

**(E) RURAL BANKING AND CREDIT**

Institutional credit to the rural sector is provided mainly through the Co-operative Rural Banks and the New Agricultural Credit Scheme. In addition, credit to the rural sector is provided by schemes operated by government departments for specific purposes, by commercial banks and by specialised credit institutions.

**1. Co-operative Rural Banks.**

The number of rural banks, their deposits and advances on a quarterly basis are presented in Table II (E) 1. Following the government decision to attach a Co-operative Rural Bank to each of the re-organised Multi-Purpose Co-operative Societies, a rapid expansion of the network of rural banks was observed in 1972. During the year under review 131 new rural banks were established, of which 111 were set up in the first quarter of the year. The expansion of the network of rural banks slowed down in the next two quarters due to a shortage in the available supply of iron safes. The number of rural banks stood at 242 at the end of the 3rd quarter. No new rural banks were set up during the fourth quarter because of the commercial bank strike.

The number of savings deposit accounts with the rural banks increased from 60,371 at the end of 1971 to 102,822 at the end of 1972, or by 70.3 per cent. However, this increase in the number of accounts was occasioned by the rapid expansion of the network of rural banks during the year. Therefore, it is more appropriate to show separately the change in the position of the 111 banks which existed at the end of 1971. The number of savings deposit accounts in these 'old' banks<sup>1</sup> increased by 16,678 in 1972 over that of the previous year. The number of savings deposit accounts with the 'new' rural banks (established in 1972) stood at 25,773 as at the end of 1972. The volume of savings deposits in rural banks increased by Rs. 5.5 million in 1972 over the level prevailing at the end of 1971. Of this increase Rs. 3.8 million was accounted for by the deposits placed with the 'new' rural banks established in 1972. The savings deposits in the 'old' banks recorded only a moderate increase of only Rs. 1.7 million or 9.9 per cent during the year. The average size of savings deposits declined from Rs. 285 at the end of 1971 to Rs. 236 at the end of first quarter of 1972 and continued to decline further during the year until it reached a new low level of Rs. 221 since the third quarter of 1970.

The number of fixed deposit accounts with the rural banks declined from 838 at the end of 1971 to 812 at the end of 1972. The 'old' banks had 760 fixed deposit accounts at the end of 1972 while the number of such accounts with the 'new' banks amounted to 52. The decline in the volume of fixed deposits observed in 1971 continued till the end of first quarter of 1972. Apart from a slight improvement in the second quarter of the year the volume of fixed deposits reached a low level of Rs. 617,150 at the end of 1972. The volume of fixed deposits held by the 'old' banks amounted to Rs. 558,345 while, the

1. Henceforth the 111 rural banks which existed at the end of 1971 will be referred to as the 'old' banks, and the rural banks set up in 1972 as 'new' banks.

