

II (E) RURAL BANKING AND CREDIT

The main sources of agricultural credit to the rural sector are the New Agricultural Credit Scheme and the Co-operative Rural Banks. In addition, institutional rural credit is provided by schemes operated by Government departments for specific purposes by commercial banks¹ and by specialised credit institutions.

1. Co-operative Rural Banks

Table II (E) 1 gives the deposits and loans of rural banks on a quarterly basis. In 1971 twenty one rural banks were established, of which, twenty were set up in the last quarter of the year. The number of savings deposit accounts with the rural banks increased by 10,432 in 1971 over the previous year. The increase was marked in the final quarter of the year with 3,677 new accounts being opened in the twenty new rural banks set up in this quarter.

The volume of savings deposits which rose steeply to Rs. 16.1 million in the final quarter of 1970, following the demonetisation, declined to Rs. 14.8 million in the first quarter of 1971. Thereafter, the level of savings deposits showed a gradual increase during the year to Rs. 17.2 million at the end of 1971: this represented an increase of over Rs. 1 million or 6.7 per cent over the level prevailing at the end of 1970. It should be noted that as a result of demonetisation savings deposits at the end of 1970 included a certain portion of cash balances that normally would have been hoarded in households for transactions purposes. It is likely that some of these deposits would have been withdrawn at the end of the first quarter of 1971, to meet a part of these transactions. Therefore, it would be more appropriate to compare the data for the first quarter of 1971, with the corresponding figure at the end of 1971. This comparison reveals an increase of Rs. 2.4 million in savings deposits or a net increase of 16.2 per cent in the last nine months of 1971. Despite an increase in the number of savings deposit accounts in the last quarter of 1971, the volume of savings deposits showed only a moderate increase in the same period. The new savings deposits in the last quarter of 1971 amounted to Rs. 142,237 and represented only 5.9 per cent of the net increase in the last nine months of 1971. The average size of savings deposits, which had increased markedly to Rs. 322 in the final quarter of 1970, declined to Rs. 283 in the first quarter of 1971; it remained more or less unchanged during the rest of the year. However, for the year as a whole the average size of savings deposits was much higher in 1971 than in the preceding years as shown in Table II (E) 1.

Fixed deposit accounts were comparatively few in number. The average size of these deposits was much higher than savings deposits. The volume of fixed deposits showed a steady decline over the year; at the end of 1971 the total volume of fixed deposits was Rs. 676,106 or 15.4 per cent less than the level prevailing at the end of 1970. This decline in 1971 was a reversal of an increasing trend observed in the earlier years. The deposits in these accounts are fixed for

