

**Regional Seminar on**  
**COOPERATIVE INSURANCE**  
**AND**  
**PROMOTION OF SAVINGS**

**REPORT & PAPERS**

**Tokyo, Japan**  
**1-21 September, 1976**



**INTERNATIONAL COOPERATIVE ALLIANCE**

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# **I**

# **Report**

**Case Study on “Shimonoseki  
(Multipurpose) Agricultural Society”**

**Appendix : 1. Programme**  
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# REPORT

## Introduction

A Regional Seminar on Cooperative Insurance and Promotion of Savings was held by the International Cooperative Alliance, Regional Office & Education Centre for South-East Asia, in collaboration with the Central Union of Agricultural Cooperatives of Japan (CUAC), National Mutual Insurance Federation of Agricultural Cooperatives (ZENKYOREN), Central Cooperative Bank for Agriculture and Forestry (CCB) and the Institute for the Development of Agricultural Cooperation in Asia (IDACA) from 1st to 21st September 1976 in Tokyo, Japan. Twenty participants from Bangladesh, India, Iran, Korea, Malaysia, Nepal, Pakistan, Singapore, Sri Lanka and Thailand and an observer from Sri Lanka attended the seminar. The list of participants and the seminar programme are given in Annexure 1 and 2.

The seminar was directed by Mr. Lionel Gunawardana in collaboration with Mr. Daman Prakash and Mr. H. Togawa.\*

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\*The designations and the names of organisations of these persons are given in the list of participants.

## **Objectives**

1. To review cooperative insurance situation in South-East Asia and to identify problems ;
2. to review programmes for promotion of saving through cooperatives in South-East Asia and to identify problems ;
3. to study cooperative insurance and cooperative savings programmes in Japan ; and
4. to consider steps to be taken for developing cooperative insurance and for promotion of savings through cooperatives in countries of the Region in the context of experiences in Japan.

## **Study Visits**

In order to provide the seminar participants with an opportunity of learning about the insurance and promotion of savings activities by cooperatives in the Republic of Korea a study visit programme for seven days was organised by the International Cooperative Alliance in collaboration with the National Agricultural Cooperative Federation (NACF) prior to the seminar. The seminar participants were taken to four primary agricultural cooperative societies, and one county agricultural cooperative and to the National Agricultural Cooperative Federation in the Republic of Korea. The seminar programme also included study visits in Japan. In Japan the participants were taken to a primary agricultural multipurpose cooperative for intensive study with the help of a case study especially prepared for the seminar. The participants also visited prefectural and national level cooperative insurance and credit organisations.

The seminar consisted of two groups-the savings promotion group and the cooperative insurance group. For specialised lectures and group discussions they met separately.



## **Promotion of Savings**

In order to discuss methods for promotion of savings more effectively, the seminar felt that a preliminary discussion on the problems of credit cooperatives would be useful. The seminar noted that these problems also hamper the Societies' work in the field of promotion of savings. Therefore it discussed their problems in detail and noted the following.

### **Cooperative credit, its problems and steps taken to overcome them.**

In the South-East Asian countries the growth of cooperative credit is as uneven as the growth of the cooperative movement itself. However, unlike the European countries where the cooperative movement started as a consumer movement, the countries of the South-East Asian region gave more emphasis to the credit aspect right from the beginning. In Japan, Sri Lanka and the countries of the Indian subcontinent the movement started in the first decade of the present century with the organisation of primary cooperatives, and in course of time district or prefectural level societies or national/state level institutions were organised. In the course of the next few decades the credit cooperatives were organised in other countries of the region. However, it was only after the Second World War, when most of the countries became independent and when the task of national reconstruction was taken up in right earnest did the cooperative movement as well as the credit cooperatives blossom. Iran had to wait as late as 1963 to set up its Central Organisation of Rural Cooperatives for development and extension of rural cooperative societies.

In some countries like Nepal, Sri Lanka and Thailand the credit structure is a two-tier one whereas in others like Pakistan, India, Bangladesh, Korea and Japan it is a three-tier one. In India and Pakistan, the apex institution is at the state level. In India there is also a national level federation. Its functions are advisory. In others apex institutions are at the national level.

Among the cooperative credit institutions of the South-East Asian countries there are some basic similarities. Most of them suffer from organisational weakness, managerial inefficiency lack of proper education on the part of members, inadequacy of finance etc. All these stem from the general weakness of the national economies of this region, (Japan is a happy exception). The weakness mentioned above do not feature in Japan where the economy is self-generating and most of the farmers are well-to-do if not affluent. In the case of the Republic of Korea, rapid economic growth in recent years has improved the general lot of farmers resulting in healthy growth of the rural cooperatives. Similarly good progress has been made in some of the Indian States and some other countries in the region where agriculture and education have made substantial advances.

#### **Problems faced by cooperative credit institutions and steps taken to overcome them.**

Some of the problems faced by the cooperative credit institutions in the South-East Asian countries are discussed below. Many of them are common to several countries. Though the basic approach taken by these countries to overcome these long pending issues is the same, according to their local conditions and national policies, they have tried out different solutions. Though in almost all the countries of this region agriculture is the mainstay of the people, the income of a farm household from agriculture is less than sufficient because of small and scattered holding and subsistence farming. There is a growing realisation that organisation and strengthening of the cooperatives at the grass-root level will provide a solution to certain basic problems as it will aid the small farmers and will help in pooling and better utilisation of resources. Because of this realisation, in recent years, the governments of this region have come to the aid of cooperatives to a great degree and development of cooperatives in general has become a matter of state policy.

#### **Uneconomic size of societies**

The first major handicap of the cooperative credit structure

is the lack of viability, particularly of primary cooperative societies. The lack of viability is the result of one or more of the following factors :

- a) small area covered ;
- b) low coverage of the population in the operational area ; and
- c) limited activities i.e. engaging only in one function.

Although organisation of a multipurpose cooperatives at the primary level has been the goal in almost all the countries and the byelaws of the societies, in fact, portray this, only in a few countries like Japan and the Republic of Korea and Sri Lanka has this been achieved so far. In other countries this is in different stages of development. In many areas the societies are very small, some covering even a single village with a few households. This has not only added to the organisational problems, but has also made the societies uneconomic. Lately, therefore, there is an emphasis on organising bigger and multipurpose type societies covering several villages and a larger population. In India in many States primaries are being merged together to form Farmers Service Societies (FSS) and Large Sized Multipurpose Societies (LAMPS) in tribal areas so that the societies not only become bigger in size, but also multipurpose in character. In Sri Lanka amalgamation of small societies into large size ones has been done and the country is now trying to grapple with the problems arising out of a quick reorganisation. In Japan and the Republic of Korea, the reorganisation has been a slow and voluntary process because of which the changeover has been smooth. In Japan, 7074 multipurpose societies were amalgamated into 1788 while in Korea nearly 20,000 societies were amalgamated to form 1545. After amalgamation, the societies have also been able to enlarge the scope of their activities by undertaking marketing, processing, consumer business, insurance and the like. In other words provision of integrated services is the hallmark of the functioning of primary cooperatives in Korea and Japan.

A multipurpose society at the primary level will have greater possibility of being strong and viable, but will also be able to provide various kinds of services to the farmer at a single point. A cooperative institution needs strong support and loyalty from its members for smooth and efficient functioning. It will be possible to get that type of support and loyalty from the farmer members, if the society can cater to all their basic needs for agricultural development and improved living. This has been amply proved in some countries especially in Japan. There is, however, a danger in having bigger societies in that the member may lose his close contact with the society. This can be overcome by several conscious steps like more contact with the members by the officials of the society through home visits, group discussions, social get togethers, extension of community and social services and the like.

#### **Inability to grant adequate and timely credit**

Credit, to be effective and meaningful, should be timely and adequate. The important considerations by any person, who borrows, whether he borrows for agriculture or for any other purpose, are that it is granted without complicated procedures and that it is disbursed without undue delay so that the borrowed funds could be utilised in time. The inadequacy of sources for financing the cooperatives and when the finances were forthcoming, other factors, such as complicated procedures and methods of assessing loan requirements contribute to the failure of members to get loans in time. In assessing loan requirements, the farmers' assets and the securities he can offer are given more weight than his production potential. In using such methods of assessing creditworthiness the cooperatives fail to recognise creditworthiness that accrues to a member by reason of his capacity and diligence.

#### **Competition from private moneylenders**

The cooperatives have not fully succeeded in removing the private moneylender from the village scene. The keen competition which the cooperatives have offered him has, however had

a salutary effect. The private moneylenders now do not dare charge the exorbitant rates of interest which they used to charge, though the rates are still high. He has changed his ways and methods of lending, much to the benefit of the borrower. This very adjustability of the private moneylender is the biggest factor in his favour. This makes it difficult for the cooperatives to replace him.

#### **Lack of managerial skills**

Managerial weakness is found to be one of the major problems of cooperatives in most of the South-East Asian countries. This is mostly due to the weak financial position of the societies which makes the hire of best available hands difficult. Paucity of resources also prevents the cooperatives from taking up any staff development programme like training etc. Moreover there is a continuous 'brain-drain' from the cooperative sector to other sectors which are in a position to pay better. It is often noticed in some countries that staff of cooperative credit institutions, after a few years of experience in work leave these organisations and go over to commercial banks or other financial institutions for better salaries and prospects. This is going to be a perpetual problem for cooperatives unless they are able to at least arrest, if not reverse the trend. This however, will not be possible unless the cooperatives increase their profitability and strengthen their financial position by taking up territorial and functional reorganisation. Simultaneously the key areas of management weaknesses have to be identified and steps taken to remove them.

#### **Lack of proper leadership**

Another major problem bedeviling the growth of cooperative credit institutions is the lack of proper leadership. The problem exists in different countries and in different regions in the same country in varying degrees. It is needless to mention that the healthy growth of the cooperative movement depends to a large extent on non-official leadership and where this has been wanting, the growth has been wanting, the growth has been rather slow. This handicap cannot be removed overnight. Continuous effort in the field of cooperative education and training is required in order to build an effective leadership.

### **Lack of adequate training for farmers**

Training the leaders will not be enough unless the farmers and artisans in the rural areas, for whom the cooperative credit institutions are primarily meant, are properly trained and motivated. It is generally found that the farmers, mainly those who exist at a subsistence level, are not only ignorant of the benefits made available by the cooperatives, but are also incapable of utilising such benefits because of their lack of education, particularly in the field of agriculture. Because of illiteracy and ignorance, an average farmer who could be benefited by new technology is not in a position to acquire such knowledge. It requires much greater effort on the part of governments, cooperatives and also extension and other agencies to bring home to the average farmer in the village the message of the new agricultural revolution and the facilities that are available to him. Unless this is done, full absorption of the credit which is already available, will not be possible. This is evident from the experience of some countries which have fairly adequate resources thanks to facilities offered by their governments, but their cooperatives are not in a position to utilise such facilities.

### **Credit Delinquency**

Another major reason for the inelasticity of credit flow is poor collection of cooperative dues. Almost all countries have followed the policy of not financing a cultivator before he clears the previous loan. Some relaxations are provided at the time of natural calamities and in case of non-wilful default. Large overdues lock up the scarce resources of the credit institution, particularly of the primary societies by eroding its share capital base and financial viability. Large overdues also result in the loss of the confidence of not only of the higher financing institutions, but also of the good cultivators who fail to get further credit from the society because of default on the part of other members. The problem is widespread in the South-East Asian Region though the degree varies from country to country. This forces the cooperatives to rely more and more on government assistance thereby endangering the autonomy of the cooperatives. For removing wilful

default and making the farmer-members realise the necessity of repaying their loans, action not only on the part of the cooperative institutions and leaders, but also on the part of the government is necessary. The reason for overdues should be investigated in detail and coercive action taken against wilful defaulters. This is where the governments can really extend a helping hand to the cooperative credit institutions.

### **Insufficient organisational set-up**

Another shortcoming noticed was the weak or inadequate organisational set up of cooperative credit institutions in some countries. It was noted that coverage by the cooperative banks or banks for cooperatives is insufficient. Therefore, while strengthening the cooperative banks, steps have to be taken to organise rural banks to finance agriculture and allied activities in rural areas through primary cooperatives and also to persuade commercial banks to take up financing of such societies. Such steps, it is hoped, will lead to a larger flow of funds to the primary cooperatives thereby meeting the credit needs of the farmers to a great extent. The allied sectors like dairy, poultry, fishery, weaving and the like are also expected to benefit from such measures.

### **Weak financial base of cooperatives**

All these steps, however, will not be adequate unless the cooperatives improve their own financial base by mobilising the surplus funds particularly in the rural sector. The possibility of such achievements has been amply demonstrated by Japan where the deposits of primary cooperatives outstrip the loans advanced by them by almost five times and the cooperative sector finances other sectors of the economy as well, and in the Republic of Korea where the cooperatives have been able to mobilise deposits almost to the tune of 50% of their credit requirements. In certain States of India also it has been similarly successful. Credit operation of the countries in the region reveal large scale dependence on government and other agencies except in the case of Singapore which meets nearly 90% of its credit requirements from its own

resources. In the case of Korea deposits form 53.5% of the total resources whereas in India and Sri Lanka deposits form only less than 10% of the loanable resources. With the increased investments in the agricultural sector and the boom in agricultural production in many countries, larger incomes and consequently larger savings are expected in the rural areas. The cooperatives should mobilise such surplus funds before other competitors, particularly commercial banks, step in. Intensive efforts may be made for deposit mobilisation at the primary level with a view to achieving self-reliance. It will be possible only if the cooperatives can substantially increase their managerial efficiency and win the confidence of the farmers by developing a proper climate of mutual cooperation and assistance in rural areas.

### **Promotion of Savings in Japan**

As we have observed earlier, Japan among the South-East Asian countries stands out separately. Here the agricultural cooperatives at the primary level have a success story to tell. This is equally true in the field of mobilisation of savings. The agricultural cooperatives have taken advantage of the boom in agricultural production and the rise in income of the rural households both from agricultural and non-agricultural sources and have been able to tap the surplus funds through insurance business and also by mobilising deposits. Their success can be attributed to the initial support lent to them by the government by entrusting the implementation of the scheme for purchase of paddy at support prices and their own innovative and imaginative methods of deposit mobilisation.

The primary cooperatives in Japan have one basic advantage over their counterparts in other countries; they are strong and viable, particularly after reorganisation and have been able to win the trust and confidence of the farmer-members by safeguarding their interests through several activities undertaken by them. This has made the farmer members and even non-member residents more responsible to their plans, programmes and suggestions.



For mobilisation of savings the Japanese cooperatives have adopted several methods-the most important being personal and direct contact with the potential depositor. Normally one day in a month is treated as a field day when the staff of the societies visit different farm households and collect savings. This is usually on the 26th or 27th day of the month, immediately after the pay day. Similarly special campaigns are launched twice in a year, in June, July or August and again in December, immediately after the six-monthly payment of bonus to collect surplus funds. In months of October-December, special drives are also undertaken immediately after the harvest. The societies give emphasis on collection of savings from both farm and non-farm incomes as about 60% of the total income of farm households comes from non-agricultural sources. In the case of member-farmers the proceeds obtained from marketing of farm produce is credited to their accounts with their consent. This makes saving automatic on the part of the members. Some societies organise youth groups and women's groups for the purpose whereas some others engage household economy planning advisors elected from among the residents of a locality. The latter group helps the members plan their economic activities instalment savings, processing of loans and repayment schedules etc. They also collect the savings from the members.

In some areas "Tsumori System" of saving is adopted. Under this scheme, housewives are encouraged to save the difference between the 'expected expenditure' and the amount actually spent. Normally the monthly allocation given to the housewives for household expenditure is not totally consumed. They are encouraged to save the balance with the society instead of using them to buy extra items.

Since the general standard of living of an average Japanese farmer is quite high, his needs are also sophisticated and requirement of funds for emergencies or even for better living is quite substantial. In order to facilitate saving for these purposes, special purpose deposit schemes have been formulated by most of the societies. These deposits are maintained for saving money

for specific purposes like (a) education of children, (b) sight seeing trips (c) wedding anniversary celebrations (d) payment of taxes, and (e) car reconditioning. These are refunded in appropriate time. Special incentives are given for instalment saving schemes. Even new dwellers in a locality who have not yet become members are approached with different schemes under which the society renders them services like payment of children's school fees and telephone bills, maintenance of family car etc. Thereby the society gains the confidence of new dwellers who may become members of the society in course of time.

As Japan is becoming more and more industrialised, agricultural lands are converted into industrial sites. Land prices are very high and when members' lands are sold, the societies make all out efforts to tap such funds as deposits. In this effort they face stiff competition from commercial banks. Because of the goodwill the societies have been able to build up among the members and residents of the locality, they usually succeed over the commercial banks. Such is the savings promotion drive that the agricultural cooperatives in Japan have been able to collect substantial deposits, much more than the funds required for their loaning operation or other types of business, and are able to finance other sectors of the economy as well.

The deposit insurance system and agricultural credit guarantee system have helped to instill confidence in the cooperatives and attract more deposits. Under the deposit insurance system, amounts up to 3 million yen are insured per depositor. Under the agricultural credit guarantee system loans above one million yen are guaranteed by the Cooperative Central Bank.

### **Promotion of savings in the Republic of Korea**

The other country in the region which has achieved some notable success in recent years in the field of mobilisation of saving is the Republic of Korea. With a view to increasing the financial resources of cooperatives, Korea has launched an ambitious programme for mobilising 1000 billion won on savings from farmers by the year 1980. To achieve the above target and

generally to promote savings, the following methods are being adopted :

- (a) To mobilise idle funds in the rural areas, primary cooperatives have enforced new types of deposits with higher interest rates than the city banks. The increase in the rate of interest ranges between 0.16% and 8.5%.
- (b) A new form of a savings scheme viz. "Farmers Wealth Accumulation Savings Scheme" was introduced in April 1976 under which a high rate of interest of 23.2% for one year and 25.2% for five years is offered. This scheme is applicable only to those farmers having less than two hectares of arable land. The objective of the scheme is to help low or moderate income farmers to accumulate wealth.
- (c) Special savings schemes for specific purposes have been evolved, such as for schooling, wedding, funeral and for purchase of farm equipments. In addition, a lottery ticket is attached to time deposits. The winning farmers are awarded prizes in the form of cattle, power-plough and bicycles.
- (d) There are four types of village level cooperative groups, viz. cooperative group, commodity group, women's group and saving associations. Among these, women's group and saving associations are mainly concerned with savings promotion.
- (e) A campaign entitled "One Deposit Book per Farm Household" has been launched under which each farmer is to have at least one account with the society. Whenever farm produce is sold the money is credited to his account. When the society purchases farm produce on behalf of the government, the farmer is encouraged to retain at least 20% of the price in his account.

- (f) In order to induce savings, collection of savings from the saving associations are made by the society itself.
- (g) School Banks are set up in the rural areas for cultivating the habit of thrift among children.
- (h) Special arrangements are made to collect savings from factory workers in the factories themselves.
- (i) Campaigns are conducted exhorting farmers to practice saving in daily life by economising expenditure and avoiding waste.

It should be mentioned in this connection that the Saemaul Undong (New Community) Movement has helped the cooperative movement of Korea in general and savings promotion activities in particular. In Saemaul villages, Saemaul Savings Groups are organised with a view to promoting savings.

#### **Promotion of savings in other countries in the Region**

In other countries of the region the performance is comparatively poor. As mentioned earlier, the weakness of the primary agricultural cooperative is primarily responsible for this. Many primaries are not viable and they suffer from inefficient management. Because of such operational deficiencies they have not been able to win the confidence of the members and the local people. The subsistence level of economy in most of these countries also leaves little margin for saving. Due to generally low level of education, whatever little surpluses are available with the lower middle class farmers, they save only through traditional methods like gold, jewellery, livestock, etc. These along with the problems of credit cooperatives enumerated earlier have contributed to the general failure of cooperatives in mobilizing substantial savings.