**TABLE II (E) 1**  
**Deposits and Advances of Rural Banks 1965-1972**

Amount in Rupees

End of Quarter	No. of Banks	Deposit Accounts									Advances									Difference between Total Deposits & Total Advances	
		Savings			Fixed			Total			Short-term Loans			Pawning			Total				
		No.	Amount	Average	No.	Amount	Average	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	n.a.	97,413	—	—	586,898	—	—	384,785
June	7	1925	305,250	159	7	3,682	526	1932	308,932	160	771	693,621	900	n.a.	135,241	—	—	828,862	—	—	519,930
September	8	2597	504,160	194	7	3,734	533	2604	507,894	195	1038	855,946	825	n.a.	201,654	—	—	1,057,600	—	—	549,706
December	8	2924	491,626	168	9	4,734	526	2933	496,360	169	1153	914,699	793	n.a.	252,596	—	—	1,167,295	—	—	670,935
1966 March	8	3244	499,462	154	9	8,732	970	3253	508,195	156	1316	1,010,628	768	n.a.	327,737	—	—	1,338,365	—	—	830,170
June	8	3519	525,370	149	13	20,586	1583	3532	545,956	155	1433	1,072,293	748	n.a.	356,383	—	—	1,428,676	—	—	882,720
September	11	3923	604,505	154	11	19,868	1806	3924	624,373	159	1611	1,204,125	747	3659	390,077	107	5270	1,594,202	302	—	969,829
December	13	4636	703,011	152	15	22,737	1516	4651	725,748	156	1783	1,326,457	744	4222	427,129	101	6005	1,753,586	292	—	1,027,838
1967 March	14	5150	707,475	137	16	21,587	1349	5166	729,062	141	2037	1,413,639	694	4943	493,707	100	6980	1,907,346	273	—	1,178,284
June	16	5971	821,448	138	20	38,952	1948	5991	860,400	144	2173	1,560,560	718	5348	532,410	100	7521	2,092,970	278	—	1,232,570
September	20	6968	1,038,201	149	28	40,242	1437	6996	1,078,433	154	2529	1,815,637	718	6094	591,527	97	8623	2,407,164	279	—	1,328,731
December	27	8792	1,305,846	118	41	65,381	1595	8833	1,371,227	155	2897	2,029,476	701	6598	633,213	96	9495	2,662,689	280	—	1,291,462
1968 March	30	10378	1,650,228	159	85	111,430	1310	10463	1,761,658	168	3336	2,366,359	709	7458	736,421	99	10794	3,102,780	287	—	1,341,122
June	34	12137	2,063,947	170	137	161,486	1179	12274	2,225,433	181	4128	2,592,847	628	7571	766,498	101	11699	3,359,345	287	—	1,133,912
September	39	14689	2,643,592	180	254	221,270	871	14943	2,864,862	192	4713	3,105,393	659	8629	841,780	98	13342	3,947,173	296	—	1,082,311
December	44	17359	3,110,576	179	287	222,614	776	17646	3,333,190	189	5586	3,630,731	650	9507	1,035,613	114	15093	4,716,344	312	—	1,383,154
1969 March	54	19763	3,624,967	183	621	267,109	630	20384	3,892,072	191	6109	4,161,873	681	10869	1,134,434	104	16978	5,296,307	312	—	1,404,235
June	57	22314	4,406,770	197	575	383,550	667	22889	4,790,320	209	6770	4,397,882	669	10844	1,196,139	110	17614	5,594,021	318	—	803,701
September	64	25598	4,930,514	193	687	437,884	637	26285	5,368,398	204	7379	4,969,245	673	12462	1,424,498	114	19841	6,393,743	322	—	1,025,345
December	68	28626	5,712,893	199	724	460,168	636	29350	6,173,061	210	7893	5,572,281	706	14325	1,523,646	106	22218	7,095,927	319	—	922,866
1970 March	80	31663	6,209,882	196	420	521,345	1241	32083	6,731,227	209	8506	6,049,587	711	16345	1,807,274	111	24851	7,856,861	316	—	1,125,634
June	86	34837	7,104,222	176	841	697,101	829	35728	7,801,323	212	8894	6,265,170	705	16587	1,820,629	110	25481	8,085,799	317	—	284,476
September	89	38417	8,255,943	215	932	721,352	774	39349	8,977,295	220	9671	6,779,046	701	17842	1,945,017	109	27513	8,724,063	317	—	253,232
December	90	49939	16,109,287	322	892	799,117	896	50831	16,908,405	333	10017	7,122,213	711	18092	1,980,066	109	28109	9,102,279	324	—	7,806,126
1971 March	90	52273	14,780,578	283	911	826,532	907	53184	15,607,110	293	10627	7,505,111	706	20880	2,222,566	106	31507	9,727,617	309	—	5,879,493
June	90	53765	15,509,220	288	835	806,178	965	54600	16,315,398	299	10405	7,232,584	695	18517	1,939,600	105	28922	9,172,184	317	—	7,143,214
September	91	56694	16,380,194	289	809	723,171	894	57503	17,103,365	297	10929	7,410,959	678	20293	2,063,927	102	31222	9,474,886	303	—	7,629,479
December	111	60371	17,188,297	285	838	676,106	807	61209	17,864,403	292	10725	7,144,913	666	21044	2,171,734	103	31769	9,316,647	293	—	8,547,756
1972 March	222	75991	17,973,907	236	796	640,560	805	76787	18,614,467	242	11009	7,136,622	648	30106	3,129,497	104	41115	10,266,119	250	—	8,348,348
June	235	88056	20,584,908	234	800	657,614	822	88866	21,242,522	239	11212	7,328,506	654	37899	4,126,482	109	49111	11,454,988	233	—	9,787,534
September	242	96525	21,927,687	227	875	650,798	744	97400	22,578,485	232	11447	8,023,384	701	52728	5,762,400	109	64175	13,785,784	215	—	8,792,701
December	242	102422	22,703,436	221	812	617,150	760	103634	23,320,586	225	11515	8,226,663	714	60735	6,958,250	115	72250	15,184,913	210	—	8,135,673

Source: Rural Credit Department, People's Bank.

'new' banks held only Rs. 58,805. The amount held by 'old' banks was 17.4 per cent less than the level held at the end of 1971. The average size of fixed deposits also declined from Rs. 807 at the end of 1971 to Rs. 760 at the end of 1972. The poor position of the fixed deposits may perhaps indicate that the habit of depositing money for longer periods (of 3 months and above) with rural banks has still not become popular in the rural areas.

