

AN ATTEMPT TO LOOK BACK OVER THE OBJECTIVES OF THE PEOPLE'S BANK

P. Stephan Fernando --Deputy Personnel Manager, people's Bank

The time is opportune to examine objectively the fortunes and misfortunes gone through in its attempts to meet with the original objectives of the People's Bank in keeping with the background that paved the way for the emergence especially in view of the 30th Anniversary that is being commemorated now.

The Central Bank survey report of 1957 revealed the extent of indebtedness of the rural folk of the country and emphasised the necessity to provide them with credit facilities. Institutional sources have provided only 8% of the rural credit requirements. Among the sources, professional money lenders, shopkeepers and relatives played a prominent role.

The attention of the then Bank of Ceylon was not focussed towards providing rural credit and consequently it became a pressing need to have a separate bank aimed at supporting the rural economy, stamping out indebtedness and to provide credit to the rural folk. It was also felt that the Co-operative Federal Bank was organizationally not strong enough to uplift the co-operative movement and for that purpose proposals were tabled for a new bank.

As a result of those proposals, People's Bank came into being on 1st July, 1961 by Parliamentary Act No. 29 of 1961. As spelt out in section 4 of the Act, the prime objective of the bank was to improve the co-operative movement, Rural Banking system and agricultural credit by providing financial and other assistance to co-operative societies, agrarian committees and other persons.

Every activity of the bank has been designed with the objective of meeting the goals specified in the People's Bank Act reproduced below:

A few amendments were effected to the Act No. 29 of 1961 by the People's Bank Extraordinary Act No. 25 of 1978.

People's Bank Act No. 29 of 1961

5. (1) In carrying out its purposes, the Bank may exercise all or any of the following powers:—
- (a) to grant, subject to the provisions of sub-section (2)—
 - (i) short-term, medium-term and long-term loans and other accommodation to co-operative societies, approved societies and Cultivation Committees;
 - (ii) short-term medium-term and long-term loans to co-operative societies, approved societies, cultivation Committees and individuals for constructing, repairing or renovating buildings;
 - (iii) short-term medium-term and long-term loans and other accommodation to any person who intends to carry on or is carrying on any agricultural, industrial or business undertaking which, in the opinion of the Board of Directors of the Bank, is a small-scale undertaking; and
 - (iv) short-term loans to persons resident in rural areas for the purchase of articles necessary for their personal or domestic requirements;
 - (b) to carry on and transact, subject to such modifications and exceptions as may be prescribed, the kinds of business similar to those carried on and transacted by the Bank of Ceylon under the Bank of Ceylon Ordinance, No. 53 of 1938;
 - (c) to carry on the business of a pawnbroker subject to such conditions as may be prescribed;
 - (d) to provide technical assistance to any person to whom the Bank grants any loan or overdraft, and to undertake or sponsor the training of persons in assessing the value of land and the credit worthiness of borrowers, in assaying gold, in banking and finance;
 - (e) to acquire, hold take or give on lease or hire, mortgage, pledge and sell or otherwise dispose of any immovable or movable property;
 - (f) to invest the idle funds of the Bank in such securities as the Board of directors of the Bank may consider appropriate;
 - (g) to employ such officers and servants as may be necessary for carrying out the work of the Bank;
 - (h) to make rules in respect of the conditions of service and disciplinary control of the officers and servants of the Bank;
 - (i) to establish provident funds and pension funds for, and schemes for the benefit, of such officers and servants, and to make contributions to such funds and schemes from the funds of the Bank;
 - (j) to borrow funds for the purposes of the business of the Bank and to give security for any loans or overdrafts obtained
 - (k) to enter into contracts; and
 - (l) to do all such other things as are connected with, or incidental to, the exercise of the aforesaid powers.
- (2) The Bank shall not exercise the power to grant loans, overdrafts and other accommodation to persons other than co-operative societies until the Minister approves of the exercise of that power generally or in respect of such classes of approved societies or Cultivation Committees or classes of other persons as he may from time to time determine.
- (3) The Pawnbrokers Ordinance, No. 13 of 1942, shall not apply to the Bank when the Bank carries on the business of a pawnbroker.
6. The Bank shall have its principal place of business in Colombo and may have such branches and agencies as may be necessary for the proper conduct of the business of the Bank.
7. (1) The general supervision, control and administration of the affairs and business of the Bank shall be vested in the Board of Directors of the Bank (hereafter in this Act referred to as the Board).
- (2) The Board may exercise all or any of the powers of the Bank.
8. (1) The Board shall consist of the following directors:—
- (a) the Commissioner of Co-operative Development who shall be the ex-officio director;
 - (b) two directors appointed by the Minister;
 - (c) one director appointed by the Minister for the time being in charge of the subject of rural development;
 - (d) one director appointed by the Minister of Finance; and
 - (e) three directors appointed or elected as provided in sub-section (2).