It has been realised in all countries that to tap available surpluses and also potential surpluses that might accrue on account of increase in agricultural production as well as non-

farm incomes, the cooperatives must reorganise their functioning and motivate the farmers to take to institutionalised form of savings. Some beginning has been made in Nepal and Sri Lanka towards such a reorganisation. In Nepal weak primaries are being more closely guided by appointing professional managers so that they can take up banking business. In Sri Lanka, Cooperative Rural Banks as a wing of the Multipurpose Primary Cooperative Societies have been formed. They, along with the branches of the Peoples' Bank, provide the banking support required for the better functioning of the primaries. Because of such action Sri Lanka has been able to increase its saving mobilisation to an appreciable extent during the last two to three years.

Different countries have taken to different methods for tapping more deposits. In Bangladesh every time a loan is given, some compulsory deduction is made and kept as deposit. In Thailand every time a farmer takes a loan, 5% of the loan amount is deducted and held as share capital. Similarly in Nepal, a society while advancing loans to a member, deducts 3% of the loan amount and adjusts the same towards share capital contribution unless the member himself contributes this share capital from his own resources. Nepal has also introduced a compulsory savings scheme as a part of the new Land Reform Programme under which every land-owner and also the tenant who cultivates such land is required to pay a fixed sum every year for a period of 5 years. Earlier it was thought to refund this amount to the depositor after the expiry of the 5 year period. Now, it has been decided to transfer such amounts to the local cooperatives as share capital contributions of respective depositors.

Sri Lanka, however, has taken to voluntary methods for mobilising additional savings. The Cooperative Rural Bank as well as the Peoples' Bank have taken up savings campaigns among school children. For mobilising savings among plantation workers, mobile vans with counter facilities are sent to plantation areas on pay days. Since Sri Lankans generally keep apart some savings on certain festive occasions these Banks

usually keep their branches open on such days so as to enable the people to make their deposits. In paddy producing areas, cooperatives attempt to persuade the cultivators to save upto 30% of the sale proceeds and are usually successful. In order to attract long-term deposits a new scheme called 'Investment Savings Scheme' has been introduced under which a depositor can earn additional interest and simultaneously enjoy the facility of taking a loan for construction of house etc. Under the Daily Loans' Scheme for the benefit of small traders, loans are offered daily at reasonable rates and they undertake to deposit, as savings, a part of the surplus they are able to generate in addition to payment of loan and interest. In the thrift and saving societies of salaried employees a fixed amount is deducted from their monthly salary to be remitted to their savings accounts. In the women's thrift societies members make regular deposits at the monthly meetings of the society.

In Singapore the majority of societies are non-agricultural societies organised for different occupational groups. In these societies the normal practice is to deduct a fixed sum from the salary of the members every month and credit it to their accounts. The members are also encouraged to enhance the rate of deduction from salaries every year. To attract more members and more savings, award of scholarships and other family benefits have been introduced.

In India the proportion of deposits to working capital in respect of the State Cooperative Banks (26), District Cooperative Banks (341), Primary Agricultural Credit Societies (153,808) and non-agricultural credit societies (17,530) is 51.8%, 45.1%, 6% and 60% respectively. It may be seen that the level of savings in the case of primary agricultural credit societies is very low. The State Cooperative Banks, District Cooperative Banks and Primary Cooperative Banks which normally offer almost all banking services as the commercial banks, adopt various schemes for mobilisation of deposits. The primary cooperative banks and the agricultural credit societies also adopted different methods of deposit mobilisation in different States. Some of the schemes

adopted for deposit mobilisation are detailed below:

1. **The Cumulative Deposit Scheme.** Under this scheme, a fixed sum is deposited every month which is repaid with accumulated interest at the end of the specified period.
2. **The Cash Certificate Scheme.** A certificate for specified amount is issued for various denominations and the amount is repaid with interest at the end of the specified period. This is specifically designed to meet the requirements of people of small means.
3. **Prize Scheme.** Under this scheme members open an account or purchase cash certificates and prizes are awarded to the participants by drawing lots.
4. **During the All-India Cooperative Week Celebrations every year from November 14th to 20th, one day is devoted to promotion of savings and all cooperatives make special efforts to exhort people about the importance of savings.**
5. **In case of societies undertaking marketing functions, a portion of the price of the produce marketed is deposited in the account of the member with his consent.**
6. **In salary-earners societies, regular deductions are made from the salary of members with their consent and credited to their accounts. A portion of the loans taken from the society is also kept as deposits.**
7. **A Deposit Insurance Scheme has been evolved under which deposits upto Rs. 10,000 is insured and this is under implementation in some States.**
8. **In the State of Kerala, a deposit mobilisation campaign was launched in April 1976 by observing the month as Deposit Mobilisation Month. All the cooperative credit organisations of the State partici-**

pated in the campaign and mobilised Rs. 260 million against the target of Rs. 220 million.

9. The State Cooperative Banks fix targets for deposit mobilisation for District Cooperative Banks and in the case of banks which achieve the maximum deposits shields and prizes as incentives, are awarded.
10. For promotion of savings State Cooperative Banks and District Cooperative Banks implement Branch Expansion Programmes according to specified plans.
11. Under the Mutual Arrangement Scheme, facilities are given by the State and District Cooperative Banks for remittance of funds from one part of India to another. This serves as an encouragement for depositors to open accounts.
12. Some District Cooperative Banks have evolved schemes for giving banking counters free to those primary societies which are able to mobilise specified sums of additional deposits during specified periods.
13. Some of the primary cooperative societies have adopted Mini Deposit Schemes under which Savings Boxes are distributed to children and the staff of the societies make collections by visiting their homes regularly. Prizes are also awarded when the savings reach specific levels.

In almost all countries various methods are adopted and special campaigns are organised for mobilisation of savings at the time of celebration of International and national cooperative weeks or at periodic intervals. Though such occasional efforts help, they in most cases lack the continuity of effort and the personal approach of the Japanese cooperatives by which the societies are able to establish individual contact with their members.



## **Methods to be adopted for Deposit Mobilisation**

The Seminar suggested the following methods for improving the deposit mobilization activities of cooperatives.

1. Detailed study of the economy of the farm households in the area of operation of each society may be undertaken with a view to identifying the sources of income and to determine possibilities of savings.
2. Farm guidance and better living guidance services as in the case of Japan may be provided with a view to maximising the income of the members and making them saving conscious.
3. Savings schemes may be formulated for specific purposes like education of children, marriage, religious ceremonies and acquisition of assets; and members may be encouraged to save for these purposes through separate accounts.
4. Societies undertaking marketing of farm produce may encourage members to have the sale proceeds retained by the societies in their accounts and to save at least a portion of the sale proceeds.
5. Womens Clubs, Youth Clubs and Saving Groups may be organised under the auspices of the society to facilitate promotion of savings.
6. One day of every month may be observed as 'Savings Day' and the office-bearers of the society and members of the staff may conduct a house-to-house campaign on that day to collect savings.
7. Separate deposit mobilisation campaigns may be organised during disbursement of bonus and periods of harvest.
8. A suitable month in a year may be declared as **Deposit**

Mobilisation Month by the government and intensive campaigns may be organised for deposit mobilisation by the government and the Cooperative Movement.

9. Schemes for insurance of deposits with cooperative societies may be formulated and implemented.
10. Proper training may be given to the staff of cooperative societies in techniques of deposit mobilisation and banking practices.

### **Cooperative Insurance**

#### *Advantages of Cooperative Insurance*

The seminar discussed the various advantages of undertaking insurance by cooperatives and listed the following major advantages.

#### *1. Provision of Insurance Coverage for the Rural People*

Most commercial insurance companies are concerned with the insurance business with the urban people as their incomes are more stable. The rural population of the South-East Asian countries are mostly engaged in agriculture and hence the income level tends to fluctuate, depending on the systems of cultivation adopted and also the other external and internal factors which influence the agricultural income. There is no system of protection for the rural people as provided to the city people by the insurance companies. The cooperative network of all countries in the region covers even the remotest villages and has direct and close contact with the rural population. The aim of the cooperatives obviously is the welfare of their members. Implementation of a system of cooperative insurance would help a great deal in achieving this objective.

#### *2. Protect the member-farmers and rural masses from Commercial Insurance Companies*

The Cooperative Insurance System is designed to provide relief to member-farmers and rural people against risk factors

and unforeseen circumstances. In order to facilitate even the low income people's purchasing policies the premia are kept as low as possible. Main objective of the Cooperative Insurance System is to provide the best service at least cost. Hence the Cooperative Insurance System provides an opportunity to the weaker sections of the society to receive insurance protection.

### 3. *Accumulation of Insurance Funds and Investments*

Most rural based cooperatives are faced with the problem of securing funds for working capital, investment and infrastructural development. One method of accumulating funds is engaging in insurance business by the cooperatives. This method has been successfully adopted in countries like Japan, the Republic of Korea, Malaysia and the Philippines.

### 4. *Strengthening of Relations between the members and the Cooperatives*

The strength of a cooperative lies in its membership. The cooperative provides the members with their cultivation inputs including credit, and undertakes marketing of their produce and other related activities such as farming guidance etc. All these activities are done for its members with the ultimate goal of providing the members a higher standard of living. Provision of insurance coverage against factors of risk, would no doubt enhance the objective of the cooperatives. In other words it becomes an integral service in its total plan of action to achieve the objective of a higher and a better standard of living for its members. The provision of this service would obviously help to strengthen the society's relationship with its membership.

### 5. *Propagation of the Cooperative Movement*

The sixth principle of cooperation is "cooperation among cooperatives" at local, national and international levels. The insurance funds accumulated at cooperatives can also be utilised to provide financial help to the needy cooperatives within the same region in a country or for a different region in the same

country or for the establishment of a world cooperative insurance fund. In Japan, for example, the savings portion of the insurance fund in agricultural cooperatives are channelled to the prefectural insurance federations to be utilised to provide assistance to the needy cooperatives of the same prefecture. If the accumulated funds of the insurance premia are pooled to a world cooperative fund, the required capital for the development of the cooperative movement of the developing countries can be obtained at competitive rates.

#### 6. *Provision of Loan Facilities to Members*

Loan facilities to members can be provided at lower interest rates if funds are available by accumulation of insurance premia. The insurance policy can be surrendered as the collateral for security and thus formalities that are required for obtaining a loan can be simplified. The system of giving a loan over the counter against the security of the policy is practiced by the Malaysian Insurance Cooperative Society (MCIS).

#### 7. *Provision of welfare facilities to members*

Cooperative insurance does not aim at making large surpluses. A portion of the surplus is utilised for the provision of welfare facilities to members. For instance, in Japan, rehabilitation centres and medical examinations for the policyholders are provided from the surpluses. Motor boat repair facilities and emergency motor vehicle repair facilities are provided in the Republic of Korea and Malaysia respectively.

#### 8. *Educational facilities*

The sale of insurance policies means educating the people for saving against risk and unforeseen circumstances. By provision of insurance facilities a cooperative could educate even the younger generation in the habit of thrift.

#### 9. *Assistance to nation building*

Investment in government bonds and guarantees and also provision of welfare facilities would help the national economy.

Cooperative insurance can assist the government in a considerable way by complimenting their welfare activities. The government then would be able to utilise some of the funds set apart for welfare activities for other development work.

### **Different Cooperative Insurance Systems in the Region**

The seminar examined the Cooperative Insurance Systems of the Philippines, Malaysia, the Republic of Korea and Japan and noted the following :

#### **Cooperative Insurance System of the Philippines**

The Cooperative Insurance System of the Philippines is organised on a two tier system. The Cooperative Insurance System of the Philippines (CISP) at the national level and the Samahang Nayons (SN) at base level. The cooperative insurance business was started on 1st October 1974 and only one type of policy has been marketed namely the Group Life Yearly Renewable Insurance. This insurance scheme is operated through the Samahang Nayons. The members of Samahang Nayon can insure to a maximum of Pesos 5,000 and to a minimum of P 2,000.

The premiums are collected through the Samahang Nayons, and claims are settled through the same channel. Claims are settled expeditiously. This is possible because funds of the Samahang Nayons can be advanced to members for settlement of claims under certain built-in control systems. These are later reimbursed by CISP.

Preparatory to building up experience on non-life insurance and to be able to service the non-life insurance needs of its members, CISP is now engaged in some non-life insurance business as an agent of other insurance companies. Eventually the target is to establish a sister General Insurance Company.

#### **Cooperative Insurance System in Malaysia**

The Malaysian Cooperative Insurance Society (MCIS) is a secondary society. The by-laws of the society provide that the membership of the society is open to all who are insurable. This

qualification is to conform with sound insurance practice. The share holders of the society are the cooperative enterprises in Malaysia. The society has over 120,000 policies in force.

The organisational set up consists of a Board of Directors comprising 14 directors. The member cooperative enterprises elect 9 members and representatives of the policyholders elect 5 members. The Registrar of Cooperative Societies or his nominee is in the Board as an ex-officio director.

The General Manager is the Chief Executive under whom there are two Assistant General Managers, Divisional Managers, Managers and the field staff.

The society markets a wide variety of long-term and short-term insurance policies.

A remarkable feature of its operation is the investment of funds in cooperative and private sector organisations. In some private sector organisations the MCIS has the controlling interest. The business operations of the MCIS is, at present, confined to the urban areas. But the MCIS is hoping to spread its insurance business to the rural areas in the near future.

### **Cooperative Insurance System in the Republic of Korea**

Mutual insurance services of agricultural cooperatives in the Republic of Korea was started with a damage insurance programme in 1961. In addition, life insurance programme was undertaken in 1965.

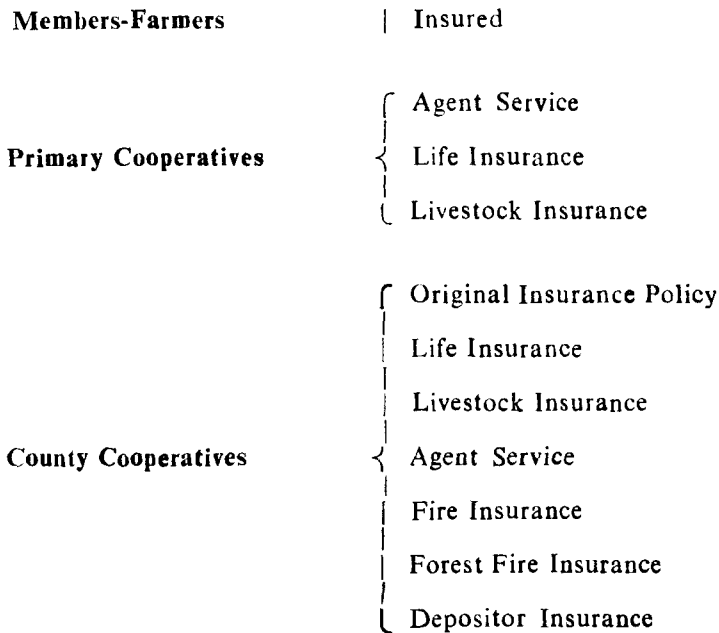
Through the mutual insurance service, farmers have been provided with opportunities to keep life and property insured against loss, and a system of social security has been established in rural areas. Moreover, a large amount of mutual insurance funds is provided for long-term investment in the agricultural sector.

In 1975, agricultural cooperatives began to sell short-term life insurance and forest fire insurance policies.

The agricultural cooperative insurance service is rendered through the nationwide cooperative system. The National Agricultural Cooperative Federation (NACF) deals with the reinsurance of county cooperative policies such as life insurance and livestock insurance. Moreover, NACF sells the original policies of fire, forest fire and depositors' insurance. NACF also perform the important function of developing new insurance policies and improving and supervising the overall operational procedures of the agricultural cooperative insurance business.

County cooperatives sell original insurance policies of life insurance and livestock insurance. In addition, they act as an agent for NACF, selling fire, forest fire and depositors' insurance policies. Since the primary agricultural cooperatives were large in size by amalgamation, they have started selling policies of life and livestock insurance.

#### Structure of Cooperative Insurance Service



**National Agricultural  
Cooperative Federation**

- Reinsurance of County Coop Policies
- Life Insurance
- Livestock Insurance
- Original Insurance Policy
- Fire Insurance
- Forest Fire Insurance
- Depositor Insurance

### **Cooperative Insurance in Japan**

Agricultural cooperatives are organised in Japan on a three tier system. Single-purpose and multipurpose cooperatives numbering almost 16,000 and 4,900 respectively operate at base level. The multipurpose agricultural cooperatives undertake a number of functions and insurance is one of the important activities.

The multipurpose and single-purpose cooperative societies are federated at prefectural level on functional basis.

The prefectural federations/unions are refederated at national level into specialised national level federation/Central Union of Agricultural Cooperatives.

The insurance system of the agricultural cooperatives are conducted through the three tier system namely, primary societies as underwriters, the prefectural insurance federations as the reinsurers and Zenkyoren, the national level federation, as the insurer accepting retrocession. The organisation at the three levels are mutually connected for the purpose of the spread of risk. The main functions of the three organisations are shown below.

*Primary Society* : Promotion of sales of new business and maintenance of the existing contracts until their maturity, payment of insurance money; direct business of lending funds, activities as consultants to members in relation to insurance business.



*Prefectural Insurance Federations* : Activities of guidance to the primary societies; examination of underwriting; adjustment of claims; investment; activities to promote the welfare of the members.

*Zenkyozen* : Activities of planning and adjustment concerning the agricultural cooperative insurance business in general; business of liaison with the government, activities of guidance to prefectural insurance federations; and centralised business processing by means of computers.

### **Need for establishing Cooperative Insurance System in other countries in the Region**

The seminar felt that cooperative Insurance should be adopted in all countries in the region. In the first instance, it should be adopted for only long-term life and endowment life till sufficient experience is gained in organisational and operational aspects.

The seminar felt that the most desirable organisation for countries within the region would be a separate cooperative insurance society at national level with its membership confined to the primary multipurpose cooperative societies. The initial share capital should be contributed by the multipurpose cooperative societies. If the required and desired share capital cannot be obtained from the multipurpose cooperative societies, the deficit amount should be raised from other cooperative institutions such as cooperative banks.

The seminar was of the opinion that, in the first instance, there should be central control of all business activities including the issue of policies and the multipurpose cooperatives should act merely as agents.

This system would, no doubt, assist in building up a specialised staff. As the volume of business increases and the staff at national level and society level acquire experience a decentralisation programme should be undertaken and other types of long and short-term life and non-life insurance business also should be included.

## Observations in the Republic of Korea

After the merger of the Korean Agricultural Bank and the Agricultural Cooperatives in 1961, the aim of providing better and unified service to the farmer has been largely satisfied. With completion of reorganisation and amalgamation of *ri* (village) societies, the primaries are now strong and viable. The cooperatives are multipurpose not only at primary level, but also at *Gun* (County or City) and national levels. One of the main reasons for the successful performances of primary cooperatives has been the process of amalgamation by which more than 20,000 primary cooperative societies were reorganised into 1545 large-size societies. The Saemaul Undong (the New Community Movement of Korea) has contributed substantially to the organisation and development of the Cooperative Movement in the Republic of Korea. The New Community Movement aims at economic, social and spiritual development of the villages.

Agricultural cooperatives aim at giving all services to the member-farmers and to meet all their needs, particularly for agricultural production. They also attempt to improve the lives of farmers and their families. Now the agricultural cooperatives give about 90% of the total loans made available to agriculture by all banking institutions of the country; they exclusively distribute all chemical

fertilisers and also more than half of farm chemicals used by farmers. The cooperative marketing system has helped to market the produce of the farmers and also meet their consumer needs to a large extent. Guidance and education programmes have helped in modernising farming methods and modernising ways of lives of rural people.