1. The People's Bank stopped the grant of credit under its Extended Credit Scheme from the beginning of 1971.

TABLE II (E) 1

Deposits and Loans of Rural Banks 1965-1971

Amount in Rupees

End of Quarter	No. of Banks	Deposit Accounts									Loans			
		Savings			Fixed			Total			No.	Amount	Average	
		No.	Amount	Average	No.	Amount	Average	No	Amount	Average				
1965	March	6	1556	194,013	125	10	8,100	810	1566	202,113	129	572	489,485	856
	June	7	1925	305,250	159	7	3,682	526	1932	308,932	160	771	693,621	900
	September	8	2597	504,160	194	7	3,734	533	2604	507,894	195	1038	855,946	825
	December	8	2924	491,626	168	9	4,734	526	2933	496,360	169	1153	914,699	793
1966	March	8	3244	499,462	154	9	8,732	970	3253	508,195	156	1316	1,010,628	768
	June	8	3519	525,370	149	13	20,586	1583	3532	545,956	155	1433	1,072,293	748
	September	11	3923	604,505	154	11	19,868	1806	3924	624,373	159	1611	1,204,125	747
	December	13	4636	703,011	152	15	22,737	1516	4651	725,748	156	1783	1,326,457	744
1967	March	14	5150	707,475	137	16	21,587	1349	5166	729,062	141	2037	1,413,639	694
	June	16	5971	821,448	138	20	38,952	1948	5991	860,400	144	2173	1,560,560	718
	September	20	6968	1,038,201	149	28	40,242	1437	6996	1,078,433	154	2529	1,815,637	718
	December	27	8792	1,305,846	118	41	65,381	1595	8833	1,371,227	155	2897	2,029,476	701
1968	March	30	10378	1,650,228	159	85	111,430	1310	10463	1,761,658	168	3336	2,366,359	709
	June	34	12137	2,063,947	170	137	161,486	1179	12274	2,225,433	181	4128	2,592,847	628
	September	39	14689	2,643,592	180	254	221,270	871	14943	2,864,862	192	4713	3,105,393	659
	December	44	17359	3,110,576	179	287	222,614	776	17646	3,333,190	189	5586	3,630,731	650
1969	March	54	19763	3,624,967	183	621	267,109	430	20384	3,892,072	191	6109	4,161,873	681
	June	57	22314	4,406,770	197	575	383,550	667	22889	4,790,320	209	6770	4,397,882	669
	September	64	25598	4,930,514	193	687	437,884	637	26285	5,368,398	204	7379	4,969,245	673
	December	68	28626	5,712,893	199	724	460,168	636	29350	6,173,061	210	7893	5,572,281	706
1970	March	80	31663	6,209,882	196	420	521,345	1241	32083	6,731,227	209	8506	6,049,587	711
	June	86	34887	7,104,222	176	841	697,101	829	35728	7,801,323	212	8894	6,265,170	705
	September	89	38417	8,255,943	215	932	721,352	774	39349	8,977,295	220	9671	6,779,046	701
	December	90	49939	16,109,287	322	892	799,117	896	50831	16,908,405	333	10017	7,122,213	711
1971	March	90	52273	14,780,578	283	911	826,532	907	53184	15,607,110	293	10627	7,505,111	706
	June	90	53765	15,509,220	288	835	806,178	965	54600	16,315,398	299	10405	7,232,584	695
	September	91	56694	16,380,194	289	809	723,171	894	57503	17,103,365	297	10929	7,410,959	678
	December	111	60371	17,188,297	285	838	676,106	807	61209	17,864,403	292	10725	7,144,913	666

Source: Rural Credit Department, People's Bank.

varying periods of 3,6 and 12 months. The rates of interest paid on these deposits are decided by each co-operative society; the average rate, in 1971, was around 5 per cent per annum.

The volume of lending in 1971 remained more or less at the level that prevailed at the end of the final quarter of 1970; the number of loan transactions, however, increased somewhat. The average size of loans declined over the first three quarters of the year. In the final quarter of 1971, the number of loan transactions and its volume of loans fell both because of a decline in the average size of loans and a reduction in the number of transactions. The volume of loans showed only a minimal increase in 1971 over the level that prevailed in 1970 as against an increase of Rs. 1.5 million in 1970 over that of 1969. This decline was mainly due to restrictions on lending imposed during the reorganisation of the co-operatives commenced in early 1971.

While total lending has not shown any appreciable increase over the level of 1970, production loans declined from Rs. 1.68 million to Rs. 1.52 million in 1971, as shown in Table II (E) 2. This decline was largely a reflection of a reduction in the lending for cottage industry, from Rs. 0.228 million in 1970 to Rs. 0.115 million in 1971. Credit for agricultural production and animal husbandry remained around the same level attained in 1970. In consequence lending for all production purposes, as a proportion of the total, declined from 23.5 per cent in 1970 to 21.2 per cent in 1971. Credit extended for housing too showed a fall from Rs. 2.73 million in 1970 to Rs. 2.58 million in 1971; in proportionate terms it declined from 38.3 per cent to 36.2 per cent over the same period. There was a similar reduction in credit for debt redemption purposes. Loans for trading activity, consumption and 'other' loans showed a significant increase from Rs. 0.70 million to Rs. 1.19 million (or 70.4 per cent) during this period; their importance in total lending increased from 9.9 per cent to 16.6 per cent. Apparently, the re-organisation of the co-operatives and the restriction on loans above a certain size resulted in a decline in lending for production, housing, debt redemption and electrification while that for trade, consumption and miscellaneous purposes increased, causing an overall marginal increase in total lending.¹

Total deposits of rural banks rose from Rs. 16.9 million at the end of December, 1970 to Rs. 17.9 million at the end of December, 1971. While these deposits fell in the first quarter they increased from Rs. 15.6 million in March to Rs. 17.9 million in December of 1971. At the end of the year total deposits exceeded the volume of loans by Rs. 10.8 million. As mentioned in the previous year's Annual Report, the rapid increase in the volume of deposits between September and December 1970 was due mostly to the demonetisation; but three months later, in March 1971, the volume of deposits fell to Rs. 15.6 million.

