before the law by virtue of the Co-operative law such action is very unlikely to be taken, due to openness and close relations among the members of the Society. The most important feature of the TCCS is its identity not only as a mere Co-operative Society, but also as a financial institution.

The main characteristics of a financial institution which are given below are found to be enshrined in the TCCS.

- (1) Distinctive Management Procedures
- (2) Business potential
- (3) Effective Investment
- (4) Result oriented pre - examination and follow-up actions

Although the TCCS do not have the technological applications and growth of a financial institution, it approaches the rural people with all the above features in a rather simple way to suit the ways and means of such communities.

### Structure and Operational System of Thrift and Co-operative Credit Society

TCCS have the following hierarchical structures in operation:

- (1) Primary Societies
- (2) Divisional Societies.
- (3) District Societies
- (4) Mother Society of the Headquarters (Head Office)

An examination of each of these societies will give a clear picture of each society's operational system.

### Primary Society

The first institution or the Primary Society means a small gathering or an organization of a few villagers in a Grama Sevaka Division. Such a small gathering has gradually developed into an institution to meet financial requirements of such villagers.

These Primary Societies are of two kinds: Limited liability and Unlimited liability. Every member of the Society should pay a membership fee of Rs. 100/- and this amount could be paid in a number of instalments depending on his income. This membership fee forms the basic fund of the Society.

All members are required to meet once a month and should make their compulsory savings deposits as agreed at such meetings. TCCS have been able to increase their funds with such compulsory savings deposits.

The membership fees and compulsory savings deposits thus collected by the Primary Societies are again deposited with the Divisional Society of the same AGA division.

### Divisional Societies

While a Primary Society is formed by one or two Grama Sevaka Divisions, a Divisional Society is established on the basis of a AGA Divisions within which all such Grama Sevaka divisions are found. Thus a Divisional Society is formed on the basis of 40-50 Grama Sevaka divisions and 40-50 Primary Societies.

The major function of the Divisional Society is to accept the deposits of the Primary Societies collected from their members. The Divisional Society pays an annual interest for such deposits as follows:

(1) Members' Deposits	15%
(2) Fixed Deposits	18%
(3) Compulsory Savings Deposits	17%
(4) Non Member Deposits	15%

All these Divisional Societies are linked to a District Society.

### District Societies

These District Societies have been established in almost all districts in the country. While working in close relationship with Divisional Societies, they are also closely linked to the Mother Society at the Head Office.

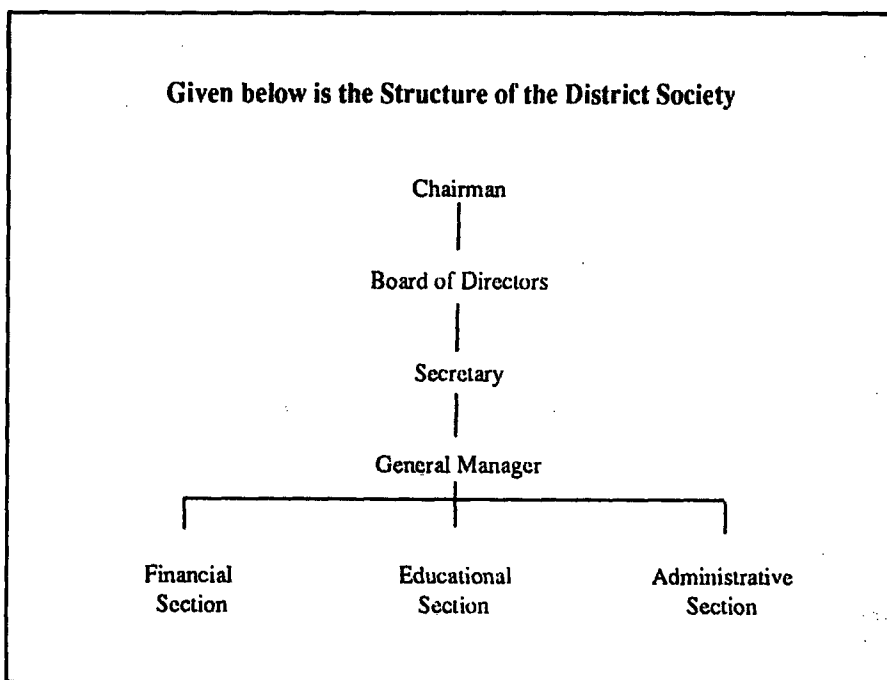
Affairs of the District Thrift and Credit Co-operative Society are handled by a Board of Directors elected by the members of the TCCS. The Chairman is elected by the Board of Directors. A General Manager is appointed to function as the Secretary of the Board and as the Administrative Authority of the District Society. The financial, educational and administrative sections headed by Managers are finally brought under the General Manager. These Managers also function in close collaboration with their Deputy Managers and Officers of the Divisional Societies. A District Society is at least based on 10-15 Divisional Societies and exercises its authority over about 500 Primary Societies.