The distinctive features of the National Agricultural Cooperative Federation's (NACF) savings promotion drive are to :

- a) Provide banking services to both the urban and rural areas,
- b) Provide Mutual Credit and Savings Programme (MCSP) in the primary cooperatives in rural areas through banking business,
- c) act as the sole banking institution handling agricultural credit for farmers,
- d) transfer the idle funds of urban areas into the rural sector, and
- e) become self-reliant in financing the agricultural funds required by member-farmers.

In urban areas where more surpluses are available special emphasis is laid for promotion of savings with a view to transferring such funds to the rural sector for financing agriculture and allied activities. Local savings promotion meetings are held to motivate the prospective depositors. To promote household deposits, the cooperatives provide to the depositors services like payment of utility charges and taxes to government through their accounts. Different types of instalment deposit schemes have been introduced for encouraging savings for various purposes like education of children, purchase of household goods etc. The cooperatives mobilise deposits from public organisations and local governments also. Assistance of leading public men of the locality is often solicited in securing more business. All these steps have yielded good results and the annual growth rate of urban savings is 22.2%.

In the rural areas, the Mutual Credit and Savings Programme (MCSP) system was started in 1969 at the 'Myon' level primary cooperatives with the purpose of mobilising small amount of idle funds scattered in rural areas and to use them for farming agricultural production and improvement of living conditions. Now, about 99% of the primary agricultural cooperatives have adopted this system.

To mobilise more savings the 'one-trillion won savings drive' has been taken up since 1973 and it will continue till 1980. Such concentrated effort will help all concerned to focus attention on the need and desirability of savings.

Some of the other steps taken to mobilise savings include setting up of school banks, inducing farmers to deposit their marketing proceeds, giving preferential treatment for the deposits of the member-farmers through institutional arrangements, collecting waste articles that could be used, introducing "one passbook for every household", campaign where farm families are advised to have at least one deposit account and utilising mass media for creating an atmosphere conducive to savings.

All these steps have yielded good results in the last few years. By the end of 1975, the financial resources of NACF stood at 484.6 billion won (US \$999 million), an increase of 15.6% over the year 1974. Almost 53.5% of this has been contributed through deposits. During the year, deposits increased by 20%, whereby the borrowings were reduced by 12.3%. Now the total borrowings are only 27% of the working capital. By following differential interest rates for lendings in urban and rural areas, the NACF has been able to squeeze spending in urban sector and transfer the surplus funds to rural cooperatives for financing agriculture.

The agricultural cooperatives started insurance business in 1961 with livestock and fire insurance programmes. Life insurance, such as endowment and juvenile insurance, was initiated in 1965. Short-term life insurance and forest fire introduced in

1975. The funds mobilised from the insurance business are used mainly for long-term investment in the agricultural sector.

County cooperatives sell original insurance policies of life insurance and livestock insurance. Lately, some of the primary cooperatives have also started selling such policies. The original policies of fire, forest fire and depositors insurance are, however, sold by the NACF and county cooperatives act only as agents of NACF in this field. NACF deals with reinsurance of original policies sold by county cooperatives. It also has the important function of developing new insurance policies and improving and supervising the overall operational procedures of the agricultural cooperative insurance business.

Cooperative insurance in Korea has achieved a sustained high rate of growth. Now it accounts for 11% of effective life insurance policies in Korea. The total premium income at the end of 1975 stands at 9 billion Won. The operation fund has increased to Won 39.5 billion in 1975 almost 207 times that of 1965. The insurance fund is used in carrying out supply and marketing programmes and providing loan assistance to farmers besides investments in trusts and securities as required under the law. The cooperative insurance programme has not only provided insurance cover to the rural people to whom such services were not available earlier, but has also helped the cooperatives build up a large capital base for their multifarious operations.

## **Observations on the Agricultural Cooperatives in Japan**

The cooperative credit structure in Japan comprises of multipurpose agricultural cooperative societies at the primary level, prefectural credit federations at the prefectural level and the Central Cooperative Bank for Agriculture and Forestry (Norinchukin Bank) at the national level. In addition to the multipurpose societies, in certain sectors such as fruits and vegetables, sericulture and livestock raising, there are single purpose societies organised for marketing their produce. The single purpose societies are not engaged in credit activities. Almost all of their members are concurrently members of the multipurpose agricultural cooperatives.

The primary agricultural cooperative societies have their corresponding federations at the prefectural level which are organised according to specific functions. The federations are of two categories (a) those mainly composed of multipurpose agricultural cooperatives such as prefectural economic federations, prefectural credit federations, and prefectural mutual insurance federations, and (b) those composed mainly of single-purpose agricultural cooperatives such as dairy cooperative federations and horticultural cooperative federations.

In each of 47 prefectures of Japan there is a prefectural union of agricultural cooperatives whose members are primary cooperatives and prefectural federations. They function in the areas of guidance, coordination, research and survey, education and auditing on behalf of primary agricultural cooperatives and prefectural federations.

Each type of federation at the prefectural level is organised at the national level into national level federations. They can also be divided into two categories (a) those relating to multipurpose agricultural cooperatives such as the National Federation of Agricultural Cooperative Associations, and the National Mutual Insurance Federation for Agricultural Cooperatives, (Zenkyozen) and (b) those relating to single purpose agricultural cooperatives such as the National Federation of Livestock Cooperatives and the National Federation of Dairy Cooperatives. The prefectural unions are federated at the national level into the Central Union of Agricultural Cooperatives. It also has, as its members, primary agricultural cooperatives, prefectural federations of agricultural cooperatives and various national federations.

At the national level the Central Cooperative Bank for Agriculture and Forestry (Norinchukin Bank) deals with all functions related to banking and credit. This function, at the prefecture level, is done by the prefectural credit federation. All surplus funds of the prefectural federations and the primary cooperatives are deposited in the prefectural credit federations and this federation deposits its surplus funds with the Central Cooperative Bank. No other prefectural federation nor any singlepurpose cooperative society such as orange growers' cooperatives, milk marketing cooperatives etc. are allowed to take up credit functions. At the primary level only the multipurpose societies are engaged in credit activities.

The primary agricultural cooperatives have two types of members e.g. regular members who are full-time farmers and associate members who are part-time farmers and non-farmer residents.

All the farm households have been covered by the multipurpose cooperative societies. It is noticed that the number of regular members is on the decrease as more and more farmers are taking to non-farming occupations.

The multipurpose agricultural cooperatives undertake functions of marketing credit, marketing, supply, mutual insurance, education, guidance, consumer activities, housing etc. They also undertake social activities like provision of marriage services and health services.

Each primary society has farm advisors and home life improvement advisors. For improving their guidance activities prefectural unions in association with the Central Union provide them with assistance by holding training courses for farming and home life improvement advisors.

Japanese farmers have substantial income from farm production thanks to the agricultural boom in the country. The non-farm income of farm households is even higher. In fact, about 60% of the total income of a farm household is derived from non-agricultural occupations. Because of small holdings and also mechanisation of agriculture it is not necessary for most of the farmers to devote full time for agriculture. Many of them are part-time farmers doing other jobs and looking after farming during weekends. In the remaining periods farming is usually left to women and old persons. The cooperatives have realised this and try to mobilise savings not only from farm income but also from income derived from non-farm sources.

By providing all types of agricultural services to member-farmers and also looking after their general welfare and providing different types of services for improvement of home life, the societies have been able to win the confidence of the members. A high degree of managerial efficiency, personalised service and organisation of social welfare activities are also responsible for this. The cooperatives even provide various services to non-members in order to gain their trust, goodwill and acceptance.



This helps in mobilising savings from members and non-members.

Depending on the local situation the primary cooperatives work out their own methodology for deposit mobilisation. Generally a door-to-door approach by officials of the society once or twice a month, particularly immediately after the disbursement of salary, is adopted. Special campaigns are taken up at the time of payment of bonus, marketing of crops or large-scale sale of lands for industrial purposes. All societies try to have personal and direct contact with the farmers. Sometimes elected household planning advisors are appointed to collect savings so that the farmer does not have to come to the society's counter to deposit them. Women's groups and youth groups are organised to spread the message. Various social activities are organised to cater to the needs of the member farmers. All these naturally help the society in collecting the surplus funds available with the farmers.

The cooperatives have introduced different kinds of saving schemes to suit the needs of farmer members as well as associate members. The instalment savings scheme helps the farmer to save in instalments for a specific purpose. The members and even the non-member dwellers are persuaded to pay their car maintenance expenses, telephone bills, children's school fees etc. through their bank accounts so that the amounts required for such purposes can be deposited with the societies beforehand. Deposit schemes for special purposes like sight-seeing, education of children, weddings etc. are also introduced.

The cooperatives are financially self-reliant. The main source of their funds is deposits which constitute 78.5% of the working capital. An examination of the sources of deposits reveals that 39.7% of the deposits are from farm income, 19.5% from sale of land, and 40.8% from non-farm income.

In addition to production requirements almost all other credit requirements of the members such as for housing, purchase of motor cars and consumption purposes are being met by the

primary societies. In spite of this only 63.1% of the funds are being employed for loans.

A major reason for the successful functioning of the primary cooperatives is their viability achieved through amalgamation of smaller societies into large-scale societies.

Deposit mobilisation has been effective because of the special efforts of the cooperative such as personal contacts with members through home visits by employees, savings day campaigns, and special purpose deposits tailored to the different needs of members.

The multipurpose societies undertake both life and non-life insurance. The premium to be paid by members is comparatively lower than that of private insurance companies. Eighty percent of the farmers have been covered by the cooperative insurance.

As far as insurance business structure is concerned, the National Mutual Insurance Federation of Agricultural Cooperatives (ZENKYOREN) stands at the national level. The Prefectural Insurance Federations are its affiliates. The prefectural federations in their turn have the primary multipurpose agricultural cooperatives at the base level as the grassroot organisations for insurance business.

In insurance field also the cooperatives have achieved success because of the sustained drive and good monitoring of the programme by ZENKYOREN as well as the Prefectural Insurance Federations. Cooperatives wanted to take up insurance business mainly for five reasons :

- (a) Provide insurance cover to member-farmers living in rural areas as they were not adequately covered by private insurance companies,
- (b) Provide cheaper insurance by cutting down sales promotion cost, etc.

- (c) Build up insurance funds as a part of the savings promotion campaign and utilise the same for improving the living conditions of the farmers and also as working capital for cooperative credit business,
- (d) Strengthen the relationship between the society and the member-farmer or by long term contract through insurance coverage, and
- (e) Propagate the ideas of cooperative movement among people living in rural areas. For purposes of insurance the members of the family of a member-farmer are also treated as members and are covered by insurance policies.

By systematic planning and execution the cooperatives have been able to build up a sizeable insurance business. Now 54% of the total rural business is done by agricultural cooperatives. The cooperatives are allowed to take up both life and non-life insurance whereas private companies are allowed to take up either life or non-life insurance business. ZENKYOREN has taken full advantage of this concession and it now stands second in the life insurance business in the whole of Japan. Besides life insurance, automobile insurance provides sizeable business. To attract more business of this category the cooperatives provide various services to the members for proper maintenance of automobiles and guidance in case of traffic accidents etc.

Insurance sales promotion is done through the staff of the primary society and no special agents are appointed. This helps in keeping down the cost and consequently makes the cooperative insurance cheaper.

Premium accumulated by prefectural mutual insurance federations and the National Mutual Insurance Federation are made available for medium and long-term agricultural loans and also for general loans. Surplus funds are also invested. Investments have been made in private enterprises e.g. the Nokyokyosai Building Company and Chuo Data Processing Centre.

The cooperatives take up several welfare measures including health measures for their members as well as their families. Some of the welfare measures are only for the policy holders whereas some others are for all residents of the locality. In case of an accident resulting in the death or disability of the policyholder (member), attempts are made to rehabilitate the members of his family.

A CASE STUDY ON

**Shimonoseki (Multipurpose) Agricultural  
Cooperative Society**

LIONEL GUNAWARDANA\*

**1. Establishment**

The Shimonoseki Agricultural Cooperative Society was established in 1965 by amalgamating fourteen small societies. Two other small societies which are situated in the adjoining areas were also included in the original amalgamation plan. Both these societies were strong financially. One of them, Yousaka Agricultural Cooperative Society had an auction market for vegetables which was working successfully. The other, Hotabu-Hikoshima Agricultural Cooperative Society is situated in an urban area which had strong credit activities. The members of

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these two Societies felt that they were strong enough to function separately and thus rejected the proposal for amalgamation.

The names of the fourteen societies that were amalgamated and their membership at the time of amalgamation are given below :

**Membership at the time of Amalgamation**

Name of the Society	Regular Membership	Associate Membership	Total
Yoshida	332	160	492
Oki	376	26	402
Ozuki	267	78	345
Kyosue	466	116	582
Kanda	194	18	212
Ube	193	134	327
Chofu Singashi	148	12	160
Chofu	65	39	104
Maidas	50	2	52
Utsui	508	55	563
Katsuyama	560	33	593
Kawanaka	442	124	566
Yoshimi	465	183	648
Yoshimo	163	148	311
<b>Total</b>	<b>4,229</b>	<b>1,128</b>	<b>5,357</b>

An amalgamation promotion committee consisting of presidents, full-time directors and senior employees of the amalgamating societies and the representatives of the Prefectural

Unions and Prefectural Federations did the preparatory work for a year paving the way for final amalgamation.\*

## 2. Area

The operational area of the society covers 16,265 hectares. The major part of this area is covered by forest. The farmland area accounts only for 2,568 hectares.

### Utilisation of land in the area of the society

Farmland	:	2,568	hectares
Forest	:	10,454	„
Wasteland	:	164	„
Miscellaneous	:	3,079	„
Total		16,265	hectares

## 3. Population

The total population in the area of operation of the society is 115,700. This consists of 3,488 farm families with a population of 17,400 and 25,440 non-farm families with a population of 98,300.

## 4. Membership

The following table shows the number of members in the society at the time of merging and in 1975.

Type of members	At the time of merging	March 1975
Regular	4,214	3,620
Associate	1,086	2,507
<b>Total</b>	<b>5,300</b>	<b>6,127</b>

\* See Amalgamation of Primary Agricultural Cooperatives—The Japanese Experience, by Lionel Gunawardana, International Cooperative Alliance, Regional Office and Education Centre for South-East Asia, for procedure of amalgamation.

It may be seen from the above figures that the number of regular members have decreased and the number of the associate members have increased. This is due to the fact that some households which were earlier eligible for regular membership being mainly or partly engaged in agriculture have given up agriculture and taken to non-agricultural pursuits and have thus become ineligible for regular membership. Consequently they have acquired associate membership.

## **5. Officials**

The Board of Directors of the society consists of fifteen directors including the President, a Standing Director and the Managing Director. The President of the society does not work full time in the society as is normal in other societies as he works as Managing Director of the Prefectural Union.

The society has a board of internal auditors consisting of four members.

## **6. Employees**

The society has 305 employees including the General Manager. The employees are trained in one day training classes conducted by the society. Every employee gets an opportunity to attend them once a year.

Few are also sent for training to the Training Institute run by the Yamaguchi Prefectural Union.

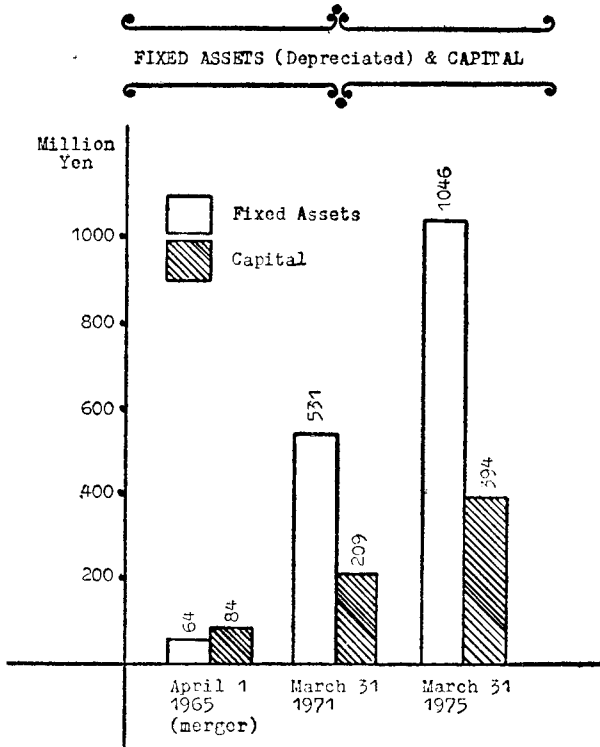
When the society recruits new persons they are first sent to the Prefectural Union's Training Institute. The training expenses are paid by the society, but no salary is paid during the training period. If the candidate successfully completes the training course he or she is given employment in the society.

## **7. Fixed Assets and Share Capital**

The total value of fiscal assets of the society in 1965 was



64 million yen and the value in 1975 was 1046 million yen, an increase of 1534 per cent.



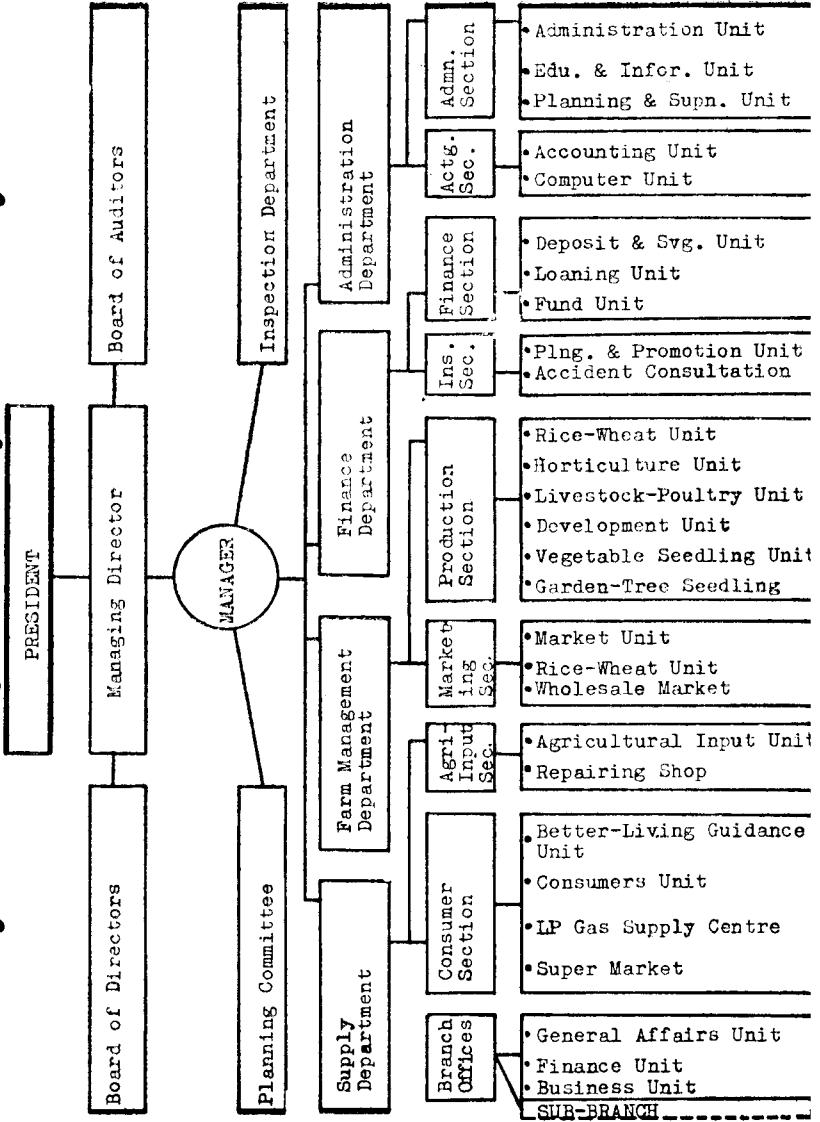
The share capital of the society in 1965 stood at 84 million yen and in 1975 at 394 million, an increase of 369 per cent.