Total deposits in the rural banks showed an upward trend in 1972. The total deposits which stood at Rs. 17.9 million at the end of 1971 increased by Rs. 5.4 million or by 30.2 per cent in 1972. The 'new' banks which held Rs. 3.8 million of the total deposits at the end of 1972 were largely responsible for this increase. Thus the 'old' banks did not record an appreciable increase in their total deposits.

The volume of credit provided by rural banks in the form of short-term loans which recorded a marginal decrease at the end of first quarter of 1972 showed a moderate increase over the next nine months of the year. The number of loan transactions at the end of 1972 stood at 11,515 recording an increase of 790 over the number of transactions at the end of 1971. It is of interest to note that the 131 'new' banks opened in 1972 had only 100 loan transactions at the end of the year. The size of short-term loans at the end of 1972 averaged Rs. 714 which was little higher than the average as at end of 1971. However, the average at the end of the year under review is much lower than the level that prevailed in 1965; one year after the inception of the system of rural banks. The volume of outstanding loans increased from Rs. 7.1 million at the end of 1971 to Rs. 8.2 million at the end of 1972. The volume of outstanding loans of the 131 'new' banks amounted to only Rs. 49,791 at the end of the year. At the end of 1972 the total deposits of all rural banks exceeded the volume of outstanding short-term loans by Rs. 15.1 million. Deposits in 235 rural banks exceeded the volume of outstanding short-term loans at the end of 1972.

The purpose-wise classification of loans granted by rural banks given in Table II (E) 2 shows that the production loans had declined by Rs. 0.26 million in 1972. Although the loans granted for agricultural production and cottage industry recorded a decrease, loans for animal husbandry showed an increase in 1972. The loans granted for this purpose increased from Rs. 58,978 in 1971 to Rs. 130,177 in 1972; an increase of 121 per cent. Contrary to the position found in 1971 credit provided for debt redemption also increased by 87.3 per cent in 1972. Loans granted for other purposes did not record a significant change over the levels prevailing in 1971. The purpose-wise pattern of lending by rural banks remained much the same as in the previous years.

#### **District-wise Analysis**

A district-wise classification of deposits and advances of rural banks is presented in table 63 in Appendix II.

TABLE II (E) 2

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

Purpose	Amount in Rupees		Percent of Total	
	1971	1972	1971	1972
Production ..	1,515,326	1,246,159	21.2	15.2
of which :				
1. Agriculture ..	1,340,908	1,035,266	18.8	12.6
2. Animal husbandry ..	58,978	130,177	0.8	1.6
3. Cottage industry ..	115,440	80,716	1.6	1.0
Housing ..	2,583,646	2,616,245	36.2	31.8
Debt Redemption ..	1,851,465	3,467,067	25.9	42.1
Trade ..	401,062	450,795	5.6	5.5
Consumption ..	97,172	90,808	1.4	1.1
Electrification ..	6,495	6,351	0.1	0.1
Others ..	689,745	349,238	9.6	4.2
<b>Total ..</b>	<b>7,144,911</b>	<b>8,226,663</b>	<b>100.0</b>	<b>100.0</b>

*Source:* Rural Credit Department, People's Bank.

Colombo district continued to have the largest number of rural banks followed by the districts of Kurunegala, Galle, Kalutara and Kandy. The volume of total deposits in the Colombo district amounted to Rs. 5.98 million at the end of 1972, representing 25.5 per cent of total deposits of all rural banks, while Kurunegala district held Rs. 2.9 million or 12.4 per cent of the total deposits. In respect of loan operations too, Colombo district had the largest volume of outstanding short-term loans at the end of 1972, which amounted to Rs. 2.1 million or 25.6 per cent of total outstanding loans. Total deposits in all the districts exceeded the volume of short-term loans.

Rural Banks also function as pawn-broking agents of the People's Bank. The popularity of obtaining credit on the pledge of valuable jewellery in rural areas is reflected in the increase in the number of pawn-broking transactions from 21,044 at the end of 1971 to 60,735 at the end of 1972 as shown in Table II (E) 1. It is interesting to note that the 131 'new' banks which had only 100 short-term loan transactions had 21,058 pawn-broking transactions. The extent of financing under pawn-broking rose steeply from Rs. 2,171,734 at the end of 1971 to Rs. 6,958,250 at the end of 1972 or by 220 per cent. The 'old' banks had financed up to Rs. 4,497,553 while the amount financed by 'new' banks amounted to Rs. 2,460,697 at the end of 1972. The high level of borrowing under pawn-broking may perhaps be due to the relatively less cumbersome formalities and restrictions in obtaining such credit.