### Federation of Thrift and Credit Co-operative Societies

In 1979 those who understood the significance of TCCS as an organization at national level to bring all such societies under its umbrella, initiated the formation of a National Committee. This National Committee was registered in 1980 as the Federation of Thrift and Credit Societies Co-operative Ltd. This Federation consists of members of 27 District Societies, 6 associated organizations at top level and all Primary Societies.

According to the Constitution of the Federation, eleven members are elected to the Board of Directors representing seven from District Societies and six from associ-

Given below is the Structure of the District Society



ated societies. When these members for the Board of Directors are elected it is advised that they be chosen to represent all regions in the country. The main responsibility of this Board of Directors is the appointment of Sub-Committees to facilitate the policy planning process. Four permanent sub-committees have been already appointed for this purpose. Adhoc sub committees will also be appointed on specific requirements.

A National Federation is held once in three years to plan the relevant policies and two such federations have already been held. The General Manager is functioning as the Secretary of the Board of Directors which is assisted by seven Executive Officers and an additional staff of 30 personnel. The seven Executive Officers at the Federation's Head Office are in charge of seven sections namely; education, inter credit administration of accounts, projects, credit investments, information and publications. The most outstanding activities of the Head Office include education, training, community development, inter credit and institutional development.

### Case Study

#### **Kandy District Thrift and Credit Co-operative Society Yatinuwara Division**

This Division under which Medagoda Thrift and Credit Co-operative Society comes, groups 45 TCCS.

The Deposits of this Division as at 30th April 1992 were as follows:

	<i>Amount of Deposits</i>	<i>Interest</i>
	Rs	
Member	336,866	15%
Non-Member	13,160	15%
Treasury Bills	456,875	15%
Fixed deposits	12,000	18%
Compulsory Savings	29,265	17%

The advance made as at 30th April 1992 are as follows:

Housing Loans	3,683,281
General Loans	611,315
Overdue Loans	112,461

In addition to these banking functions, the Divisional Managers get involved in educational, welfare, operational and other circuit activities of the District Society. The most important functions of the Divisional Managers include the pre-investigation before deciding to release a loan and the follow up activities to recover a loan. Organization of educational Seminars and Workshops to

### Case Study

#### **Medagoda Thrift and Credit Co-operative Society Ltd.**

This Society was formed on 1st January, 1990 with the unanimous adoption of a proposal of the Welfare Society which then existed in this village. At the beginning it had only ten members.

The first Office-Bearers of the Society were Mr. J. B. Iddawela Hon. Chairman, Mr. E. A. B. Edirisinghe Hon. Treasurer and Mr. R. M. W. Ratnayake Hon. Secretary. The Chairman, Mr. Iddawela was a retired Station Master and the Secretary Mr. Ratnayake was a Project Officer of MILCO. The expansion and the development of the Society were a result of their endeavours.

The funds initially collected by way of deposits of Rs. 100 grew fast and the compulsory savings became very popular. Especially at every monthly meeting, the members took a keen interest in making their compulsory savings deposits. The present funds collected by way of deposits of members amount to Rs. 30,000. After the growth of the funds the Society tried to explore the

possibility providing credit facilities to the members.