## 8. The Organisational Structure of the Society

The society has the following departments :

- (A) Supply Department.
- (B) Farm Management Department.
- (C) Finance Department.
- (D) Administration Department.
- (E) Planning Cell.
- (F) Inspection Department.

Organisational Structure of the Shimonoeki Multi-Purpose Agricultural Cooperative  
Society - Japan



## **(A) Supply Department**

The supply department has two sections.

### **(i) Agricultural Input Section**

This section handles the supply of agricultural inputs like fertilisers, animal feeds, pesticides, insecticides and farm machinery and equipment. It also sells trucks and cars. This section also runs a repair workshop for repairing cars; trucks and farm machinery.

### **(ii) Consumer Section**

This section handles the supply of consumer goods. The society has consumer shops at its branches, a super market and a L.P. gas supply centre.

This section also maintains a better living guidance unit which gives advice in the improvement of living conditions of farm families, household budgeting, etc.

## **(B) Farm Management Department**

The farm management department has two sections.

### **(i) Marketing Section**

This section is responsible for marketing of agricultural produce and planning of marketing activities. Among the agricultural produce handled are rice, wheat, vegetables and fruits. This section maintains a wholesale market for fruits and vegetables.

### **(ii) Production Section**

This section is responsible for assisting member farmers in their agricultural production and in providing farm guidance. This has the following sub-sections :

#### **(a) Rice and wheat unit.**

- (b) **Agricultural unit.**
- (c) **Livestock and poultry unit.**
- (d) **Development unit (improvement and development of farmland, irrigation and drainage and community development projects).**
- (e) **Seedling nursery for vegetables.**
- (f) **Seedling nursery for garden trees.**

**(C) Finance Department**

Extension and mobilisation of savings and extension of credit are the major responsibilities of this section. It has three sub-sections.

- (i) **Deposit and saving unit.**
- (ii) **Loaning unit.**
- (iii) **Fund Unit**

The Fund Unit is responsible for planning of the utilisation of the society's funds and borrowing funds from outside sources.

**(D) Administration Department**

The administration department has two sections.

**(a) Administration Section**

This section has three sub-sections.

- i) **Administration unit : responsible for personnel management.**
- ii) **Education and information unit : responsible for provision of information to members and the public and employee training.**
- iii) **Planning and supervisory unit : responsible for general planning, budgeting and supervision.**

**(b) Accounting Section**

This section is responsible for maintaining society accounts and maintenance of the computer unit.

**(E) Planning Cell**

The planning cell is responsible for the overall planning of the activities of the society.

**(F) Inspection Department**

This department is responsible for carrying out investigation of the work performance of the various sections of the society.

**9. Main Office and Branches**

The main office of the society is situated in Shimonoseki town. The society has fourteen branches and four sub-branches. The branches are located at places where former societies had their main offices. The former branches of small societies were made sub-branches of the amalgamated society.

**10. Facilities and Services**

**(a) Land Consolidation**

The society has taken an active part in the land consolidation programme. The fragments of land owned by the farmers are pooled together, improved by construction of bunds, drainage, etc. and then divided among them according to the area owned by them. This programme enables the farmer not only to own a large unit in one place but also to have their land improved. The central and prefectural governments and the municipality give grants for this work.

**(b) Wholesale Market for Vegetables**

This market which is situated in the heart of Shimonoseki city was started before amalgamation by five of the small societies that were merged to form the present society. The vegetables

from different areas are brought here by the farmers for sale by auction.

**(c) Radish Processing**

Processing of radish into pickles is done by house-wives. This activity is organised by the society's women group. The society provides necessary guidance and assists in their sales.

Other services provided by the society are :

- (d) Vegetable seedling nursery.
- (e) Vegetable collection centre.
- (f) Green house for garden trees.
- (g) Orange collection centre.
- (h) Low temperature rice warehouse and ordinary warehouse for rice.
- (i) Warehouse for agricultural inputs.
- (j) Farm machinery workshop.
- (k) Car re-conditioning workshop.
- (l) Gasoline station.
- (m) Supermarket and consumer shops.

**11. Business Activities**

**(A) Insurance**

The total value of long term insurance policy holding at the end of the fiscal year 1965 was 2,119 million yen. The value of the long term policy holding at the end of the fiscal year 1975 was 14,540 million yen. This is an increase of 586 per cent.

The average value of policy holding per member in 1965 was 399, 622 yen. The corresponding figure in 1975 was 2,373,102 yen, which is an increase of 493 per cent.

**(a) Life Insurance**

Four types of life insurance policies are sold by the society.

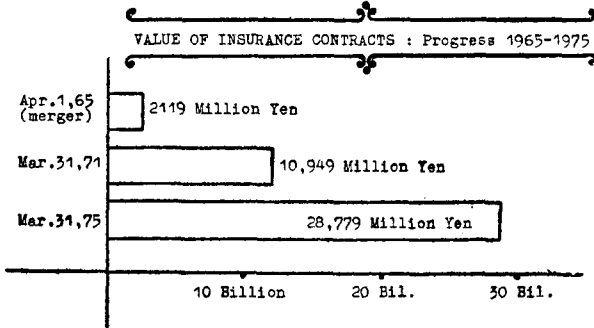
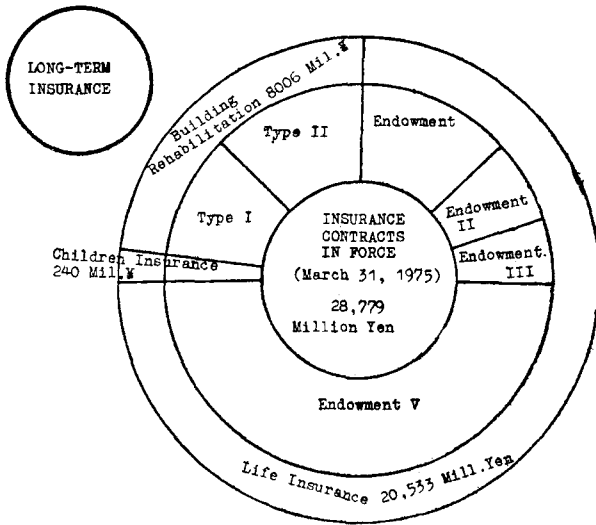
*Endowment I:* The full amount payable at maturity is paid on the event of the death of the insured.

*Endowment II:* In the event of death of the insured before maturity of the policy twice the amount insured for is paid.

*Endowment III:* In the event of death of the insured before maturity of the policy thrice the amount insured for is paid.

*Endowment V:* In the event of death of the insured before maturity of the policy five times the sum insured for is paid.

The premium payable is higher depending on the amount entitled to receive in the event of the death of the insured.



**(b) Children Insurance**

In case of juvenile insurance if the child dies before the maturity of the policy the accumulated premium and the interest on it is paid back. If the father dies before the maturity of the policy the full amount is paid to the insured on the due date of maturity. No premium is payable during the interim period.

**(c) Building Insurance**

The building (rehabilitation) insurance policies are similar to life insurance as far as their operation is concerned. As in life insurance the full amount is paid on maturity of the policy.

There are two types of insurance policies.

*Type I:* In the case of these policies the full amount payable at maturity is also paid in the event of the building getting destroyed by fire.

*Type II:* In the case of these policies the full amount payable at maturity is paid in the event of the building getting destroyed by fire or otherwise.

**(d) Fire and Motor Insurance**

The society also undertakes fire and motor insurance.

The society has about 500 fire insurance policies and 3000 insurance policies for motor cars and farm machinery.

**(e) Mode of operation**

**i. Sale**

The cooperative insurance operates in a three tier system. The primary society sells the policies. The society does not employ agents for sales. The members themselves buy the policies from the society. The society does propaganda work to promote sales. The employees visit members' homes, especially during October-December, the period in which most farmers



get their income, to persuade them to buy policies. The employees receive a per diem allowance for this work. The advertisement expenses are borne by the Prefectural Insurance Federation.

When a policy is sold and the premium is received the primary society retains a part of the cost portion of the premium and send the balance cost portion, risk portion and the saving portion to the Prefectural Insurance Federation.

The Prefectural Federation retains a part of the cost portion, all of the saving portion and send the balance cost portion and the risk portion to the National Cooperative Insurance Federation (ZENKYOREN).

#### **ii. Investment of funds**

As a major portion of the insurance funds are retained with the Prefectural Federation the responsibility for investment lies with them. Presently about 90 per cent of the total insurance funds of the Cooperatives are with the Prefectural Federations and the balance 10 per cent is with the National Federation. This ensures giving priority to rural needs in the use of the funds. Normally the Yamaguchi Prefectural Insurance Federation deposits 40 to 50 per cent of the funds with the Prefectural Cooperative Credit Federation and uses the balance to lend to other cooperatives, firms and insured persons.

#### **iii. Settlement of claims**

The claims are made on the primary society by the clients. In case of life insurance, when a claim is made in the event of death or disablement of the insured and in the case of building rehabilitation insurance when a claim is made in the event of the destruction of the building by fire, the primary society submits the claim to the Prefectural Insurance Federation along with its investigation report. On the sanction of the Federation the claim is settled.

In the case of claims made on maturity the primary

society decides on settlement after due examination of documents, etc.

## **(B) Savings**

The total value of savings at the end of the fiscal year 1965 (i. e. soon after amalgamation) was 1636 million yen. The total savings at the end of the fiscal year 1975, 10 years after amalgamation, was 13,203 million yen, representing an increase of 731 per cent.

The average amount of saving per member in 1965 was 308, 679 yen and in 1975 this figure has risen to 2,154,725 yen, an increase of 598 per cent.

The small societies before amalgamation employed various ways of savings to build up members deposits. Housewives used to keep aside little rice daily before a meal is cooked, and when a substantial amount is collected they gave it to the society. The society credited the value of the rice to the deposit account of the respective member.

The practice of keeping back some amount of rice without selling to pay insurance premium was prevalent until few years back.

With the rise in income levels these practices have disappeared. The habit of saving a part of the income has taken root among the farm families as well as non-farm families.

The society now operates various types of deposit accounts.

### **i. Saving accounts : (Farm operation)**

The proceeds obtained from marketing of farm produce is credited to these accounts. The members can withdraw the money when required.

### **ii. Special purpose deposits**

These deposits are maintained for saving money for

specific purposes e. g. (a) education of children, (b) Sightseeing trips, (c) wedding anniversary celebrations, (d) payment of taxes, (e) Car re-conditioning, etc. These saving deposits have maturity dates and cannot be withdrawn before that. Thus the society is certain of the period up to which it can use these funds.

**(a) Education of children**

To meet the expenses of higher education of children parents start saving in the special saving accounts when the children are young. This enables them to accumulate sufficient money by the time the children reach the age for receiving higher education.

**(b) Sight-seeing**

Going on annual sight-seeing trips to various parts of Japan is common among the members. They regularly save for this purpose.

**(c) Wedding anniversary celebrations**

Married couples maintain special saving accounts to be able to celebrate their wedding anniversaries.

**(d) Tax payment**

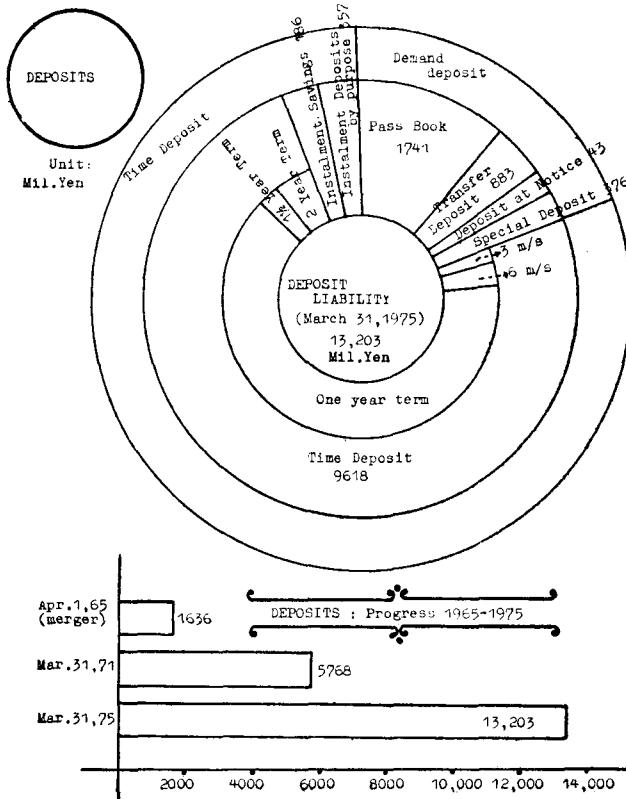
In the case of members who have "transfer saving accounts" the society receives the tax notices from the government on their behalf and pays the taxes and debit the account of the respective member. In the case of members who have "ordinary tax payment deposits" the tax notices are received by the members themselves and the society pays the taxes when the member so requests.

**(e) Car re-conditioning**

The law requires the motor car owners to recondition their vehicles periodically. Re-conditioning involves substantial costs and members save in special accounts for this purpose by making instalment deposits.

### iii. Saving Campaigns

In order to promote savings the Society conducts "saving day" campaigns. On the 26th of every month the staff of the Society go to the members' homes and collect savings. On an average 80 to 100 million yen are collected on these days.



The society has 12 "visiting officers". They visit members' houses and collect savings. They also take orders for goods from them and arrange their supply. They are also expected to find out the reactions of the members to the working of the Society, what modifications and readjustments they desire, and what new things they would like the Society to do etc., and communicate them to the management.

In order to make the appeal for saving more attractive the society sometimes uses various strategies. For instance the society has started a special saving campaign to attract deposits from part-time and full time farmers when they receive their income. The part-time farmers get their income from non-agricultural employment monthly. They also receive annual bonuses. The full-time farmers get their major income mostly twice a year. To attract savings from these incomes the society has started a system called "Gold" deposit. This is an instalment saving deposit. The members can borrow against these deposits. For the depositors who reach set targets free sight-seeing trips are arranged at the expense of the society.

One of the methods used to encourage saving is to get the housewives to save the difference between the "expected expenditure" and the amount actually spent. Normally the monthly allocation given to the housewives for household expenditure is not totally consumed. They are encouraged to save the balance with the society instead of using them to buy extra items. This saving system is called "Tsumori" system. Sometimes in order to make a saving housewives forego certain luxuries they normally enjoy.

#### iv. Time deposits

The interest rate paid by the society for various types of deposits are given below :

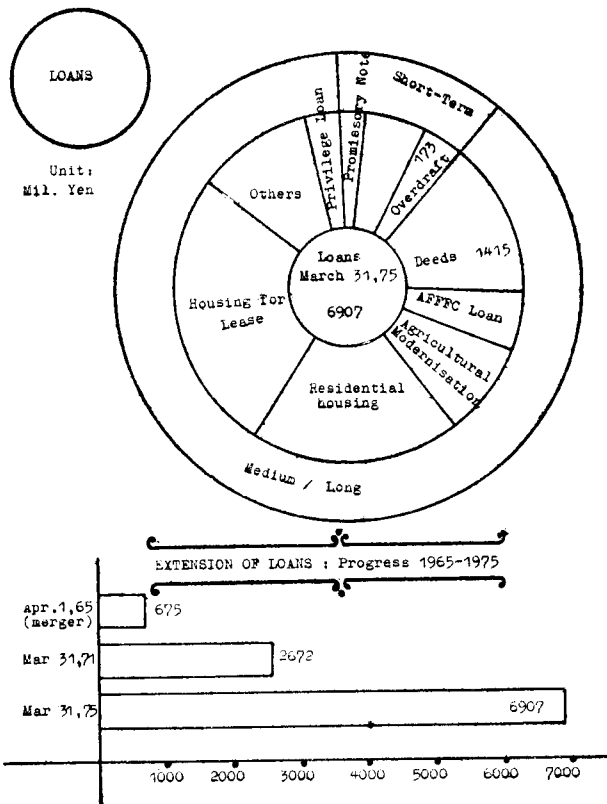
3 months	: 4.60%
6 months	: 5.85%
1 year	: 6.85%
2 years	: 7.10%
Instalment saving deposit	: 4.40%
Pass book saving	: 2.50%
Deposit at notice	: 2.75%
Tax payment deposit	: 3.25%

#### (C) Loans

The total amount of loans outstanding at the end of the

fiscal year 1965 was 675 million yen. The outstanding balance at the end of the fiscal year 1975 was 6,907 million yen, an increase of 923 per cent.

The average amount of loans extended by the society in 1965 per member was 127,358 yen. The corresponding figure for 1975 was 1,127,305 yen. This is an increase of 785 per cent. Loans are provided for agricultural production, housing and consumption purposes.



Special interest loans are given to meet the expenditure on modernisation of agriculture, including loans for land improvement, purchase of heavy farm machinery, etc. The funds used for these loans are cooperatively owned but the government

subsidises the interest. The rate of interest charged from the members for these loans which are called "Privilege Loans" is about 6 per cent.

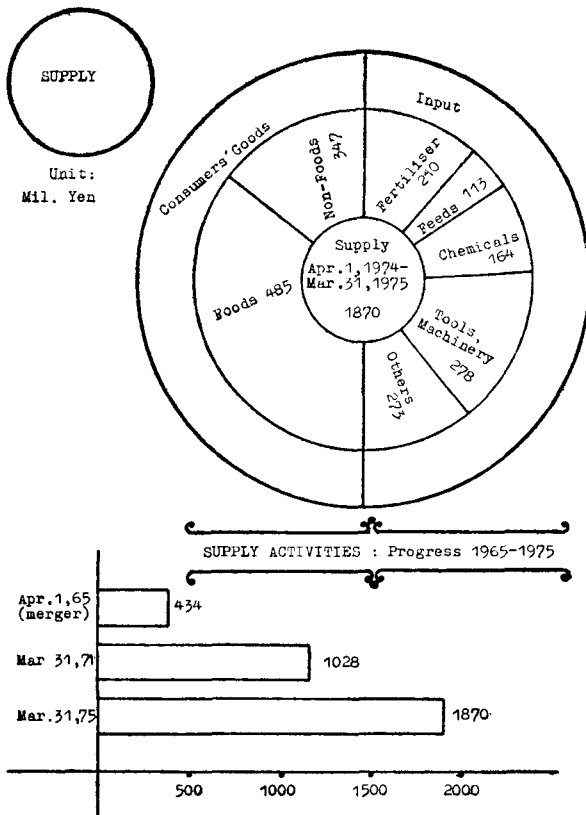
The rate of interest depends on the purpose of the loans, mortgage offered and repayment methods.

Type of loan	Interest rate
1. Loans against time deposits.	1% more than the rate paid for deposit e.g. interest paid for 3 months time deposit is 4.6 per cent. The rate charged for loans against these deposits is 5.6 per cent. If the interest is paid at the end of the period 1.25 per cent more is charged.
2. Loans repayable in instalment.	7.5 per cent. If interest is paid at the end of the period 7.75 per cent.
3. Loans given against immovable property security	10 per cent. If repaid at the end of the period 10.5 per cent.
4. Loans without tangible security.	10.75 per cent.
5. Overdrafts	11 per cent.
6. Loans for payment of share capital.	11 per cent. (This is equal to rate of dividend paid on shares).
7. Overdue loans	14.5 per cent.

#### (D) Supply

The value of goods supplied by the society during the fiscal year 1965 amounted to 434 million yen. The value of goods supplied during the fiscal year 1975 amounted to 1,870 million yen which is an increase of 332 per cent.

The coverage value of goods supplied by the society in 1965 per member was 81,698. The corresponding figure for 1975 was 305,206. This is an increase of 273 per cent.