1. Loans classified as 'other' include lending by one Co-operative Society prior to its amalgamation with a rural bank in 1971. If loans of this Society are excluded, total lending by rural banks in 1971 would be less than the corresponding figure for 1970 by 5.67 per cent.

TABLE II (E) 2

Rural Banks' Loans by Purpose
(As at 31st December each year)

Purpose	Amount in Rupees		Percent of Total	
	1970	1971	1970	1971
Production of which ..				
Agriculture ..	1,389,272	1,340,908	19.5	18.8
Animal husbandry ..	59,790	58,978	0.8	0.8
Cottage industry ..	227,722	115,440	3.2	1.6
Housing ..	2,731,812	2,583,646	38.3	36.2
Debt Redemption ..	2,003,923	1,851,465	28.1	25.9
Trade ..	381,580	401,062	5.4	5.6
Consumption ..	90,945	97,172	1.3	1.4
Electrification ..	12,690	6,495	0.2	0.1
Others ..	224,476	689,745	3.2	9.6
Total ..	7,122,210	7,144,911	100.0	100.0

Source: Rural Credit Department, People's Bank.

Rural Banks also engage in pawn broking as agents of the People's Bank. The number of transactions on account of pawn broking rose from 18,092 in 1970 to 21,044 in the year under review and the extent of financing from Rs. 1,980,070 to Rs. 2,171,734 or by 9.7 per cent, as shown in Table 62 in Appendix II.

District-wise Analysis

The deposits and loans of rural banks are classified on a district basis in Table 62.

Colombo district had the largest number of rural banks, followed in importance by the districts of Kurunegala, Ratnapura, Polonnaruwa, Badulla and Kalutara. Nearly 25.5 per cent of the total volume of deposits was concentrated in the Colombo District. The total deposits in the Kurunegala district was Rs. 2.4 million, representing 13.4 per cent of the deposits and each of the districts of Ratnapura, Kandy, Badulla, Polonnaruwa and Kalutara had over a million rupees in deposits. These seven districts shared among them 75.4 per cent of the total deposits in all rural banks. The highest average size of deposit, at Rs. 516, was in the Jaffna district.

2. The New Agricultural Credit Scheme

(a) Paddy Loans

The amounts granted, repayments and the amounts in default on loans given for paddy cultivation under the New Agricultural Credit Scheme are shown in Table II (E) 3.

TABLE II (E) 3

New Agricultural Credit Scheme - Paddy Loans

Season Operation	Amount in Rupees Million										As Percentage of Amount Utilised								
	Maha 67/68	Yala 1968	Maha 68/69	Yala 1969	Maha 69/70	Yala 1970	Maha 70/71	Yala 1971	Maha 71/72	Maha 67/68	Yala 1968	Maha 68/69	Yala 1969	Maha 69/70	Yala 1970	Maha 70/71	Yala 1971	Maha 71/72	
Loans Granted ..	61.4	11.3	45.8	9.9	39.4	12.3	23.6	5.5	6.5	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Total Repayments of which: ..	52.5	9.6	27.6	7.9	19.6	8.1	9.2	2.6	0.1	85.5	84.9	60.3	79.8	49.7	65.9	39.0	47.3	1.5	
Voluntary ..	43.1	9.1	25.4	7.7	19.6	7.5	9.2	2.6	0.1	70.2	80.5	55.5	77.8	49.7	61.0	39.0	47.3	1.5	
Rice Ration ..	9.4	0.5	2.2	0.2	0.0	0.6	0.0	0.0	0.0	15.3	4.4	4.8	2.0	0.0	4.9	0.0	0.0	0.0	
Crop Failure Extensions ..	0.2	0.0	4.4	0.5	0.6	0.0	0.0	0.0	0.0	0.3	0.0	9.6	5.0	1.5	0.0	0.0	0.0	0.0	
Dues not in Default ..	0.0	0.0	0.0	0.0	0.1	0.1	4.8	2.8	6.4	0.0	0.0	0.0	0.0	0.3	0.8	20.3	50.9	98.5	
Defaults ..	8.7	1.7	13.8	1.5	19.1	4.1	9.6	0.1	0.0	14.2	15.1	30.1	15.2	48.5	33.3	40.7	1.8	0.0	

Source: Rural Credit Department, People's Bank.