As a result the members were provided with the opportunity to obtain credit facilities upto a maximum of Rs. 7500 at a time. Arrangements were also made for them to obtain urgent facilities to be settled monthly. The Society thus gave loans of Rs. 2000 to members who had already deposited Rs. 1000 and charged an interest of 5% per month. Arrangements were made to release the loan of Rs. 7,500 within 1-2 months on the receipt of the loan application. The total amount thus given to members so far is Rs. 125,000 and the recovery rate is as high as 90%, while the doubtful debt to be recovered is only Rs. 3,000.

The Society's accounting and follow-up activities are maintained of a high standard for which the society has received much praise from the Division. The Society has been granted the necessary approval to issue housing loans in future as well.

improve the knowledge of the Co-operative employees and beneficiaries with the support of the District Society's Education Officer, forms another important function of the Divisional Manager.

### A Comparative Study

#### **Introduction**

There are various financial institutions established to improve the rural economy by way of extending financial assistance. Among these institutions the People's Bank is seen to be in the forefront. With the support of the People's Bank the Co-operative Rural Bank has grown fast over the last 28 years.

The primary objective of establishing the People's Bank was to improve the rural economy by taking bank services to the doorsteps of the rural masses. The Co-operative Rural Bank formed in 1964 with that objective has been able to establish more than 1000 branches all over the country. The objective of the TCCS is also somewhat similar to those of the Co-operative Rural Banks. However, the former still has something more than what is seen as the primary objective of the Co-operative Rural Bank.

**TCCS process of providing credit facilities**

The major objective of the Society is to identify rural credit requirements and to make arrangements to satisfy them. An examination of the way the TCCS provides credit facilities will reveal the potential of their institution for improving the rural economy.

When a member of primary society has a need for credit, he/she will submit an application to the Secretary of the Society along with statements from two sureties who were members of the Society, and an estimate of the project for which the funds are sought. After an initial examination of the application, it will be approved by the Secretary and the Chairman, and forwarded to the Manager of the Divisional Society, who in turn will present it to the District Society. Once the application has been finally examined and approved, by the Manager of the Divisional Society and the District Society a cheque for the value of the facility sought through the application will be issued to the Divisional Society from the District Society. Thereafter, the cheque will be given to the primary society on a promissory note signed by the officers of the Society including the Chairman and the Secretary. The primary society then deposits this cheque in the Society's Account with the People's Bank and re-issue a new cheque to the applicant on receipt of a promissory note signed by the applicant with two sureties. This cheque should be encashed in a People's Bank branch.

The procedures for making these advances and preparing documents for it are very simple.

**Kinds of Credit facilities provided by TCCS**

- \* Urgent loans
- \* Self employment loans
- \* Production and housing loans on simple conditions
- \* Assistance for raw material and inputs
- \* Simple technical assistance for repayments of other loans
- \* Simple procedures for property mortgages
- \* Group credit facilities for low income groups.

**Objectives of Thrift and Credit Co-operative Society**

The discussion of this subject reminds us of the Grameen Bank in Bangladesh. The five major objectives of the Grameen Bank geared to the improvement of the rural economy are as follows:

- (1) to extend the banking facilities to poor men and women.
- (2) to prevent the exploitation of the poor by money lenders.
- (3) to generate self employment opportunities for utilized and unutilized human resources.
- (4) to bring the entire unprivileged community into an organized movement in order to promote their social and economic welfare by strengthening mutual relations among the members of that community.
- (5) to break the vicious circle of poverty consisting of low income→low

savings→low investments→low income.

These objectives are mostly similar to those of the TCCS. The latter sometimes appear to be more broadbased than the former. In fact, the objective of the TCCS are to improve the rural economy. This programme is widely regarded as one of the most appropriate measures so far taken to develop the rural economy.