Most of the goods needed by the society are purchased from the National Agricultural Cooperative Federation through the Prefectural Economic Federation. The system of purchasing is as follows.

The society places its orders with the Prefectural Economic Federation which in turn transmits the orders to the National Agricultural Cooperative Federation. The National Federation places orders with the manufacturing companies who deliver the goods direct to the society, and bill the National



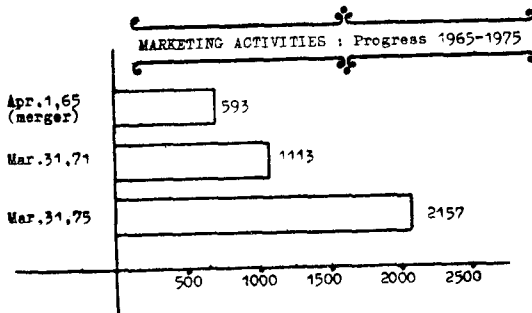
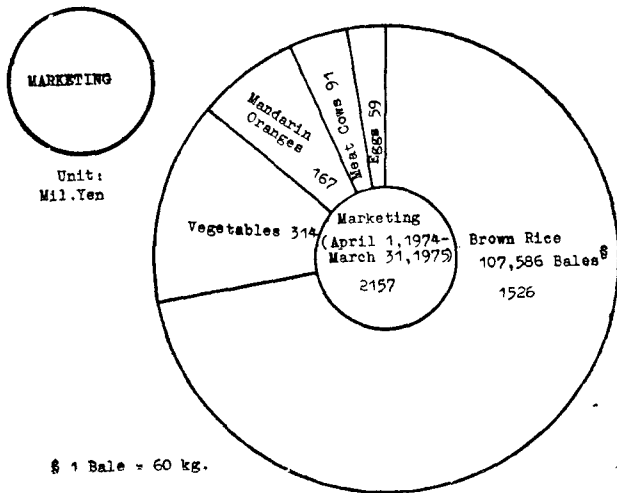
Federation. The National Federation bills the Prefectural Federation who in turn bills the society. The society remits the amount due for goods purchased to the account of the Prefectural Economic Federation, which in turn remits the amount to the National Federation's account in the Central Cooperative Bank and the National Federation pays the manufacturing company.

**The handling commission of the society for supply of various items**

Item	1970-71	1973-74	1974-75
<b>Agricultural Inputs</b>			
Chemical fertiliser	14.07	15.55	15.55
Feeds	6.22	7.00	7.00
Farm machinery	8.60	11.28	11.28
Chemical	12.57	10.94	10.94
Others	9.80	9.10	9.10
Average	10.32	11.05	11.05
<b>Consumer goods</b>			
Rice	6.36	8.35	8.35
Other foods	11.45	11.98	11.98
Cloth, clothing	—	8.00	8.00
Durable goods	—	8.00	8.00
Others	15.15	13.63	13.63
Average	12.93	11.99	11.99

**(E) Marketing**

The total value of agricultural produce marketed by the society during the fiscal year 1965 was 593 million yen. The



corresponding figure for the fiscal year 1975 amounted to 2,157 million yen. This is an increase of 263 per cent. The average value of the agricultural produce marketed per regular member by the society in 1965 was 140,721 yen. The corresponding average for 1975 was 595,580 yen representing an increase of 323 per cent.

**Handling commission charged by the society from members  
for marketing agricultural produce**

Items	1970-71	1973-74	1974-75
Rice	1.65	1.35	1.29
Wheat barley	2.16	2.25	1.94
Vegetables	2.96	2.82	2.54
Fruits	3.00	3.20	3.05
Egg	1.62	2.47	5.13
Broiler	—	1.51	2.37
Beef	1.32	0.93	1.04
Average	2.01	1.73	1.68

**(F) Farming Guidance**

The society has fourteen farm advisers. The average number of farm household per farm advisers is 244. The advisers are specialists in the production of different crops and livestock.

There are commodity groups of 8 different crops and livestock production. They are:

1. Flower.
2. Vegetable.
3. Livestock including dairy.
4. Ornamental trees.
5. Rice.
6. Strawberry.
7. Lettuce.
8. Orange and other fruits.

The farm guidance is normally extended through these groups.

## A DECADE OF PROGRESS AT A GLANCE

(Unit : Thousand yen.)

	At the time of merger April 1965	March 1975	Increased percentage
Membership	5,357	6,127	14.4
Member house- holds	5,031	5,925	17.8
Number of employees	220	305	38.6
Fixed assests (after depreciation)	yen 63,284	yen 1,045,556	1552.2
Owned capital	84,409	493,344	484.5
Desposit with others	1,013,719	7,743,190	663.8
Loan	675,401	6,918,616	924.4
Deposits of members	1,636,448	13,202,964	706.8
Borrowing	131,783	1,247,558	846.7
Long-term insurance in force (life & building)	2,118 (million)	14,540 (million)	586.5
Supply	433,538	1,870,489	331.4
Marketing	593,039	2,156,621	263.7
Administration expenditure	95,852	591,483	517.1
Current profit (income profit brought forward)	2,543	39,937	57.5

**P R O G R A M M E**

**Study Visits in the Republic of Korea From 24th to 30th August and Regional Seminar on "Cooperative Insurance and Promotion of Savings", Tokyo, Japan, From 1st to 21st September, 1976.**

23rd Aug. Mon.		Arrival of participants in Seoul.
24th Aug. Tue. to 30th Aug. Mon.		Study visits in the Republic of Korea.
31st Aug. Tue.		i. Departure for Japan. ii. Arrival at IDACA.
1st Sep. Wed.	1000-1100	Inaugural session
	1130-1230	i. Explanation of working methods ii. Introduction to IDACA.
	1230-1400	Lunch break
	1400-1700	Presentation of background papers by participants.
2nd Sep. Thu.	0900-1230	Presentation of background papers by participants
	1230-1400	Lunch break
	1400-1700	Introduction to Japanese Agri- cultural Cooperative Movement by Mr. S. Futagami, Section Chief, Central Union of Agricultural Cooperatives.

3rd Sep. Fri.	0930-1230	Introduction to Saving Promotion Activities of Japanese Agricultural Cooperatives by Mr. M. Sekiya, Deputy Manager, Promotion Dept., Central Cooperative Bank for Agri. and Forestry.
	1230-1400	Lunch break
	1400-1700	Introduction to Agricultural Cooperative Insurance in Japan by Mr. Y. Mikami, Manager, Education and Training Department, National Mutual Insurance Federation of Agricultural Cooperatives.
4th Sep. Sat.	0930-1230	Introduction to Agricultural Cooperative Insurance in Japan by Mr. Y. Mikami, Manager, Education and Training Department, National Mutual Insurance Federation of Agricultural Cooperatives.
	1230-1400	Lunch break
	1400-1700	i. Discussion on case study. ii. Introduction to ICA by Mr. Daman Prakash, Education Officer (AVA), International Cooperative Alliance.
5th Sep. Sun.	1300-1700	Sight-seeing in Tokyo
6th Sep. Mon. to 10th Sep. Fri.		Study Visits.
11th Sep. Sat.		Free
12th Sep. Sun.		Free

- 13th Sep. Mon. 0930-1230    **Group A : Experiences of insurance promotion activities at the primary level by Mr. Y. Watanabe, Vice-President, Yokohama Minami Agricultural Cooperative Society.**
- Group B : Experiences of saving promotion activities at the primary level by Mr. S. Inohana, Executive Director, Kawashima-cho Agricultural Cooperative Society.**
- 1230-1400    Lunch break
- 1400-1700    Lectures continued.
- 14th Sep. Tue. 0930-1200    **Cooperative Insurance System of the Philippines and Savings Promotion by Mr. B. P. Faustino, Managing Director, Cooperative Insurance System of the Philippines.**
- 1200-1300    Lunch break
- 1400-1530    **Visit to National Mutual Insurance Federation of Agricultural Cooperatives (ZENKYOREN).**
- Agricultural Cooperative Insurance Policies by Mr. S. Maeda, Manager, Special Matters, Product Development Department (ZENKYOREN).**
- 1600-1730    **Visit to Central Cooperative Bank for Agriculture and Forestry (CCB).**
- Deposit insurance system of agricultural cooperatives and government support system by Mr. S. Nagata, Manager, Research Department (CCB).**

15th Sep. Wed.	National holiday.
16th Sep. Thu. 0930-1230	Malaysian Cooperative Insurance Society and Savings Promotion by Mr. L. Meyyappan, Assistant General Manager, Malaysian Cooperative Insurance Society.
1230-1400	Lunch break
1400-1700	Group work
17th Sep. Fri. 0930-1230	Saving Promotion by Cooperatives by Mr. R. D. de Livera, General Manager, Peoples' Bank, Colombo, Sri Lanka.
1230-1400	Lunch break
1400-1700	Group work
18th Sep. Sat.	Group work and plenary session
19th Sep. Sun.	Free
20th Sep. Mon.	Drafting of the final report
21st Sep. Tue 0930-1230	Final plenary and evaluation
22nd Sep. Wed.	Departure of participants.



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39. Mr. Daman Prakash  
Education Officer (AVA).
- Seminar Secretary
40. K. Sethumadhavan  
Personal Secretary to  
Joint Director (P&PR)
-



# **II**

## **Working Papers**



## Cooperative Insurance and Promotion of Savings

N.A. KULARAJAH\*

To my mind, a narration of the historical development of cooperative insurance and promotion of savings would be less interesting than an attempt to analyse their concepts and practices in the present day context.

The latter approach would more effectively deal with the role of cooperative insurance and savings, their allied problems and reactions in the insurance and finance industry of today. This line of approach I hope would provide a more effective platform for constructive discussion and in the process make this seminar more memorable and interesting.

I would like to limit my speech to the role of cooperative insurance and savings in the agrarian and developing economies of South-East Asia as I am more well versed in the socio-economic activities in our Region. I must, however, admit that I am not an expert in South-East Asian affairs. I would approach the subject from a wide perspective covering our whole region.

The subject matter shall be tackled in a two-fold way. Firstly, I shall discuss cooperative insurance and then proceed to examine the significance of savings. There is quite a substantial

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co-relation and overlapping in the values and objectives of these two elements of present day living that one tends to get the view that they go "hand in glove". A cooperative insurance society is more than just another insurance company providing insurance facilities and services to its policy-holders. It has added responsibilities to shoulder in keeping with its principle of being a cooperative. I do not wish to elaborate the concept of a cooperative for I have no doubt the distinguished audience here is most knowledgeable and are exponents of the subject. Broadly speaking, its ideals are service-oriented and non-profit motivated. It has to have a keen sense for the economic and social welfare of its members and the community it serves.

The ultimate objective of promotion of savings is the provision of economic, financial and social security to the subscribers. Two socio-economic instruments of cooperative insurance and savings needed most by our people of small means. It is common knowledge that a vast majority of our people have small means of income and low living standards. It is among these people that cooperative insurance and savings should be propagated mostly so that they may be able to lead better lives and contribute to the social well-being of our respective nations.

It is my firm belief that for savings to benefit the people most effectively it should be developed along cooperative lines and not in a private capitalistic manner. Private enterprise being what it is would channel surplus funds into areas of investment that may not have significant social and economic benefits to ordinary people. High risk quick return lending programmes and pre-occupation in the money and stock markets will make these saving companies lose sight of the more important grass root problems and needs of their subscribers.

A cooperative savings and credit society on the other hand is managed by members themselves along democratic lines. This union of membership, ownership, and management creates a union of common problems and a common platform for action.

Important emphasis will always be placed in socializing surplus funds for socio-economic welfare of its members.

As an ardent cooperator I look forward to the era of joy when we find cooperative insurance and savings becoming significant pillars in our respective national economies and contributing in no small way to the peace and happiness of our people. We have made starts in these two areas and are moving along, in some areas slowly and in some at a faster pace gathering momentum and gaining greater significance.

In recent years the national consciousness has made the governments in our region pay close attention to the subject of insurance with the view to promoting rapidly the domestic insurance which would provide adequate insurance covers for the various social and economic activities programmed for the people. This setting and the impetus provided by the state is most ideal for the growth of the cooperative insurance societies. As a social instrument that works for the betterment of its members cooperative insurance societies subscribe fully to the state's aims for the nation. This common ground of objectives is sufficient urge for cooperative insurance to move into the forefront to be prime movers in local insurance industry.

The present wave of development-mindedness of our respective governments, it is hoped, will inspire the insurance companies whether local or foreign to attune their thinking and actions in line with the national developmental policies.

However this altruistic and noble national objective is not fully the cup of tea of profit motivated commercialized insurance companies. Their investment plans place little or no significance on the welfare value and socio-economic needs of their policyholders. Pre-occupation in the money markets and short term liquid markets with no social value is often their investment portfolio. The foreign incorporated, mostly western, insurance companies operating in our region turn a deaf ear to our national economic development and welfare plans. I would think that out of a sense of obliga-

tion to their host countries they have a moral commitment to subscribe at least in a small way to the solution of our national problems and to the achievement of our aspirations. But we find to our dismay that they often remit back to their home countries whatever surplus funds accrue to them.

Hitherto the foreign insurance companies have dominated and guided our line of development. This situation exists to a very large extent even today. They have, it must be accepted, developed the insurance industry oblivious of the needs of our people. In recent years however, as the industry comes more and more under the control of indigenous people and as cooperative insurance expand national needs are being increasingly appreciated.

In insurance work, it needs more than a shrewd and practical man to cultivate humanitarian values and attitudes in life. Such a man needs to possess the qualities of intelligence to mould insurance policies to serve the various needs of our people, far-sightedness and business acumen to keep his enterprise a going concern, civic and social consciousness to care for the welfare of his clientele and a national obligation to subscribe to the national aspirations, and in the process build an image of the organisation as a respectable partner in our nation building process.

These are responsibilities not insurmountable but heavy and can only be borne effectively by a cooperative insurer.

Insurance companies by its nature and structure have the capacity to act as valuable sources for the mobilization and deployment of funds needed for national development activities. It is quite often found that when insurance companies or for that matter any other private enterprise decide to utilise their funds in socio-economic and welfare projects they are often over-cautious and are guided by the principle that investment should be made in ventures with a reasonably safe chance of return. In consequence this approach would leave problematical area in our national economies solely in the hands of the State

and sometimes unattended because most often than not these projects cover socio-economic areas that may not deserve any investment analysis. This line of thinking is not in keeping with cooperative insurance principles. I am not saying that cooperative insurance, as an important mobilizer and deployer of funds, should commit itself fully to all problematical areas of the nation building process which might result in a financial rut and be a burden to members and the society it serves. I believe cooperative insurance has to strike a good balance between functioning as a going entity by meeting the insurance needs of its members and serving within its means in areas of socio-economic significance in our respective national economies. The provision of insurance itself is a social service to the people. That does not necessarily mean that it is an end in itself. It should be the means to an end, for to a cooperative insurer insurance service is but one of the many social and economic services it should strive for. Insurance service forms the core from which resources could be generated for utilization in other service areas.

However, caution need to be exercised in cooperative insurance management. It is pointless getting too seriously involved in the principles and ethics of cooperation of servicing others without paying attention to the maintenance and growth of the organisation. I would think that in its infant stage a cooperative insurer should strive to sustain itself and build a solid insurance foundation before it decides to engage seriously in other areas of socio-economic significance.

Let us pause for a moment to examine the nature of insurance facilities provided by most insurers in our region. The marketing is aimed at those who have a higher capacity to acquire insurance covers. The sectionalized "quality and intensive market approach" is directed to certain categories of people normally the middle and higher income groups. To them these are the main categories worth tapping. It is strange to note that by virtue of their higher income earnings these people are on a relatively safer side in financial and economic security, yet

continued attempts are made to get them into the insurance fold. Could this be called a genuine service or should we call it a misguided service when we all know that a major section of our people come from the lower income groups who most need an insurance cover but are denied this service. Adoption of this approach of insurance minimises the task of the administrative machinery and problems and assures a bulkier load of business. This seems the criterion adopted to maintain the economic viability of private insurance companies.

In consequence the vacuum of insurance facilities in the lower strata of society has to be filled by a socially conscious cooperative insurer. A "quantity and extensive approach" is needed, preferably a multipronged approach catering all the segments of our societies. Then at least those with bigger means and housing a better social conscience would consider being members of cooperative insurance and support its worthy cause. Problems are bound to arise in an extensive approach of this nature and it is here that the state must give support in providing facilities for its smooth operation.

The existence of a cooperative insurance in an insurance market serves as a catalyst and has a domineering influence over other insurance companies in its area of operation. It can be a power to be reckoned with, leaving the other proprietor companies no alternative but to compete for survival. This stabilising effect on the insurance market is an important feature of cooperative insurance. The other insurers respect and carefully observe the direction and nature of the activities cooperatives adopt and attempt to toe the cooperative line. Cooperative insurance thus creates a chain reaction in the market characterised by hard competition to the benefit of the public. This competitive setting results in an active product development process which brings about the introduction into the market new and more suitable insurance products and at the same time compels the management of other companies to give more attention to the policy-holders reactions and quality of the service which policy-holders expect of them. If there is a large



cooperative insurance society which works for the best interest of its members it provides sufficient control on the private insurance business.

A cooperative insurance society has to reflect its social responsibilities in the conduct of its business. One initial area in which the responsibility has to be reflected is in the undertaking of risks. The reality of insurance is that persons who are most in need of insurance are those affected by impairment or some ailment. However, they tend to be classified as un-insurable. Thus a class of people are denied insurance which invariably means that their families will be deprived of the security they need. Could a cooperative insurance society practise insurance in this manner and avoid a responsibility to this class of people and the community? I do not think so. A cooperative is better built to take these risks and it should do so at whatever cost as a social responsibility that it cannot shirk. It need not throw overboard underwriting principles. But funds can be created to meet such a contingency.

Savings as an important social and economic instrument, if properly mobilized and channelled, can contribute effectively to the socio-economic welfare of its participants and the society at large. While the habit of savings should be encouraged to provide for one's financial security, the savings functions should also be vivid from two angles, namely its mobilisation efforts and utilisation programmes in the context of our developing socio-economic environments.

The concept of a savings institution revolves round the premise of the law of large number to be economically viable. There has to be significant numbers of savers contributing to a central entity borrowing money as cheaply as possible and loaning it dearly as possible to make the difference as profit for its continued existence. The borrowing and lending policies of a cooperative saving institution need not necessarily abide by the business practice of private institutions for in the final analysis both borrowers and lenders are but the same persons. Whatever potential surplus that is to be secured could be offset by the

provision of more lenient and favourable business terms to members. Examples of saving institutions contributing to growth are the primary agricultural credit cooperatives at village level, Cooperative Central Banks at district and intermediate level, and cooperative banks at state levels. In Malaysia we have an Apex Agricultural and Peoples Bank serving at national level, with branches in different parts of the country and farmers savings and credit societies serving rural areas. In the urban sector we have an apex Cooperative Central Bank at national level with branches at State and district levels. All these cooperative savings institutions attempt to serve the basic socio-economic needs of its members at reasonable terms. Through the savings pooled loans, credit facilities are provided to individuals and business enterprises of people of small means to acquire facilities for improvement. Free business advice, joint participation in business ventures with members, low interest loans, and easy repayment terms are but some of the many services provided by cooperative saving institutions to members.

In the present highly commercialised and sophisticated private financial system, persons of small means and small business enterprises who are in dire need of extra finance to improve their basic infrastructure, are deprived of any attention, because they are highly risky propositions. While private bankers and financiers have the interest of their shareholders and depositors to take care of, they should also be prepared to provide financial facilities for these weaker sections to fulfil at least partly their social responsibilities as good corporate citizens. Only continued state persuasion and statutory regulation when necessary will compel them to do so. If the private sector does not come forward the only alternative left for the people of small means to turn to will be the cooperative system. Disillusionment with the capitalistic system of financing will make these people all the more determined to support the cooperative system.