## 2. The New Agricultural Credit Scheme

### (a) Paddy Loans

The amount of loans granted, the method and extent of recovery, amount of loans extended on account of crop failure and the extent of default are summarised in Table II (E) 3.

**TABLE II (E) 3**  
**New Agricultural Credit Scheme - Paddy Loans**

Item	Amount in Rupees Million											As Percentage of Amount Granted										
	Maha 67/68	Yala 1968	Maha 68/69	Yala 1969	Maha 69/70	Yala 1970	Maha 70/71	Yala 1971	Maha 71/72	Yala 1972	Maha 72/73 <sup>(a)</sup>	Maha 67/68	Yala 1968	Maha 68/69	Yala 1969	Maha 69/70	Yala 1970	Maha 70/71	Yala 1971	Maha 71/72	Yala 1972	Maha 72/73
Loans Granted ..	61.4	11.3	45.8	9.9	39.4	12.3	23.6	5.8	21.4	6.3	11.6	100.0	100.0	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	27.8	8.0	19.7	8.3	11.5	4.6	9.8	1.9	0.6	85.5	85.0	60.7	80.8	50.0	67.5	48.7	79.3	45.7	30.2	5.2
(a) Voluntary ..	43.1	9.1	25.6	7.7	19.7	7.7	11.5	4.6	9.8	1.9	0.6	70.2	80.5	55.9	77.8	50.0	62.6	48.7	79.3	45.7	30.2	5.2
(b) Rice Ration ..	9.4	0.5	2.2	0.3	—	0.6	—	—	—	—	—	15.3	4.5	4.8	3.0	—	4.9	—	—	—	—	—
Crop Failure Extensions	0.2	—	2.5	0.1	0.5	—	—	—	—	—	—	0.3	—	5.5	1.0	1.3	—	—	—	—	—	—
Dues not in Default ..	—	—	—	—	—	—	0.2	0.1	4.9	4.0	11.0	—	—	—	—	—	0.9	1.7	22.9	63.5	94.8	—
Defaults ..	8.7	1.7	15.5	1.8	19.2	4.0	11.9	1.1	6.7	0.4	—	14.0	15.0	33.8	18.2	48.7	32.5	50.4	19.0	31.4	6.3	—

(a) Incomplete data

Source: Rural Credit Department, People's Bank.

The utilization of credit in the Maha 1971/72 season, at Rs. 21.4 million recorded a decrease of Rs. 2.2 million or 9.3 per cent from the level of credit utilized in the previous Maha season at Rs. 23.6 million. The volume of credit utilization in the Yala season of 1972 at Rs. 6.3 million was slightly higher than the volume utilized in the previous Yala season. The level of credit utilization at the inception of the scheme which stood at Rs. 61.4 million and Rs. 11.3 million in Maha 1967/68 and Yala 1968 respectively, has declined to Rs. 21.4 million and Rs. 6.3 million in Maha 1971/72 and Yala 1972. The declining trend witnessed in the use of credit, which is generally ascribed to the high rate of default is likely to continue since the claimants for further loans tend to diminish with an increase in the number of defaulters who are rendered ineligible for further credit.

In regard to repayments 45.7 per cent of the Maha 1971/72 loans were repaid as compared to 48.7 per cent in the Maha of 1970/71 and 50.0 per cent of Maha 1969/70. These recovery rates are much lower than the recovery rates at 85.5 and 60.7 per cent obtained in the Maha seasons of 1967/68 and 1968/69 respectively. Of the credit utilized in Yala 1972, only 30.2 per cent was repaid, compared to 79.3 per cent in Yala 1971 and 67.5 per cent in Yala 1970. The recovery levels of the Yala seasons of 1968 and 1969 at 85.0 and 80.8 per cent respectively too were relatively high compared with the later Yala seasons. Recovery of Yala loans normally runs into the next year. In addition, in 1972 the Bank strike also affected the recovery rate. The higher level of recoveries in the periods shown was influenced to a limited extent by the recoveries made through the hypothecation of the rice ration books of the borrowing households.

It is, however, clear that the declining trend in the utilization of credit is accompanied by a low level of repayments. The rate of default has continued to increase. This rate which was only 14.0 per cent in Maha 1967/68, has increased to 50.4 per cent in Maha 1970/71 while it was 48.7 per cent in Maha 1969/70.

### District-wise Analysis

The district-wise position of credit utilization and recovery levels in respect of Paddy loans in Maha 1971/72 and Yala 1972 are given in Table 64 in appendix II.