**Objectives of Thrift and Credit Co-operative Societies**

- \* To promote the rural economy by cultivating the practices of thrift and savings among the members of the community.
- \* To satisfy members' social and cultural needs.
- \* To provide credit facilities on low and reasonable interest for production and welfare requirements.
- \* To function as agencies for the supply of production inputs and marketing of the products, in rural community.
- \* To create a Co-operative Society.

**Expansion**

The number of branches of the Co-operative Rural Banks (CRBs) has exceeded one thousand over the last 28 years. Expansion of the TCCS branch network is shown by table 1 and accordingly it has grown from 1320 branches in 1980 to 6821 in 1990.

Such a rapid expansion of branch network has not been achieved by even the Grameen Bank in Bangladesh. This rapid expansion signifies the important role played by the TCCS in the rural communities. The pragmatic nature of the TCCS also helped to make them a success.

**Future Trends of Thrift and Credit Co-operative Societies for improving the rural economy**

According to the next five year plan of the programme it is estimated that the number of its members will grow into 6 million by the year 2000 and the branch network will cover the entire island.

In addition, for streamlining and strengthening of the programme to keep pace with development trends in the country, plans are under way to form clusters of societies interlinking each other.

As shown by these future plans, the TCCS mainly aim at eliminating the rural indebtedness and creating an atmosphere that is socio-economically and culturally secure where the low income earners representing the vast majority of the country's population could participate in the development process.

In the process of achieving these objectives, the Thrift and Credit Co-operative Society should understand the significance of evolving a banking system suitable for the rural people. Particular attention should be paid to the merits and demerits of the country's rural banking system and the success of the Grameen Bank of Bangladesh.

## Thrift and Credit Co-operative Society and People's Bank

Since the People's Bank major objective was to improve the rural economy it also extended its credit facilities to TCCS.

Although the People's Bank offered its facilities to TCCS for the first time in 1977, such facilities were enjoyed by employees' Co-operative Societies of Government Departments, Corporations and Mercantile Establishments prior to that.

This system was devised and converted into a special credit scheme in 1985, enabling the members of both the limited and unlimited Co-operative Societies to obtain their credit requirements.

The main objective of this new programme was to help the successful Co-operative Credit Societies to come up with an effective credit programme to enable a broader section of the rural population obtain credit facilities.

Under this scheme it was shown that a TCCS should have the following qualifications to be eligible to receive facilities. It should:

- (1) be two years old after registration.
- (2) have a permanent office and an address.
- (3) have had Annual General Meetings regularly and elected Office-bearers at such meetings.
- (4) have held General Meetings at least once in three months.
- (5) have had monthly Working Committee Meetings.
- (6) have a credit ceiling approved for every year.
- (7) have properly maintained account books including deposit ledgers, credit ledgers, share ledgers etc.
- (8) have satisfactory records of credit facilities given to members and a balance of not more than 10% of the credit in case the loan instalment is overdue for over 6 months.
- (9) have ever request for credit recommended by the Deputy Commissioner

of Co-operative Development and the TCCS of the area.

- (10) have relevant facts of every member who has obtained credit facilities.
- (11) have had dealings with People's Bank only.
- (12) have maintained capital and reserves higher than the bad and doubtful debts.
- (13) have a system for pre-investigation and follow-up of credit facilities.
- (14) have accounts of the last year properly audited by the Department of Co-operatives.
- (15) have a primary investigation system. After receiving an application for credit the Branch Manager should be able to investigate the Society's system of giving credit facilities and its ability to implement such a system.

### Member Qualifications to obtain credit facilities

- (1) Those who have obtained credit facilities from other Co-operative Societies or Credit institutions and defaulted the repayments of such facilities are not eligible for facilities from TCCS.
- (2) Applicant's requirements for credit should not exceed the limit of Rs. 15,000/- or the credit ceiling imposed on a single applicant by the Society's General Meeting.
- (3) When facilities are given to meet the requirements of production, the Society should satisfy itself with the ability of the member to repay the loan by means of the income generated through the proposed project. Under all other circumstances the existing income of the member should be sufficient to make the repayment.
- (4) Facilities meant for construction should be released in instalments at different stages. On such occasions it is only released instalment has been satisfactorily used that the subsequent instalment should be released.
- (5) The Society should also be satisfied with the requirement for which credit is sought by a member. When facilities are sought to purchase some property, funds should always be released to the supplier of such property, and at the

same time the Society should make sure that such funds are not misused.