One of the glaring similarities of great social significance in our region which has an agrarian based economy is the under-

development and low productivity of the rural people who constitute at least 75% of our region's total population. Outmoded means of agriculture, insecurity of land tenure and unscrupulous exploitation by the middlemen through the vicious M-M system (Monopoly/Monosony) has placed great hardship on our people in the less developed areas. The middlemen by taking advantage of the lack of credit facilities and the inefficient market mechanism has brought these poor rural people completely under their control by providing high interest discount cash loans in return for their produce at very unreasonably low prices. Most rural families have become totally indebted to these middlemen and as a result are leading very undignified lives.

It is against this background and the disinterested treatment the urban poor is getting from the private financial sector, that we have to view the role of the cooperative saving function as an alternative for giving our people a more improved way of life.

A stagnant economic environment with low productivity and income does not have the potential to initiate any effective savings programmes and any effort to promote savings would be faced with frustration.

To my mind, in a stagnant situation like this the first support and impetus has to come from the government. Financial support in terms of providing land ownership, farming facilities, better infra-structure, setting up of government supported marketing authorities and guaranteed minimum prices for farm products are some of the ways in which the low production and State can help to slowly save our rural people from the vicious circle of poverty. These improvements will, without doubt, incur substantial public funds. It will lay the stimulus for effective economic and social growth in the agrarian sector and contribute slowly but surely to a higher potentiality to save. The mobilisation of these savings can be ploughed back into the rural community to snowball and recycle the effects of the foundations laid by the State.

Thus in short, it can be said that the state being rightly the bastion of the people will have to create the opportunity for socio-economic growth. Growth will sustain on the foundations laid and gather momentum through the interplay of market forces. Offsprings of this process will most often be cooperative saving and credit societies. My inclination in favouring cooperative societies to foster and provide the facilities for better living standards in agrarian societies is borne from the fact that our people are highly disillusioned with the exploitative experiences suffered in the hands of the private enterprise prior to governmental support. In the cooperative system the members would manage and own their organisations and share the fruits of their toil in a fair and democratic way. As a consequence the cooperative saving and credit society will stand out in the forefront to provide the financial backing and guidance most needed for the development of our agrarian societies.

It would be ideal for our agrarian societies to be managed fully along cooperative lines. This will take a heavy load off the state shoulder to tackle the other multiple national problems. But support need to be given to ensure the financial viability of rural self-sustaining cooperative credit and saving societies in their infancy. While the potential is available for the mobilisation of savings with the provision of growth facilities, lack of initial state financial support would not provide sufficient thrust to rural socio-economic progress. This is probably a built-in weakness of a cooperative for the weak and disorganised who patronize it, hold it in high esteem do have the confidence and faith but lack the means and facilities to build it in order to reach their rightful destinies in the economies of our region.

It may not be possible for cooperative saving societies to raise even the minimum amount of capital from the members right at the beginning. The weaknesses of a cooperative in this regard vis-a-vis a private or public undertaking is generally accepted and therefore if a cooperative is asked to raise the needed capital by itself the progress of the cooperative enterprise may be slow or may not be able even to come into existence.

The responsibilities of the state in this regard is recognised because it is only the state which can possibly lend support to the weaker sections of the community. It must be emphasised that state capital aid should not be accompanied with special rights and privileges for itself in the control and management of the cooperative reducing the cooperative only to a position of a department of the government.

The association of the state should be regarded as a partnership among equals and not used as a lever to intervene in the affairs of the cooperative. At the same time through its period of growth the cooperative should not forget the importance of self-help and strive to attain self-sufficiency by gradually retiring the state capital that may have been provided to it initially. Without doubt an independent cooperative saving society with sound management principles developed through the years would be in a position to look into the continued and varied needs of its members.

We see instances in our economies where private saving institutions and sometimes surprisingly state sponsored saving banks supposedly with noble objectives of rural welfare mobilising rural funds for utilisation in urban and industrial projects of no direct benefit to the rural community. These are glaring situations of institutions sapping whatever little resources our rural people have for development devoid of any positive benefit to them. Such instances add more strength to my contention that saving institutions would be able to serve the community better if run along cooperative lines.

Cooperative saving efforts will come to nil if it is managed by incompetent, dishonest and unskilled people and could be of great disservice to the society that it intends to serve. Dedicated service-oriented employees and good financial management are needed if institutions are to succeed. In this regard a serious problem might arise due to the non-availability of skilled man power. Here again, the State can take the initiative to provide people temporarily from its manpower pool of trained personnel and arrange training and orientation facilities to the permanent

employees of the societies in cooperative financial management. The government personnel could slowly be phased out over the years by providing opportunities to the more educated and knowledgeable rural members to understudy the mechanics of cooperative management. It is, I admit, easier said than done.

I had deliberately omitted in my speech the significance of the promotion of saving and its impact in the industrialization, commerce, trade and modernisation of our societies. Savings is often associated with a business overtone that a private capitalist and industrialist seeks to venture into industrial and manufacturing lines. Savings is also associated in the urban community as a means of finance in the money and stocks markets and international commerce and trade. Savings is manipulated by a few for the benefit of a few who are most often influential businessmen of urban communities who form only a negligible percentage of our region's population. Savings is painted with such sophistication that the rustic and more demanding, down-to-earth problems are left unattended.

I hope you would not be misled into thinking that since I have mostly emphasised the part played by the cooperatives and the state in lending support to the weaker sections of our societies, other national areas may be deprived of serious cooperative and state attention.

Let me conclude by pointing that the progress and development of a nation cannot be judged by the building of cities and luxuries for a select few or holiday resorts to attract the attention of foreigners but by the complete transformation of the society ; a transformation that involves the improvement in living standards of the ordinary people. It also involves a change for the better of the hopes, aspirations and motivations of our people. This change has to take its root in the agrarian and less developed sector that has been deprived of a better deal for too long. Admittedly this change is a long hard process, and it is in this process the cooperative insurance and cooperative savings will be expected to play a significant part.

## Cooperative Insurance in the Philippines

B. P. FAUSTINO\*

### Introduction

I am addressing the seminar not as an expert on cooperative insurance but as one who has had some experience in organising a cooperative insurance society—the Cooperative Insurance System of the Philippines (CISP) and it is perhaps this first-hand experience that would prove to be of some value to you.

The CISP is still a very young organisation. It has been operational only for the past one and a half years, although we like to think that already, within this very short span of time, it has created enough impact in the countryside to demonstrate one thing: that given a sufficiently broad mass base, an economic activity such as insurance, hitherto considered the preserve of the moneyed class only—at least in the context of which I speak - can be run and can render much needed services for its membership as economically and as efficiently as any other

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privately owned business can, if not better. How in the long run CISP will fare is, of course, another matter, and only time can tell, although indications are that it has made its mark and is there to stay.

In sharing with you our experience, however, I would have to go a little farther back at some pre-CISP time and will endeavour to describe to you what efforts were taken to lay down the groundwork, so to speak, for CISP and other cooperative operations which I hope I shall have time to very briefly describe to you too. For the fact is, CISP had the advantage of starting its operations, in December of 1974, with an already organised institutional network at the village or farm level.

It is a painstaking, time-consuming process of organising such an institutional network of educating the farmer on a massive scale in cooperatives, and of arousing insurance consciousness among the farmer population also, as this group in sharp contrast to their urban counterparts, never had the benefits of insurance protection, nor even knew about the availability of it as an economic shield against unforeseen events.

Then I shall go to CISP structure and operations, the results of its operations after one and a half years, the problems we have encountered operationally, and some outlooks for the future.

### **The Samahang Nayan : Pre-Cooperative Base at Village Level**

The economy of the Philippines has been, and still is, predominantly agricultural, and the backbone of this is the farmer. There are several millions of them, out of a forty million or so population, scattered in several thousands of islands (tourism pamphlets say we have 7,107 islands although conceivably this includes even the plain, uninhabited outcroppings) which make up the 115,000 square miles of the Philippine archipelago. Some 86 dialects are spoken, although on a regional basis, there are at least eight principal dialects which are fairly well understood. Literacy rate is very high though,



which makes any effort at massive organisation and education that much easier.

The Samahang Nayan (SN) is a village association, made up of minimum 25, maximum 200 members, primarily farmers, residing in one village. It is registered with the government department which administers this programme—the Department of Local Governments and Community Development—and therefore has a legal personality, with its own board and set of officers coming from the farmer population. It was designed with three principal functions in mind : as a vehicle for *education*, for *savings* and for *discipline*. I shall deal very briefly with the first two functions, because these are relevant to cooperative insurance.

Education was carried on in massive scale, utilising sophisticated approaches and all forms of media. Government field extension workers were harnessed for this job. Farmer members of SN underwent lessons (ranging from cooperative principles to rights and obligations of members to modern techniques in cultivation to other activities which would supplement farm income to basic accounting, etc.) designed to last 65 weeks. At later stages, cooperative insurance was made part of the lessons.

SN members were asked to build up, through contributions, two types of funds : the barrio (village) guaranty fund, and the barrio savings fund. The first is a common, social fund coming from farmer contributions at the rate of one cavan (sack) of palay (paddy) per hectare per season, and the fund is available for a number of purposes, among which are that it can be a source of premium for group life insurance as well as advances for settlement of claims in the event of death or accident. The second fund is made up of 5% of all loans of farmers and is available as a source of capital for them in putting up needed cooperative structures to serve their needs.

There is no need here to deal on the other details of this programme and also it is not possible to do so

without the risk of digressing too much from the main subject matter, and without the risk of over-simplifying this very interesting, systematically implemented programme. Therefore, I shall only set down statistics which show the present status of the programme. The programme started late in 1973, and as of March 1976, some 18,232 SNs have been organised with 855,675 members, of which 14,517 SNs were registered with a membership of 734,428.

Build up of funds as of the same date were as follows :

	Pesos
General Fund (from membership-fees)	11,832,045.10
Barrio Saving Fund	20,375,121.37
Barrio Guaranty Fund	15,776,758.64
Total SN Funds	<u>47,983,925.11</u>

There has not been any other programme in the long history of similar attempts in the Philippines that has succeeded to mobilise from the farmer population as substantial sum of money as this.

### **The beginnings of cooperative insurance**

Somewhere midstream, while this massive organisation and education campaign was still going on, at a point where about 10,000 SNs had already been organised, it was thought that it was about time that cooperative insurance was started, as a parallel development scheme as we called into demonstrate in practice the efficacy of a cooperatively-owned and run insurance system for farmers and workers. Sixty-five weeks of lessons is a long stretch and one can hardly expect sustained interest during this long period without demonstrating by concrete example some of the lessons being taught.

Primers on cooperative insurance were thus written and mass-produced : insurance leaflets were designed in simple language, illustrated comics-style, and translated into the eight

principal dialects spoken in different parts of the country. The organised SNs became vehicles for distribution of these materials. At the same time, radio was used extensively with cooperative insurance slogans plugged in all radio stations hour after hour and drama spots highlighting the advantages of cooperative insurance and the benefits which would flow from it regularly aired at prime radio time. Within pre-set time frames, orientation sessions and seminars were held for core groups, and on an echo basis, the circles widened. Immediately after all these, the campaign was started for capital contributions with which to put up the cooperative insurance society. These took place early 1974.

Philippine insurance laws (there is no cooperative insurance law) stipulate that before any insurance organisation can be licensed to do business, it must have a paid-up capital of two million pesos (P2,000,000.00) plus contributed surplus (meant to defray operating costs) of one million pesos (P1,000,000.00) or a total *cash* of three million pesos (P3,000,000.00). In a number of months, some half a million farmers contributing P2.00 each (approximately US \$0.27) through their respective SNs made up for the first million. Existing cooperative societies of all types joined in the venture and later on, additional funds were put in by way of investment in equity by the Cooperative Development Loan Fund, a semi-government funding agency administered jointly by government and the cooperative sector.

By October of 1974, CISP was granted a license to operate by December of the same year, its first policy-the group life yearly renewable term insurance, for SN and cooperative members and workers-was approved by the office of the Insurance Commissioner, the government agency that regulates insurance activities. As a cooperative, CISP is registered with the Government Department in charge of cooperatives as an insurance organisation, it is licensed to operate by, and does business under the supervision of the office of the Insurance Commissioner.

## Ownership Profile of CISP

Shares of stock in CISP may be owned and held only by pre-cooperatives and cooperatives.

By *organisational level*, we have the following :

Pre-cooperatives (SN)	11,712 societies
Cooperatives (primaries)	184 „
Cooperatives (secondaries or federations)	8 „
Total members	<u>11,904 societies</u>

By *type* of cooperatives, we have the following :—

Agricultural (pre-coop)	11,712 societies
Credit	94 societies
Consumers	29 societies
Service	8 societies
Marketing	20 „
Multi-purpose	13 „
Producers	6 „
Labour	22 „
Total	<u>11,904 societies</u>

In terms of capital contributions, as of December 31, 1975, paid up capital totalled Pesos 4,393,357.41, broken down into :

	Amount	Percent (to total)
SN contributions	P 1,083,974.48	25%
Cooperatives	2,309,378.00	52%
Cooperative Development Loan Fund	1,000,000.00	23%
Total	<u>P 4,393,352.48</u>	

## **Other facts and figures as of December 31, 1975**

Total resources soared to Pesos 6.6 million representing an increase of 65% coming from capital contributions, premium investment income, and borrowings.

A total of 1,700 SNs, cooperatives and cooperative oriented organisations representing 86,530 individuals were covered, raising the systems exposure to Pesos 230.4 million. SNs represent the bulk of covered organisations (1,663 or 97.82%) while cooperatives and cooperative oriented organisations represented a minor segment (37 or 2.18%).

Premium income totalled Pesos 1.47 M.

Investment portfolio totalled Pesos 4.7 million, total yield in various investments averaged 15.75%.

Results of overall operations—total gross income of almost Pesos 1.6 million which resulted in Pesos 38,717 total retained earnings.

### **Operations**

Since the start of operations, only one type of insurance policy has been marketed so far : the group life yearly renewable term insurance, with accidental dismemberment as optional offer. For farmer members of SN, minimum P 2,000.00 sum insured, maximum P 5,000.00. A master policy is issued in the name of the pre-cooperative/cooperative, and members receive individual certificates of insurance.

Premiums are collected through the SN, and claims are settled through the same channel. Especially in claims, the SN channel makes for expeditious settlement (and here CISP has established a record for fast, efficient servicing of claims) because funds of the SN (the Barrio Guaranty Fund) can be advanced to members for settlement of claims under certain built-in control systems which would later on be reimbursed by CISP payable to the same account. This way, provided the claims are

legitimate, these are settled almost within 24 hours. Thus, both in collection as well as settlement of claims—two very vital aspects of the operations which can be very expensive propositions administration-wise, the SNs as village-based institutions have proved their effectiveness as channels for these services.

In the offing and due to be marketed before 1976 ends are the Group Life Savings Incentive Insurance, Loan payment protection insurance, and land payment protection insurance (for agrarian reform certificate of land title holders). To be offered a little later are whole life, endowment and convertible term insurance.

### **Special services**

Preparatory to building up experience on non-life insurance and to be able to service the non-life insurance needs of its members, CISP is now able under agency arrangements to cover its members with all their non-life requirements. Eventually the target is to put up a sister general insurance company.

It has put up an Investment Advisory Services which helps and gives valuable investment assistance to member cooperatives with sizeable investible funds.

CISP now leads the field in cooperative education and training programmes as well as in providing technical, advisory and consultancy services to affiliated cooperative organisations, including advice and assistance in the formation of other types of cooperatives.

Of its total investment portfolio, some P 800,000.00 are now in other types of cooperatives.

### **Some problems**

In any new venture - and cooperative insurance for us has been nothing less than pioneering-the building up of personnel capabilities is a must. The easier way would have been for us to recruit from the private industry, but we thought we

wanted to be able to properly orient people with a fresh approach, unhampered by any built-in grooves and attitudes they may have developed. Here sister cooperative insurance societies in the region have been very helpful.

No insurance organisation in the Philippines has had that much exposure to the rural areas, and specifically to the farmer population. In calculating mortality rates, some were of the view that farmers are more sturdy by nature and therefore have longer life expectancies, while others felt this might not be true because of the lack of medical facilities in the villages. As we are now covering, on a group basis, which is non-medical, farmers between ages 15 and 65, after one and a half years, we are now feeling that the death rates are rather high, but this could also be because of any one of a number of reasons, among which are anti-selection, too high an age bracket which we are covering non-medical or that we just have not achieved enough spread yet on a nationwide basis. We are looking at the problem very seriously, and we expect to come up with some answers soon.

The last possibility I have identified unmistakably points to a *marketing* problem, because despite the presence of a widely based institutional network at the village level, as you will have seen from the data I have given above, we have hardly covered 10 per cent of an existing, almost captive, market, not to mention the much larger *potential* market which is that bigger number of the yet unorganised (into SNs) farmers. Of course we do not lose sight of the fact that one and a half years of operations is not such long time but nonetheless, at this early stage, efforts are already underway to increase in size our still very nominal sales force.

Group term life policies are not that much of a money maker from the purely economic point of view. However, it is an excellent, low-cost vehicle, for servicing the most basic needs of the membership. But after this, we should now be able to branch out—as we now plan to immediately—into more lucrative lines, which are the whole life and endowment individual policies,

alongside the other product lines I mentioned earlier in these notes.

### **Some observations**

We had always looked at cooperative insurance as a spring board for further cooperative development. What has taken place in this short span of time has strengthened this view because now, on a much faster pace, area marketing, credit, consumer, and service cooperatives have come up, assisted directly or indirectly by CISP. Already a fairly large and modern cooperative supermarket has been opened and is now doing very well in the highly competitive Metro-Manila area. A cooperative development bank is already in the process of organisation, and is now presently functioning as a *savings* cooperative. In both these new institutions, not to mention a number of several others, CISP is a shareholder and assist, in one way or another, in the management and administration of its affairs.

Operating linkages with other existing cooperatives—of all types—are now possible, via insurance operations, and because this is a common need irrespective of economic activity, the response is very warm.

Credibility, even for a hitherto unknown (in the farm areas) as cooperative insurance, is not that difficult to establish if one is ready and prepared to do the business in the manner in which it should be done. Already, CISP has achieved some record in expeditious and business-like settlement of claims. And that is the best advertisement for any insurance operations, much more effective than full page advertisements. Already, at this halfway mark for 1976, we have received in gross premium income what we earned for the full year of 1975, which should show a definite upward trend in sales.

With an institutional network at the village level such as that which we have, the incidence of fake or fraudulent claims can be reduced to the minimum at very nominal cost.



## **Acknowledgements**

I must not fail on this occasion to acknowledge the debt of gratitude CISP owes to the International Cooperative Alliance (ICA) and the International Cooperative Insurance Federation (ICIF) in general, and to the Malaysian Cooperative Insurance Society (MCIS) of Malaysia in particular, all of which helped us very much at pre-organisational stages. Already, a number of our staff have been trained in Malaysia and standing arrangements are that we can continue such training programmes as and when we need to train our other staff. In planning for operations, a number of MCIS key staff spent valuable time with us giving guidance, advice and assistance.

Other sister cooperative insurance societies as far away as Europe and the USA as well as our host cooperative insurance movement in Japan have given encouraging hands and valuable assistance—a tribute to the efficacy with which the worldwide cooperative movement under the overall umbrella of the ICA is being brought together and its resources maximised for cooperative development.

# Savings and the Cooperative Sector-Case of Sri Lanka

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## Colonial Period

Before the advent of the colonial plantation economy, Sri Lanka's economy, specially at the village level was based on barter and exchange of mutual services. Money was known from around the 5th century B.C. but money played only a marginal part in the economy. Saving at the village level during the barter economy was basically in the form of kind in that agricultural surplus was stored for future use. The amount and nature of savings cannot be quantified except to say that savings itself was tied to the surplus extraction process of a feudal society.