Consequently, the then directorate was revoked and 8 members were appointed to the directorate by the minister concerned in terms of section 8 (1) of the new Act.

Then the Act of 1961 which permitted representation of the co-operative movement in the bank's directorate ceased to operate.

Consequently, the right to have 50% of the share capital by the co-operative sector was brought down to a paltry 3%. The manner by which the share capital was increased caused discontent among the co-operatives and this has been interpreted as an attempt to deviate from the main objective of the bank with reflections geared towards commercial banking.

business and to function as a commercial bank.

In order to fall in line with the above objectives, section 5 of the main Act was amended once again.

Further, section 29 of the main Act was replaced by section 29.1 and 2 more sections were added i.e. section 29 A and section 29 C enforced.

Furthermore, section 30 of the main Act was withdrawn and section 48 amended.

This amended Act further strengthened the argument of the co-operatives that the People's Bank was no longer a co-operative bank but a commercial bank.

Under the circumstances one would tend to be quite inquisitive as to how she would manage to accomplish the main objective. The situation is further being aggravated by the attitude deeply rooted in the Bank, disheartening the customers.

Although the prime objective of the bank is to develop the co-operative movement, one would not be able to understand clearly the present state of affairs unless an attempt is made to see whether we are still on that mission genuinely interested and how our contributions have paved the way in realising that goal a little more realistically.

In the light of inherent internal and other functional weaknesses still found in the co-operative sector, one would tend to suspect how the bank would be able to uplift the movement by means of any devoted programmes. As the total assets of the Bank are not being funded only by the resources of the co-operatives, the bank is placed, under the circumstances, in a quandary as to how she would account for the deposits of her good customers.

The rural banks are engaged in mobilizing deposits with the hope of relieving the rural folk from indebtedness but the fact remains that those funds subsequently deposited in the People's Bank have largely contributed to swell its own funds.

The rural bank as an integral part of the co-operative movement is responsible

People's Bank (Special Provisions) Law, No. 25 of 1978

The People's Bank Act, No. 29 of 1961, is hereby amended as follows:—
by the repeal of section 8 of that Act and the substitution therefor of the following section:—

8. (1) The Board shall consist of eight directors appointed by the Minister.
- (2) a person shall be disqualified for being appointed or continuing as a director if he—
 - (a) is a member of the national State Assembly; or
 - (b) is under any law in force in Sri Lanka, found or declared to be of unsound mind; or
 - (c) is a person who, having been declared an insolvent or bankrupt under any law in force in Sri Lanka or in any other country, is an undischarged insolvent or bankrupt; or
 - (d) is convicted of an offence involving moral turpitude and punishable with imprisonment for a term of not less than six months; or
 - (e) is a director or employee of a commercial bank other than the Bank
- (9) the quorum for any meeting of the Board shall be five.
- (10) subject to the provision of sub-section (9), the board may regulate the procedure in regard to the meetings of such Board and the transaction of business at such meetings.
- (11) No act or proceeding of the Board shall be invalid by reason only of the existence of a vacancy among the directors or any defect in the appointment of a director."

People's Bank (Amendment) Act, No. 61 of 1980

"(1) The Board shall consist of ten directors appointed by the Minister, two of whom shall be nominated by the Minister in charge of the subject of Co-operatives."

3. Section 12 of the principal enactment is hereby repealed and the following section substituted therefor:—

12. (1) The authorized capital of the bank shall be one thousand million rupees divided into twenty million shares of fifty rupees each.

(2) The paid-up capital of the bank shall be such amount as may be determined from time to time by the Minister by Order published in the Gazette"

4. The following new section is hereby inserted immediately after section 42, and shall have effect as sec. 42A, of the principal enactment:—

42A. The Minister may from time to time give general or special directions in writing to the Board as to the performance of the duties and the exercise of the powers of the bank and it shall be the duty of the Board to comply with such directions."

Once again, the section 8 of the Act No. 29 of 1961 was reformed by the People's Bank Amendment Act No. 61 of 1980 and further, the section 12 of the main Act was replaced. Also, clause 42 was extended and clause 42 A has been enforced.

With the coming of the above amendments into force the equal rights enjoyed by the co-operative sector by virtue of section 12 seems to have ceased with the increase of 120,000 shares to 20 M. making the share capital to Rs. 10 M.

The people's Bank Act No. 29 of 1961 was once again amended by Act No. 32 of 1986 endorsing the attitude of the co-operators. This time attention has been drawn towards reforming sections 4 and 5 of the Act of 1961.