- (6) When the total credit facility sought is not sufficient to cover the total cost of a project, the Society should look into the ways and means the applicant would resort to, for funding such deficit funds. When facilities are given for production requirements, the Society should encourage the member to invest a bigger share from his own resources.
- (7) When funds are given to purchase property, the Society should arrange to obtain a mortgage of the property purchased by the applicant.
- (8) No facilities should be released without the prior approval of the Committee.
- (9) No loans should be released without obtaining proper security.
- (10) The loan should not be a refinance facility to service another loan already obtained under a credit scheme of a Co-operative Rural Bank.

The Credit scheme faced a lot of problems when it was implemented in 1985. Particularly the newly organized TCCS were not able to contribute much to the rapid expansion of the programme. The non-eligibility of members to obtain facilities till their membership is two years old was a great obstacle to the popularization of the programme.

Under these circumstances the TCCS began to advance facilities to the newly formed societies.

However, even after satisfying the eligibility there were still some difficulties in office procedures. The imposition of certain conditions on members without proper guidelines for obtaining credit facilities caused long delays.

Under these circumstances, the package of facilities was not fully extended to the TCCS, as expected. Therefore, it is necessary to formulate a new credit scheme to provide credit facilities fast and with less procedural difficulties and simpler securities. Otherwise the present system will fail in the same way the extended credit scheme of People's Bank designed for Co-operative Rural Banks failed.

**Table 2**  
**Federation of Thrift and Credit Co-operative Societies Ltd. in Sri Lanka**  
**Statistics of TCCS Movement as at 31st December 1991**

No.	District	Total No. PTCCS	Total No. of Ind. Members	Total Loans Granted for PTCCS	Total Savings of PTCCS
1	Kegalle	380	47,921	101,813,609	91,084,972
2	Galle	430	27,620	59,418,415	50,508,508
3	Gampaha	475	23,410	98,355,660	39,873,290
4	Kalutara	360	28,510	29,212,505	28,769,589
5	Kurunegala	376	31,729	25,216,400	134,101,600
6	Matara	370	28,550	26,189,971	32,115,319
7	Kandy	546	98,798	19,897,940	16,636,513
8	Colombo	847	167,135	31,588,745	43,913,541
9	Ratnapura	256	19,876	26,368,510	10,336,155
10	Kuliyapitiya	325	30,026	54,486,789	40,769,123
11	Badulla	190	18,398	6,289,110	7,367,803
12	Hambantota	190	27,400	18,390,950	10,125,670
13	Matale	229	12,292	13,752,695	23,283,069
14	Jaffna	445	33,000	20,366,935	13,899,545
15	Moneragala	154	15,430	17,137,106	11,029,204
16	Nuwara Eliya	158	13,292	8,814,870	7,477,615
17	Anuradhapura	310	21,750	7,289,270	14,390,910
18	Polonnaruwa	100	4,714	14,325,127	7,398,167
19	Puttalam	208	13,262	19,768,000	15,853,730
20	Galoya				
	Mitiyawatha	80	5,122	1,713,400	3,077,650
21	Mannar	90	2,500	2,765,000	914,500
22	Kilinochchi	90	5,900	4,083,190	869,510
23	Batticaloa	188	7,585	5,478,402	3,616,175
24	Vavuniya	119	4,874	5,645,531	2,916,919
25	Kalmunai	172	5,477	12,052,199	10,356,764
26	Mullaitivu	109	5,985	4,871,050	1,034,150
27	Trincomalee	48	1,682	1,675,909	362,468
<b>Total</b>		<b>7,245</b>	<b>702,238</b>	<b>636,967,288</b>	<b>622,082,729</b>

Source: Federation of Thrift & Credit Co-operative Societies Ltd.