Significant changes in the Sri Lankan economy began with the advent of the Portuguese in the 16th century and the increased importance of trade specially in the Western centre. The European incursion which was for purposes of shipping cinnamon and other spices collected from the hinterland to European markets gradually began to take a qualitatively different turn with the coming of the Dutch and finally the British. The Portuguese contended themselves with collection and transshipment of spices that grew mostly naturally. The Dutch on the other hand experimented with plantation type crops and the British turned this into a significant distortion of the economy by introducing large scale plantations into the country.

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### **Introduction of Plantation Industry and its impact on the Economy**

The British who took total control of the country in 1815 introduced coffee planting in the 1840's and with the collapse of coffee due to disease, introduced tea in the latter part of the 19th century. The plantation system as opposed to the earlier subsistence agriculture was based on wage labour, factory type operation of large estates and production for a foreign market. It was based initially on a small dose of foreign capital and the industry was similar to the class of extractive industries that sprang up all over the Third World in the 19th century to supply the European centre. The subsequent growth of the economy after the initial dose of foreign capital was by the large surplus generated in the country itself. The surplus was sufficient also to provide handsome dividends to more than compensate for the nominal investment.

These changes resulted in the economy of the country being completely rebuilt around the activity of plantation. The foreign banks that were established early had the sole function of financing this industry and large scale profits arose from this. Engineering firms and workshops grew up to service the engineering needs of the plantation factory. For the maintenance of railways and roads, government engineering establishments came into being.

Thus with the introduction of the classical plantation economy in the late 19th century the country's economy suffered a classical dualistic split. The enclave, so-called modern sector had its main interaction with the external world and very little interaction with the traditional economy within which a large part of the population lived. By the end of the 19th century, the enclave sector employed about 40% of the Sri Lanka labour force and the traditional sector 60%. In terms of this magnitude, the bulk of trade in the country was between the enclave sector and the outside world and few goods and services flowed between the traditional sector and the enclave or for that matter between the traditional sector and the external world.

The introduction of the plantation economy had a serious deleterious effect on the traditional sector. Not only was the

main patronage and economic activity of the government denied to the traditional sector, but the introduction of the plantation meant that the traditional sector was dislocated. In the central high-lands where the plantation economy grew, land which belonged to part of the village economy and demarcated for grazing and potential village expansion was subject to virtual de-facto expropriation. This was largely by the notorious Waste Lands Ordinance whereby the British declared all lands to which no formal ownership could be proved to belong to the Crown. By this device large areas of common pastures where cattle grazed and forest areas which were an important and integral part of the village economy and ecology were sold at ridiculous prices by the British Crown to British planters. This incursion into the peasant economy was further aggravated by the Grain Tax, whose main effect was on the peasantry to the exclusion of the land owning classes.

The pauperised peasantry were often unable to pay this tax and sold their land and the negative effects of the colonial economy on the traditional sector was to echo in the years to come in the growth of rural indebtedness among the masses of the peasantry.

The supply of labour into the new plantations was not by the use of indigenous labour but imported Indian labour (so called indentured labour). The resulting strain on the economy in feeding this new influx of labour also had serious distortion effects on the country.

The position of savings in the country, which sectors provide the bulk of savings and which institutions channel this are governed by the macro historical conditions discussed above. In fact, the classical dualistic split over-rides the entire savings area.

### **The Beginning of Savings**

Because of the structural split in the economy the generation of savings in the two sectors namely the enclave and the traditional, take different qualitative dimensions. The enclave

sector had been generating considerable surpluses from its inception and had fed the banking system which was oriented basically to this sector. Generation of savings in the traditional sector was neglected and weak. The generation of savings is intimately tied to the credit institutions in the country and no description of the savings system can be done without description of the credit system. The normal suppliers of credit in the village economy were landlords, traders, richer relatives and in more recent times professionals like school teachers etc. Although no precise data exists on the extent of indebtedness in the early British times, it has been established that by the end of the 19th century, the traditional farmer was tremendously in debt to the private money lenders. The rates of interest were high and at the turn of the century representative figures for loans by paddy cultivators were as follows :

20 to 30 per cent per annum on a mortgaged loan and an annual rate of 150 to 300 per cent on other advances.

An estimate in 1906 of the total indebtedness for the country puts it at a minimum of Rs. 80 million at interest rates varying from 80 to 60 per cent. It was apparent that by the turn of this century small farmers in the traditional sector were heavily in debt to private money lenders. It is in this context that extension of credit through cooperatives was introduced in the early decades of the century.

The first cooperative credit society was inaugurated in 1906 in Dumbara in the central highlands with 66 shareholders. A few other credit cooperatives were also started, but they could not spread substantially to the rest of the country. A significant direction in the alleviation of rural indebtedness was the setting up of the Agricultural Banks Committee in 1909. The Committee was required to inquire into conditions existing in the traditional agricultural sector and how Agricultural Banks would be suited to conditions in Ceylon. The Committee found that most villagers were indebted not so much to the landlords, but to money lenders and that he was obliged to "buy his money dear and sell his

produce cheap'. The Committee recommended the establishment of Cooperative Credit Societies enabling the farmer "to borrow at a reasonable rate of interest for his agricultural needs, while offering him an inducement to invest money in his lands, in manure, improving agricultural machinery etc. all of which could bring a return more than commensurate with the expenditure incurred."

### **Cooperative Societies Ordinance 1911**

The recommendations of this Committee came to fruition with the enactment in 1911 of the Cooperative Societies Ordinance. This legislation was the beginning of organised credit to small farmers in the country. The first cooperative credit society was registered in 1912. The early credit societies registered were of unlimited liability and modelled on Raiffeisen lines, where the members were individually and jointly liable for the debts of the society. Credit societies of limited liability and cooperative thrift and savings societies were two other types of cooperatives founded in the early period. Credit societies of limited liability were first formed in the 1920s. They were also known as urban banks and served mostly the small traders and artisans. Cooperative thrift and savings societies were formed mostly by public servants. By 1942 there were 100 societies of the limited liability variety with a membership of 4479 and in the same year there were 164 cooperative thrift and savings societies with a membership of 15,661 and their savings totalled Rs. 1.4 million. Promotion of savings was the main object of the cooperative thrift and savings societies but loans were granted up to 75% of their savings. By 1968 they had a membership of 69,292 and savings of Rs. 15.6 million. In later years there was a trend for the cooperative thrift and savings societies of public servants to be transformed into societies of limited liability so that they could expand their loan business by removing the restriction of loans to a percentage of the savings held. By 1968 deposits in credit societies of limited liability totalled Rs. 6.1 million and as at end of December 1974, deposits were Rs. 15.01 million.

## Cooperative Credit Societies

In the early decades cooperative credit societies of unlimited liability were the most numerous type and they catered to the rural population. Apart from introducing organised credit for the first time to the farmer, the establishment of cooperative credit societies also signalled the entry of a new institution to encourage thrift and savings at the village level. Up to that time the only institutions available to the small saver were offices of the Post Office Savings Bank.

Table 1 gives the cooperative growth in deposits of the Post Office Savings Bank and the cooperatives in the early period from 1913 to 1930.

In the years following 1930 and right up to the late 1950s these credit cooperatives continued to increase in numbers, membership, shares, deposits and reserves. It can be said of the credit societies of unlimited liability that throughout their active life span of over forty years they embodied in a very real sense the basic cooperative philosophy of self help and mutual-help. Admittedly, they could not support their loan operations adequately on the basis of their own resources. This was not possible taking into account the impoverished state of the rural economy. They had to depend, therefore, to a considerable extent for funds on external sources. In the early period of the credit society movement, government granted loans direct to these societies up to an amount equivalent to  $\frac{3}{4}$  of the paid up share capital. In 1916, government established the local loans and development fund which granted loans up to three times the paid-up share capital and reserves in the case of a society of unlimited liability, and upto an amount equivalent to the paid-up shares and reserves in the case of a society of limited liability. Subsequently with the cooperative movement setting up its own banking system, beginning with the Cooperative Central Bank of Jaffna in 1929, and the establishment thereafter of similar banks in other provincial and district centres, the borrowings of the credit cooperatives from the Fund progressively diminished

TABLE I

COMPARATIVE GROWTH OF COOPERATIVE SOCIETIES AND POST OFFICE SAVINGS BANKS 1913-30

No. of offices Date P.O.S.B.	No. of Accounts	Total amount to credit of depositors	Date	No. of Socs.	No. of Members	Paid up Capi- tal	Deposits	Re- serves
Year End 1913	176	106,669	31.3.14	37	1820	8200	29,174	23.05
Year End 1930	415	308,506	30.4.30	459	22416	471,223	345,331	108,482

Diff. Bet. two periods 239      201,937      8100000      Diff. Bet. two periods 422      20596      463023      245301      108459

Deposits per head rose from Rs. 38.97 in 1913 to Rs. 40.20 in 1930 when there were 415 P.O.S.B. offices.      Shares, Deposits and Reserves from Rs. 4.53 per head at the end of March 1914 to Rs. 40.06 as at 30th April 1930 when there were 459 registered societies.



while their borrowings from the new banks correspondingly increased.

Although the cooperative credit societies sought funds for their lending operations on these lines, their own resources comprising share capital, deposits and reserves consistently supported a substantial proportion of their lendings. Table II showing the percentage of share capital and member deposits to total loans outstanding between 1953 and 1969 illustrates this position.

**TABLE II**  
**Total Loans Outstanding and their Percentage of**  
**Member deposits and share capital to the**  
**Outstanding Loans**

<i>Year</i>	<i>Total Loans outstan- ding Amount in Rs. thousand</i>	<i>Percentage of Share Capital &amp; Members Deposits to total loans Outstanding</i>
1953	6,133	49.6
1954	6,882	47.1
1955	7,562	47.3
1956	8,578	46.6
1957	9,095	49.2
1958	9,450	51.7
1959	8,631	55.9
1960	10,425	56.5
1961	10,794	57.9
1962	11,213	58.1
1963	11,793	56.9
1964	12,108	59.3
1965 N.A.		
1966	13,251	61.7
1967	13,771	61.4

It must be stated however, that even at the highest point of their growth credit societies catered to less than 10% of small farmers in the country, and a survey of rural indebtedness in 1951 showed that in spite of active government intervention in the credit programmes, the credit societies accounted for only 7.4% of rural indebtedness.

The cooperative credit societies were not intended to solve all the problems associated with rural credit and indebtedness. The societies were constituted of small groups of persons known to each other and the loans issued were small sums generally under Rs. 100/- for duration of one year or less. Loans were chiefly for production and the farmers essential consumption needs were not provided for. Further, they were not geared to provide the medium and long-term credit needs of the farmer.

#### **Medium to Long-Term Credit Needs**

This gap in the medium to long term credit needs of the small farmer was a matter which engaged the attention of officials and cooperators from the early days of the cooperative movement. Besides the problems of the small farmer there was in the 1920s and 30s an on-going public debate on the banking and credit needs of all classes of indigenous agriculturists outside the enclave economy. Particular attention was focussed on the need for loan facilities on medium to long term against security of landed property. In 1920 a government appointed Committee in their report styled State Banks for Agriculturists, had commented on the fact that the existing exchange banks did not provide loans on the security of landed property or against growing crops. In 1929 the report of another government appointed Committee recommended the establishment of a Bank to provide long term loans against the mortgage of landed property. This Committee also advised that cooperative credit societies should confine themselves to short term loans.

Based on the recommendations of this Committee the State Mortgage Bank was established in 1931. The Bank had no authority to accept deposits and it obtained the funds for

lending by the issue of redeemable debentures guaranteed by Government. It was expected that the new Bank would provide long term loans for all classes of agriculturists including the small farmer. In actual practice however, the small farmer found it extremely difficult for several reasons to obtain such facilities from the new Bank. It was located in the capital city of Colombo and had no branches in the rural areas. Its minimum loan was Rs. 2,000/- and until 1955 the Bank lent only up to 50% of the value of the mortgaged property. After 1955 it was raised to 75%. The average value of property per rural family was estimated at Rs. 2,765/- according to the economic survey of rural Sri Lanka conducted by the Department of Census and Statistics in 1950-51. Of this total value, land and buildings accounted for Rs. 2,197/- whereas to qualify for even the minimum loan of Rs. 2,000/- the value of land and buildings had to be a minimum Rs. 2,750/-. Add to this the costs of valuation, examination of title and supervision, plus the fact that the Bank applied strict standards in valuation and in examination of title, and it will be seen why the Bank's loans were beyond the capacity of the average small farmer. Attempts at establishing cooperative land mortgage banks intended for the small farmer were made in the early 1930s. Two such banks were in fact started, one in Negombo in 1931 and the other in Kandy in 1933, but their existence was short-lived. In the circumstances cooperative credit continued to be confined to short term operations. The progress of these loan operations from 1913 to 1930 is given in Table III.

The 1930s were difficult years for Sri Lanka. The world-wide depression of the early 1930s resulted in the collapse of the prices of the country's export crops tea, rubber and coconut, and a devastating epidemic of malaria in 1934 cost the country thousands of lives. Despite these difficulties however, the cooperative credit system maintained its steady growth during this period. Table IV illustrates the growth of cooperative societies from 1930 to 1942. It will be seen that credit societies of unlimited liability had maintained their predominance in this period.

TABLE III

Progress of Loan Operations 1913-1930

Period	Number of Societies		4	5	6	7	8
	Agricultural	Non-Agricultural					
1913-14	34	1	35	3266.00			
1914-15	53	1	54	15310.00			
1915-16	54	1	55				
1916-17	68	3	71	27618.00	2908.00		
1917-18	89	3	92	50209.44	3897.00		
1918-19	100	3	103	70605.45	9186.00		
1919-20	132	4	136	99949.69	13100.00		
1920-21	149	5	154	143907.84	21212.00	7995.00	
1921-22	161	8	169	192333.06	23573.32	14670.00	
1922-23	195	13	208	291606.00	31754.98	84987.58	8500.00 (a)

1	2	3	4	5	6	7	8
1923-24	205	17	222	417006.44	49562.24	132884.86	
1924-25	237	20	257	484604.94	63984.30	125512.49	
1925-26	290	25	315	601715.83	125376.96	144361.00	
1926-27	280	23	303	760791.34	158208.62	168772.95	
1927-28	341	19	360	786892.16	150121.61	127478.30	250.00 (b)
1928-29	352	31	383	830301.05	206726.63	113055.85	400.00 (c)
1929-30	418	41	459	1029956.29	286349.69	114997.75	250.00 (d)
							62792.00 (d)

(a) From G. A., or A. G. A.

(b) From one society to another.

(c) From Government's Profit in handling rice.

(d) From the Jaffna Cooperative Central Bank.

**TABLE IV**  
**Cooperative Credit Societies of Unlimited Liability 1930 to 1942**

1	2	3	4	5	6	7	8	Percentage of Overdues
Year	Total of all societies exclusive of Cooperative Unions	Number of Credit societies of Unlimited Liability	Number of Members in (3)	Working Capital Rs lakhs	Deposits Rs. lakhs	Loans granted Rs. lakhs	Loans recovered Rs. lakhs	Percentage of Overdues
1930-31	585	540	24,068	18.6	5.0	12.4	9.5	11.5
1931-32	643	587	24,415	21.8	7.6	13.0	13.0	12.4
1932-33	753	680	14,643	21.4	8.9	13.7	16.5	15.3
1933-34	865	762	16,165	23.1	9.6	16.3	18.3	13.6
1934-35	971	853	16,963	28.0	11.5	18.4	12.0	12.8
Data for all types of societies								
+ Data for Credit Societies of Unlimited Liability								
1935-36	975	947	17,434	14.3	1.8	15.0	12.2	15.5
1936-37	1,085	930	21,303	15.2	2.5	17.1	14.7	15.8
1937-38	1,264	1,051	25,741	16.2	2.4	18.3	16.5	19.8

1938-39	1,464	1,201	30,959	17.3	2.5	19.4	17.2	19.3
1939-40	1,608	1,302	34,404	18.0	3.1	18.9	18.1	23.0
1940-41	1,799	1,431	37,982	19.2	2.9	20.9	19.4	21.0
1941-42	1,977	1,519	41,217	20.3	3.7	24.3	25.5	24.0

Source: Administration Reports on the working of Cooperative Societies. 1 Lakh = Rs. 100,000.

† In the year 1934-35 there were 853 credit societies of unlimited liability and only 26 credit societies of limited liability.

### **Cooperative Banking System :**

An important feature of this period was the development of the cooperative banking system which commenced as we have seen with the first Bank of its kind established in Jaffna in 1929. The entry of cooperative banks marked a significant step in the consolidation of credit societies and in the strengthening of the movement's financial resources. These Banks were secondary level societies registered under the Cooperative Societies Ordinance and formed by the affiliation of primary credit societies. They accepted savings and term deposits both from cooperatives and the public but they accepted demand deposits only from cooperatives. They provided credit societies with advances and at later stages they extended facilities to other types of cooperatives as well. In 1949 an apex cooperative bank namely the Cooperative Federal Bank of Ceylon Ltd., was established under the Cooperative Societies Ordinance. Cooperative Banks as well as other cooperative societies were eligible to be shareholders of the apex bank. By 1961 when the People's Bank was established to take over the Cooperative Federal Bank, as we shall discuss later, there were 17 cooperative district and provincial banks. Table V gives a sectorwise analysis of the deposits held by cooperative banks from 1950 to 1961.



**TABLE V**  
**Deposits of Cooperative Banks 1950-61**

Year	Individual	Cooperative Institutions	Government	Others	Total
1950-51	1,414,000	3,842,000	4,480,000	1,847,000	11,583,000
1951-52	2,083,000	7,156,000	7,260,000	1,362,000	17,861,000
1952-53	792,000	11,890,000	797,000	775,000	14,254,000
1953-54	305,300	11,487,500	3,115,000	1,039,700	15,947,000
1954-55	688,200	11,000,800	1,523,700	1,567,400	14,780,100
1955-56	911,500	14,400,800	1,472,800	1,608,100	18,393,200
1956-57	1,090,100	18,877,500	979,600	965,100	21,912,300
1957-58	864,400	24,670,400	821,900	2,276,800	28,633,500
1958-59	1,367,900	20,380,300	825,500	3,343,500	5,917,200
1959-60	—	26,813,600	212,300	3,432,300	30,458,200
1960-61	—	29,906,000	900,000	3,496,000	34,302,000

*Source :* Administration Reports on the Working of Cooperative Societies

## **Banking Commission of 1934**

In 1934, 3 years after Sri Lanka had gained a measure of internal self-government a Banking Commission appointed by the Government subjected the island to a survey of its general economic and financial situation, the cooperative movement being a significant aspect of their study. Their study broadly reveals that the British Exchange Banks dominated in the enclave economy. They had partiality to British nationals and companies and more Sri Lankans consequently had to make do with private lending agencies and informal money lenders like botique keepers and pawn brokers. The cooperative credit system stood within that as an island of refuge to the Sri Lankans although it catered only to a very small strata of society. The Banking Commissioners agreed that the Cooperative Movement had developed at a good rate and on sound lines. It was their view that the cooperatives had accommodated their members fairly liberally and that the system was ideally suited for land owning cultivators. With respect to credit policy in the cooperatives the Commissioners felt that the Registrar's very inelastic credit limits were not necessary in the case of societies of unlimited liability. They agreed that although more Cooperative Central Banks could be set up they were of the view that an All Island Apex Bank for the Cooperatives was not necessary. Instead they suggested that the cooperative banks deal directly with the State aided Bank which they proposed. The Banking Commissioners Report had a considerable impact on the country as a whole stimulating a high degree of public interest in the financial and economic spheres and resulted in the formation in 1939 of the first successful Sri Lankan commercial bank named the Bank of Ceylon. However, the Bank of Ceylon did not link directly with the cooperatives as suggested; the cooperative credit system extending in due course and setting up its own Apex Bank, as we have seen in the Cooperative Federal Bank of Ceylon Ltd. However, one fact that clearly emerges from these developments is that the cooperative movement, despite the limited scope of its credit operations had grown into a significant force in the economy. We have seen earlier how in the period 1911 to 1930

cooperative credit societies had developed along with the Post Office Savings Bank as the only financial institutions available to the population outside the enclave economy. It is interesting and instructive to see how these two institutions continued to develop after 1930. Table VI gives the growth of the Post Office Savings Bank from 1930 to 1945.