Credit granted for paddy cultivation in the Maha 1970-71 season, was Rs. 23.6 million or 40.1 per cent less than the level utilised in the Maha 1969-70 (i.e. Rs. 39.4 million). The volume of credit utilisation in Yala 1971 declined sharply to Rs. 5.5 million from its level of Rs. 12.3 million in Yala 1970. The level of credit utilisation which reached Rs. 61.4 million at its inception in Maha 1967-68 showed a declining trend. In the two seasons Maha 1970-71 and Yala 1971 credit utilised reached minimal levels as shown in the above table. This declining trend is generally ascribed to the high rates of default under the scheme.¹ Defaulters were rendered ineligible for further credit under the scheme.

Rate of default progressively increased. In Maha 1970-71 only 39.0 per cent of the loans was repaid as compared to 49.7 per cent in the Maha of 1969-70 and 60.3 per cent in Maha 1968-69. Of the credit utilised in Yala 1971, 47.3 per cent was repaid, compared to 65.9 per cent in Yala 1970 and 79.8 per cent in Yala 1969. The higher level of recoveries in the period prior to 1970 was influenced to some extent by the recoveries made through the hypothecation of rice ration books of the borrowing households. Subsequent to the withdrawal of this requirement in 1970 recoveries consisted entirely of voluntary repayments.

However, repayments, that are due but which are not yet in default constituted 20.3 per cent and 50.9 per cent respectively of the loans granted in Maha 1970-71 and Yala 1971. Hence, the percentage level of recoveries could show further improvement in the course of the year. But even when the loans not in arrears are excluded, the percentage rate of default on loans taken in Maha 1970-71 was 40.7 as compared to 14.2 in Maha 1967-68 and 30.1 in Maha 1968-69; it was, however, less than the percentage level of defaults in Maha 1969-70 which was 48.5.

District-wise Analysis

The levels of credit utilisation and repayments declined in all districts except in Hambantota and Trincomalee in Maha 1970-71 and in all except Badulla and Batticaloa districts in Yala 1971, compared to the position that prevailed in the preceding Maha and Yala seasons respectively. This is shown in Table 63 in Appendix II. The deterioration in repayments was marked and conspicuously so in those districts that had maintained very high levels of repayments upto 1970, as shown in Table 64 in Appendix II.

Repayments in the Kandy district which were 99 per cent of the borrowings in Maha 1967-68, declined to 31 per cent in Maha 1970-71. Similarly, repayments in all other districts which had consistently good records of repayment upto 1970, deteriorated; the only exception was Badulla district in which repayments were over 80 per cent in Maha 1970-71.

1. The Central Bank conducted an all-island Sample Survey in early 1972 to ascertain the reasons for the high rates of default on loans under this Scheme. The data gathered in the Survey are being processed.

A marked improvement in the repayment of loans taken in Yala 1971 was seen in Kegalle and Batticaloa districts and to a lesser degree in Ratnapura and Matara districts.¹

(b) *Loans for Subsidiary Crops*

Data on credit granted for subsidiary food crops in 1970-71 are given in Table 65 in Appendix II.

Loans granted for subsidiary crops declined from Rs. 7.6 million in the period between October 1969—September 1970 to Rs. 5.1 million in the corresponding period in 1970-71. In general, the percentage of loans repaid too had fallen during the latter period. The repayments in respect of loans taken for potato cultivation declined from 94.2 per cent in 1969-70 to 74.6 per cent in 1970-71; that for vegetables from 84.7 per cent to 55.3 per cent and for red onions from 72.7 per cent to 53.8 per cent, in the corresponding periods. The major share of credit was given for chillies, red onions and potatoes. The Jaffna district continued to account for a significant share of the total loans taken for subsidiary crops.

3. Survey of Loan Defaults under the New Agricultural Credit Scheme.

The Economic Research Department conducted an all-island Sample Survey to ascertain the reasons for the high rate of default on loans taken under the New Agricultural Credit Scheme. The field work was completed during January and February, 1972 and the data gathered in the Survey are being processed.

1. Repayments in respect of borrowings made for Maha 1970/71 and Yala 1971 are still in progress and the level of repayments could show further improvement in the course of the year.