The levels of credit utilization declined in all districts except in Galle, Mannar, Vavuniya, Amparai, Kurunegala, Nuwara Eliya, Badulla and Ratnapura in Maha 1971/72. In Yala 1972, increases in the use of credit were observed in the districts of Matara, Amparai, Kurunegala, Galle, Batticaloa, Trincomalee, Moneragala and Kegalle, while other districts have utilized lower amounts than in the previous Yala. In Maha 1971/72 the highest levels of recoveries at 82.5, 81.0, 80.8, 78.3 and 78.3 per cent were recorded in the districts of Badulla, Polonnaruwa, Kegalle, Galle and Kalutara respectively, while lowest recovery levels of 2.1, 16.7, 19.4 and 20.7 per cent were recorded in the districts of Jaffna, Nuwara Eliya, Puttalam and Vavuniya respectively. As mentioned earlier

TABLE II (E) 4

## New Agricultural Credit Scheme — Subsidiary Crops Loans

Year	Amount Granted (Rupees Hundred)					Repayment position on all Crops							
	Chillies	Red Onions	Potatoes	Vegetables	Total	Total Repayments	Crop Failure Extensions	Dues not in Defaults	Defaults	As percentage of amount granted			
										Total Repayments	Crop Failure Extensions	Dues not in Default	Defaults
1967/68 .. ..	19,602	19,843	11,444	4,138	55,027	45,533	—	—	9,494	82.74	—	—	17.25
1968/69 .. ..	20,430	24,704 <sup>50*</sup>	15,021	4,347	64,552	52,120	3,115	—	9,317	80.74	4.82	—	14.43
1969/70 .. ..	23,933	29,994	18,333	3,394 <sup>56**</sup>	75,710	54,595	74	—	21,041	72.11	0.09	—	27.79
1970/71 .. ..	11,500	16,077	22,367	1,485 <sup>73**</sup>	51,502	36,167	350	74	14,911	70.22	0.67	0.14	28.95
1971/72 .. ..	7,020	14,684	24,496	2,104	48,304	21,074	—	25,961	1,269	43.62	—	53.74	2.62
1972/73 .. ..	9,126	2,921	9,290	172 <sup>80**</sup>	21,589	25	—	21,564	—	0.11	—	99.88	—
Total .. ..	91,611	108,273	100,951	15,849	316,684	209,514	3,539	47,599	56,032	66.15	11.11	15.03	17.69

\* Bambay Onions

\*\* Ground Nut and Maize

Source: Rural Credit Department, People's Bank.

the recovery of credit was adversely affected by the Bank Strike.<sup>1</sup> The performance in the level of recoveries in Yala 1972 as shown in the table, cannot be treated as conclusive since the due time for recoveries in respect of most of the loans has not yet lapsed.

(b) *Loans for Subsidiary Crops*

Table II (E) 4 shows the amount of loans granted crop-wise and the recovery levels obtained in respect of the subsidiary crops since the inception of the scheme.

The total amount of loans granted for the cultivation of chillies, red onions, potatoes and vegetables at Rs. 5.1 million in 1970/71 has been further reduced to Rs. 4.8 million in 1971/72. An increasing trend noted in the utilization of credit reached its peak in 1969/70 at an amount of Rs. 7.6 million. The continued fall in the utilization of credit thereafter may perhaps be explained by high incomes obtained by the cultivators of these commodities. Loans for potato cultivation, however, have increased continuously. The amount granted for this purpose in 1971/72 at Rs. 2.4 million is an increase of Rs. 1.3 million or 118 per cent over the corresponding amount granted in 1967/68. The percentage of loans repaid had fallen each year. The recovery level of all loans at 82.74 per cent in 1967/68 had fallen to 70.22 per cent in 1970/71. The recovery level of 43.62 per cent obtained in 1971/72 is not indicative of the actual position since 53.74 per cent of the loans are still classified as loans not in default. District-wise analysis of loans for subsidiary crops in 1971/72 is given in Table 65 in Appendix II. The repayment in respect of loans taken for chillies in the Batticaloa district at 71 per cent is the highest level obtained in 1971/72. In all other districts, levels of recoveries were poor. Recovery position of loans for red onions too remained at very low levels;<sup>1</sup> the highest recovery rate of 45 per cent was recorded in the Moneragala district. The recovery level, however, in respect of loans for potatoes, was appreciably high in the districts of Badulla and Nuwara Eliya at an average of 92.7 per cent.

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1. It should be noted that data on recovery of loans given here are those recorded in the books of the People's Bank. However it is likely that some cultivators would have repaid their loans to the Co-operative Societies, but these repayments are not being recorded in the books of the People's Bank because of the Bank strike.