The prime objective of the original Act has been embedded into sections 1 & 2 of the amended Act of 1986. Section 1 concentrates on sponsoring rural banking business and agricultural development, while section 2 to carry on pawning

People's Bank (Amendment Act, No. 32 of 1986

2. Sections 4 and 5 of the People's Bank Act, No. 29 of 1961 (hereinafter referred to as the 'principal enactment') are hereby repealed and the following sections substituted therefor:-

4. The purpose of the Bank shall be -
- | | |
|-------------------------------|-------------------------------------|
| (1) to develop and assist- | (2) to carry on the business of a - |
| (a) the Co-operative Movement | (a) Commercial Bank; |
| (b) Rural Banking; | (b) Pawn broker; and |
| (c) Agriculture; and | (c) Merchant Bank. |
| (d) Industry; and | |

5. (1) In carrying out its purposes, the Bank may exercise, perform and do all or any of the following powers, acts and things, subject however to the restrictions, qualifications and limitations set out in subsections (3) and (4) of this section:

- (a) to establish, carry on, develop and extend in Sri Lanka and elsewhere the business of banking within all its branches and departments;
- (b) to grant short-term, medium-term and long-term loans, overdrafts, advances and other accommodations;
- (c) (i) to open, maintain and manage current, deposit savings and other accounts;
- (ii) to discount, buy sell and deal in bills of exchange, promissory notes, hoondies, poorjas, coupons, drafts, bills of lading, warrants, debjures, certificates, scrip and other instruments and securities, whether transferable or negotiable or not transferable or not negotiable;
- (iii) to grant and issue letters of credit and circular notes;
- (iv) to buy, sell and deal in bullion and specie and engage in operations in exchange;
- (v) to negotiate loans and advances, to receive money, securities and valuables on deposit, or for safe custody, or otherwise;
- (vi) to collect and transmit money and securities;

for the granting of cultivation loans and other loans and also carry on the business of pawning as an agent on facilities provided by the bank, finds it difficult to maintain the relationship any longer.

Amidst attempts made by the rural banks to loose the grip over them by the People's Bank, the People's Bank is faced with two options i.e. to develop the rural bank

under its absolute control or to keep liaison through continuing normal investigation procedures.

The prevailing complicated situation is being further aggravated due to noncompliance of circular instructions and deposit of funds with other commercial banks on the part of the rural banks and failure on the part of the People's Bank Branch Managers to refrain from employing the

rural bank investigation officers for office work despite their special assignment.

Some argue that this confusing situation can be attributed mainly to the practice of diverting the funds collected from the rural sector to provide facilities for the urban commercial sector by the bank despite reinvesting them within the villages.

In the meantime, the People's Bank utilizing portion of her annual profits has established a co-operative development fund for the purpose of supporting the co-operative movement. The table 2 below reveals how the fund released monies for the development of the co-operative movement during the last year.

On the other hand, the bank is attempting to regulate the supply of credit through 'Prajya Naya Niyamaka Scheme' overriding the private money lender. However, despite relieving the rural indebtedness in keeping with the goal, some argue that the bank is nursing the private lenders through 'Prajya Naya Niyamaka Scheme'.

According to another argument, the progress of the bank has slowed down owing to the fact that it is unable to function truly as a commercial bank as it is providing credit on relaxed collateral on state development projects utilizing deposits costing high.

Although it is difficult to forecast the future of the bank in the light of the above argument, she has still been able to paint a solid picture of herself. Evidenced by the branch network development, increase of deposits and lending from the inception in 1961 to 1991.

The general impression of the notion of the bank has a semblance with the picture based on statistics. This has not been controlled by an invisible hand but the results of pioneers perseverance and devotion. However, her attachment and contribution during the 30 year period to the nation has been great enough to implant great expectations in the hearts of the people.

Experts, scholars and generally the bankers, are of opinion that a commercial bank must not operate as a development bank and vice-versa.

TABLE 1
Expansion of Co-operative Rural Banks

Year	No. of Branches	Total Deposits (Rs.)	Total Advances (Rs.)
1977	544	17,5462,200	116,883,300
1987	955	1,560,178,459	708,781,964
1988	985	1,908,359,745	829,150,196
1989	996	2,211,886,541	950,404,585
1990	1034	2,497,322,703	1,450,886,602

TABLE 2
Co-operative Development fund (CDF)

	Year	Rs.
The balance as at	1987	Rs. 35,500.00
	1988	Rs. 39,500.00
	1989	Rs. 43,500.00
	1990	Rs. 47,500.00
The balance in the interest account as at	31.12.88	Rs. 11,435,422.83
	31.12.89	Rs. 15,745,355.73
	31.12.90	Rs. 20,185,415.97

TABLE 3
Contributions to Co-operative Movement through CDF:

Year	(Rs.)
1985	170,450
1986	193,932
1987	727,259
1988	854,359
1989	364,254
1990	2,374,940