**TABLE VI**  
**Growth of Post Office Savings Bank 1930-1945**

Year	No. of offices	Average Balance per Account	Amount to the credit of depositors Rs. Mn.	No. of Savings depositors
1930	415	39.75	12.3	308,506
1931	401	36.52	11.9	324,651
1932	398	35.09	12.1	344,633
1933	396	33.73	12.6	374,032
1934	400	35.32	14.2	401,983
1935	403	34.05	15.4	451,290
1936	410	34.70	17.2	494,410
1937	437	36.52	19.2	527,163
1938	451	32.83	19.6	594,770
1939	460	30.28	19.3	637,030
1940	456	25.60	17.1	666,177
1941	456	23.46	16.0	687,891
1942	458	19.69	13.7	696,404
1943	460	29.30	21.5	734,190
1944	496	43.58	36.6	817,078
1945	512	68.09	64.7	950,000

The following data illustrate the parallel growth of cooperative institutions during the same period 1930-1945. In 1930/31 there were 600 Cooperative Societies. By 1945, the Credit

**Societies of unlimited liability by themselves alone were 1697 in number and had a membership of 49,638 and a working capital of Rs. 2,777,307. All the societies together numbered 6388 with a membership of over 1.1 million.**

### **Impact of World War II on Cooperative Movement**

With the onset of the Second World War the Cooperative Movement took a qualitatively different dimension with the movement being called upon to establish a nation-wide network of consumer cooperative societies. Cooperatives which were hitherto limited largely to credit societies now found a different focus of emphasis. Government, faced with the problem of food shortages arising from the war situation and the need to distribute the limited local and imported foodstuffs equitably pushed through the establishment of cooperative consumer societies to take over the responsibility of distribution throughout the country. Consumer Cooperatives which numbered only 38 in 1942 increased to 4004 by 1945. The distribution function entrusted to the Cooperative Movement under this scheme it should be noted, introduced a significant new element into the relationship between Government and the Movement which was to develop further in subsequent years, namely, that of principal and agent.

During the same period government pressed with the need to step up local food production created another cooperative organisation styled Cooperative Agricultural Production and Sales Societies (CAPS). This too was essentially a government agency although organised on cooperative lines. In 1948 government introduced a guaranteed price scheme with fixed prices for a number of agricultural commodities offered for sale by cultivators. The new CAPS societies were the commission agents of government for the purchase of these commodities. Besides functioning as a marketing agency these societies were also used by government as a medium for channelling loans to farmers for cultivation. Between 1948 and 1955 the number of CAPS societies had risen from 193 to 842. Total membership at the end of 1955

amounted to 217,123. Despite this active government participation however, the CAPS societies too like the credit cooperatives succeeded in reaching only a small segment of the small farmer population. It has been estimated that CAPS society membership did not amount to more than a tenth of the small farmer population.

In comparison with the old cooperative credit societies the classical cooperative concepts of self-help and mutual help were hardly evident in the new CAPS societies. Very little attention seems to have been paid by them to induce members to save. This was only to be expected in a set-up organised hurriedly by government to meet the exigencies of the war and its aftermath. This was not a situation which allowed much time for disseminating the cooperative education necessary for members to identify themselves with their societies and to appreciate their responsibilities as members.

It would not be incorrect to state that the CAPS society was viewed by the membership as a medium through which a benevolent government provided them with a number of welfare services. In fact the entire post-war experience right up to the early sixties shows an indifference on the part of the movement to the aforesaid self-help and mutual-help philosophy. In his report on the cooperative movement for 1962-63 the Commissioner of Cooperative Development lists the lack of stress the movement places on the building up of its own funds by attracting savings from its membership, as one of the important factors obstructing the expansion of the movement.

Because of the war boom and full employment, the business of credit societies slackened whilst thrift societies increased their business and their working capital. It is interesting to note that during the war period the purposes for borrowing from the unlimited liability societies were as follows :

For cultivation 43.8%, 24% for trade, 6.1% for land leasing or improvement and 5.2% for buying cattle. Only the residual category of 4.3% went for what may be described as "unproductive" loans.

During the war and the immediate period afterwards credit societies of unlimited liability were relatively inactive because the war boom induced incomes among the people. From 1945 to 1949 these societies increased from 1696 to 1891 only. But by 1955 they were more numerous than the distribution societies and by the end of 1957 they numbered 3,581.

### **Decline of Cooperative Credit Societies**

However, the operations of the new CAPS societies and the introduction of multi-purpose cooperative societies (MPCS) in 1957 were having their effects on cooperative credit societies. Large sums for cultivation purposes which would normally have been lent by credit societies were now being made available by CAPS societies and MPCSSs. By 1959 it was clear that credit societies were gradually losing ground. Whilst in 1956 the total of credit societies loans was 105% of total CAPS societies loans, the percentage in 1959 had dropped to 72.8%. By 1969, it was reported that out of 3,570 credit societies as many as 2,010 were inactive.

### **Multi-Purpose Cooperatives (MPCS)**

A major turning point in the cooperative system in Sri Lanka was the reorganisation in 1957. The reorganisation was preceded by a survey of rural indebtedness. It revealed that 54% of rural families were in debt compared with 30% in the period 1950/51. The average debt per family had risen during the period from Rs. 263 to Rs. 750 and the total debt was estimated at Rs. 516 million. The survey also revealed the extent to which the rural people were indebted to non-institutional sources. Of the outstanding debts the contribution of institutional lenders comprising government, commercial banks and cooperatives amounted to a meagre 7.8%. But most disappointing was the fact that the cooperatives despite four decades of cooperative credit had contributed only 4.1% to the total debt. The sources of rural credit in 1957 are seen in Table VII.

**TABLE VII**  
**Sources of Rural Credit in 1957**

Source	Percentage of total debt
Government	2.6
Cooperatives	4.1
Commercial Banks	1.1
Relations and friends	44.2
Landlords	8.0
Professional Money-lenders	15.5
Traders and Commission Agents	11.5
Others	13.0
	<u>100 0</u>

*Source* . Department of Census & Statistics : Survey of Rural Indebtedness in Ceylon 1957.

Proceeding on the findings of this survey government decided on the setting up of an island-wide network of multi-purpose cooperative societies with the object of promoting, inter alia, rural credit on a comprehensive basis. We have seen that CAPS societies were established so that a single society provided both credit and arranged sales. The MPCS was considered to be a natural development of this. The multipurpose form, it was held, by combining credit, marketing, provision of consumer goods and other services was more suitable to the village than the single purpose form of cooperatives. The principal emphasis in this organisation was that the cooperative movement would not in Sri Lanka conditions grow out of its own resources, but state intervention had to actively nurture its development. The MPCS reorganisation had also a wide variety of aims. The MPCS was to operate as a village bank providing credit and mobilising savings, as a development unit undertaking village development, and so forth.

## **People's Bank Established**

The establishment of the People's Bank in 1961 was an integral part of the re-organisation effected by government in 1957. For the realisation of the objectives of the reorganisation a strong development-oriented bank to finance the movement was deemed necessary. The then existing cooperative banking structure consisting of the apex Cooperative Federal Bank and the Cooperative Banks at provincial and district levels were considered inadequate. Their constitution as separate unit banks and the restriction of their banking business to cooperatives were held, inter alia, to be factors which inhibited them. The aim, therefore, was to set up a bank specialized to serve the cooperatives but possessed at the same time of a structure strong enough to supply the movement with adequate finances and absorb the risks that its lending operations would entail. This structural strength was to be provided in the following ways ;

- (a) Government participation in the share capital,
- (b) Provision to engage in all aspects of commercial banking,
- (c) Provision to establish a branch net work,
- (d) Statutory requirement that all cooperatives should bank with the new Bank so that the limited resources of the movement could be concentrated in one financial institution.

The capital of the People's Bank is owned equally by the government and the cooperatives. Its directorate reflects these two interests. Three directors are elected by the share-holding cooperatives and the Commissioner of Cooperative Development is an ex-officio member. The remaining three Directors are nominees of government.

The objectives of the new Bank were spelt out in the Act as follows .-

“The purposes of the Bank shall be to develop the Cooperative Movement of Ceylon, Rural Banking and agricultural



credit by furnishing financial and other assistance to cooperative societies, approved societies, cultivation committee and other persons”.

With this objective, the Bank offered to take over Cooperative Provincial and District Banks and turn them into its branches. By September 1963, 9 of the 17 Cooperative Provincial and District Banks merged with the People’s Bank. The remaining 9 Banks were also absorbed in subsequent years.

Today, in addition to its principal role as the banker to the cooperative Movement of Sri Lanka, the People’s Bank acts as the banker to a large number of public corporations and large segments of the commercial and private sectors.

Far from adversely affecting the services to cooperatives, it is precisely these commercial banking activities that have enabled the Bank to provide the cooperative movement with the necessary funds. Table VIII shows how cooperative deposits and cooperative borrowings stood in relation to the total deposits and total borrowings. These figures clearly show the dependence of the cooperative sector on the deposits which the Bank has mobilised from other sectors.

TABLE VIII

**People’s Bank : Comparison of Deposits from and Advances to Cooperatives & Others (1975)**

	Cooperative Societies per cent	Others per cent
Deposits	10.57	89.43
Advances	29.55	70.45
Advances as percentage of Total Deposits	35.10	83.69

### People's Bank and the Small Income-earner :

Besides its role as the cooperative development bank the People's Bank has also pioneered the extension of banking facilities to persons of limited means in both rural and urban areas. The latter are farmers, artisans, small traders and urban workers, who are served by cooperatives as either consumers or producers. In its branching programme the Bank has given considerable weightage to the rural areas. Out of its existing branch network of 169 offices as many as 134 are located in rural areas and a number of its branch offices have been sited in areas with heavy concentration of low-income urban workers. These segments of the community obtain their loan requirements from the Bank and in fact as much as 91.65 per cent of the number of loans in the Bank's portfolio are for small loans below Rs. 5,000. At the same time the Bank has rigorously pursued a policy of insisting on regular saving as a condition for borrowing and this has brought good results. The Bank's savings deposits are in fact higher than the aggregate savings deposits of all other commercial banks and the rate of increase maintained by the bank in savings is higher than in any other financial institution in the country. The Table IX shows the relative position.

TABLE IX

#### SAVINGS DEPOSITS—RELATIVE POSITION (In Rs. Million).

Year	Rural			Urban	
	P. O. S. B.	C. S. B.	Total	Cm. Bks.	Total
1949	134.9	56.6 88.8%	191.5 11.2%	24.1 100%	215.6
1960	343.4	75.5 76.5%	418.9 23.5%	129.0 100%	547.9
	N. S. B.	P. B.	Total	Cm. Bks. exdg. P. B.	
1975	1,337.5	499.9 80.4%	1,837.4 19.6%	447.5 100%	2,284

Source : Review of Economy 1975 (Table 30)

P. O. S. B. Post Office Savings Bank

C. S. B. Ceylon Savings Bank

N. S. B. National Savings Bank

P. B. People's Bank

Cm. Bks. Commercial Banks other than the People's Bank

Note : National Savings Bank was formed in 1972 by the amalgamation of the P.O.S.B. and C.S.B.

In order to exploit the savings potential in these segments of the community the Bank's approach has been to evolve appropriate savings mobilisation techniques in keeping with the general characteristics of their market for savings. For example, a contractual savings scheme styled Investment Savings is in operation fashioned specifically to suit the needs of small income-earners. Under this Scheme, the depositors contract to save a fixed sum of money monthly, quarterly, or half-yearly for a period of 60 months. The monthly deposit plan is to suit the fixed income earning urban worker while the quarterly and half-yearly plan is intended to attract the seasonal savings of the farming community. This contractual savings scheme is operated not only by the branches of the Bank but also by the Cooperative Rural Banks (CRB) of Multi-Purpose Cooperative Societies. (The nature of these CRBs will be discussed later).

Investment savings offer a rate of interest currently  $7\frac{1}{3}\%$ , which is 2 per cent higher than the rate paid on ordinary savings accounts. Loan facilities on easy terms are offered to those who conform to the save-as-you-earn discipline the scheme requires. The idea is that the regular practice of saving however small the sum, helps the People's Bank and the CRBs in some measure in assessing the borrower's willingness and capacity to repay his dues. The scheme also enables a person to plan a housing or development project in advance, in the expectation of raising long-term funds from the Bank for the purpose. Regular depositors can qualify for house construction loans upto a maximum of Rs. 25,000 and loans upto Rs. 50,000 for industrial and agricultural project. Since CRBs do not provide loans of this size or long-term loans, there is a special arrangement between CRBs and the Bank for the latter to provide these loans to members of societies depositing with the CRB without requiring the physical transfer of monies in such savings accounts to the People's Bank. Table X indicates the success of this scheme, introduced in 1970.

**TABLE X**

**Increase in the Number of Accounts and Deposits in the  
Cooperative Rural Banks**

	No. of Accounts	Amount Rs. Million
December 1970	14,986	2.5
December 1971	53,791	10.7
December 1972	70,945	21.7
December 1973	104,859	41.5
December 1974	174,027	73.2
December 1975	217,462	103.2
June 1976	236,242	119.8

The Daily Loans scheme for the benefit of small traders operated both by the People's Bank and the CRBs is another innovation introduced recently which promises to develop into a regular source of small savings. Traditionally the small trader obtains his daily working capital requirements from big traders or professional money lenders at exorbitant rates of interest. The usual procedure is for the loan to be given in the morning and for repayment of principal and interest to take place in the evening. Interest rates applied usually amount to about 10 percent per day. With the Bank's branches and the CRBs stepping into the shoes of the money lender and offering funds to the small traders at reasonable rates, the latter is able to generate a surplus, part of which he undertakes to deposit as savings with the lending institution in addition to payment of loan and interest.

**People's Bank and Cooperatives as partners in Rural Banking**

The Bank's programmes for the development of the rural

market for savings is closely bound with the cooperative societies as already indicated. The People's Bank has been proceeding on the basis that the development of rural banking and credit has to be pursued in partnership with the primary multi-purpose cooperative societies, and where possible with other primary cooperatives at the village level. The bank realizes the potential that the multi-purpose cooperative has to operate as a village bank. In addition to its low-cost operation and intimate knowledge of local conditions and persons, its capacity to integrate credit with production and marketing is of considerable advantage in the issue and recovery of loans. Further the marketing mechanism could be developed into a rich source of farmer savings. Bank policy has accordingly been directed towards the evolution of an integrated rural credit structure with the Bank branch providing members with the larger and the longer term loan facilities and the cooperative the smaller and the shorter-term facilities.

The first step in terms of this policy was taken in 1963 with the introduction of a scheme styled the Scheme of Extended Rural Credit. Under this Scheme with the help of the Cooperative Department, cooperative societies having a good past credit performance were chosen and overdraft facilities were extended to these cooperatives for re-lending to their members for approved purposes over and above those available to members from other sources. The loans were for a wide range of purposes apart from the purely productive ones and included cottage industries, animal husbandry, bringing new land under cultivation, electrification, housing, redemption of debts and consumption. The maximum loan for bringing land under cultivation, animal husbandry and cottage industries was Rs. 3,000/- and for consumption purposes it was Rs. 500/-. The loans were to be repaid within five years.

At the end of 1970, the extended credit scheme was operated by 76 Cooperative Societies. The aggregate overdraft limits approved for these societies by the People's Bank at the end of 1970 was Rs. 1.9 million. Table XI gives the growth of the extended credit scheme.

TABLE XI

GROWTH OF EXTENDED CREDIT SCHEME

(Amount in Rupees)

End of quarter	No. of Coop Societies	Aggregate Approved by People's Bank	Overdraft Facilities Utilised by Societies
1967 March	55	1,638,568	1,275,450
June	56	1,651,068	1,279,757
September	58	1,685,268	1,254,471
December	67	1,901,118	1,295,673
1968 March	66	1,796,818	1,211,925
June	67	1,829,818	1,231,479
September	69	1,872,818	1,293,536
December	69	1,873,118	1,162,904
1969 March	72	1,892,818	1,166,789
June	72	1,914,818	1,224,288
September	71	1,856,318	1,210,672
December	72	1,861,950	1,163,384
1970 March	73	1,878,450	1,229,580
June	74	1,903,450	1,207,662
September	73	1,854,450	1,183,657
December	76	1,903,450	1,200,847

Source : Central Bank Annual Report, 1970.

The Extended Rural Credit Scheme was suspended in 1973 and the functions it was meant to fill in the rural sector have been largely superseded by the Cooperative Rural Banks to which we shall now turn.

### **Cooperative Rural Banks**

The main thrust of the Cooperative Credit and Savings System at the moment is provided by the Cooperative Rural Banks (CRB) operating through multi-purpose cooperative societies. This scheme was launched by the People's Bank in 1964 with the intention of providing farmers, artisans, other village level producers and small traders with credit for production, housing, emergencies and the redemption of debt. Until 1971 the scheme was operated by societies selected on their performance and economic viability. On this basis there were 90 CRBs functioning in 1970. But with the re-structuring of the multi-purpose cooperative set up of 5884 societies by a process of amalgamation into 371 large units in 1971, Government decided to establish a CRB in each of the new societies.

The term "Cooperative Rural Bank" is the designation given under the scheme to the credit and banking department of a multi-purpose cooperative society. A CRB operates through both the Head Office and through selected branches of a society. As at 31st March 1976 there were 340 CRBs and 120 special branches performing CRB functions.

**TABLE**  
**Deposits and Advances**

	No. of Rural Banks	DEPOSITS ACCOUNTS				
		Spl. Bran- ches	Savings		Fixed	
			No.	Amt. Rs. Mn.	No.	Amt. Rs. Mn.
1965 December	8	—	2,924	.5	9	—
1966 December	13	—	4,635	.7	15	—
1967 December	27	—	8,792	1.3	41	—
1968 December	44	—	17,359	3.1	287	.2
1969 December	68	—	28,626	5.7	724	.5
1970 December	90	—	49,939	16.1	892	.8
1971 December	111	—	60,371	17.2	838	.7
1972 December	242	—	172,822	22.7	812	.6
1973 December	341	62	2076,90	44.3	748	.9
1974 December	332	70	367,203	61.5	1,271	1.2
1975 December	338	109	499,186	72.1	783	1.4
1976 March	340	120	524,242	80.1	926	1.4



XII

of Rural Banks

ADVANCES							
Total		Loans		Pawning		Total	
No.	Amt. Rs. Mn.	No.	Amt. Rs. Mn.	No.	Amt. Rs. Mn.	No.	Amt. Rs. Mn.
2,933	.5	1,153	.9	—	.3	—	1.2
4,651	.7	1,783	1.3	4,222	.4	6,005	1.8
8,833	1.4	2,897	2.0	6,598	.6	9,495	2.7
17,646	3.3	5,586	3.6	9,507	1.1	15,093	4.7
29,350	6.2	7,893	5.6	14,325	1.5	22,218	7.1
50,831	17.0	10,017	7.0	18,092	2.0	28,109	9.1
61,209	17.9	10,725	7.0	21,044	2.2	31,769	9.2
103,634	23.3	11,515	8.2	60,735	7.0	72,250	15.2
207,718	45.2	20,548	16.2	150,118	22.7	170,666	38.9
367,474	62.7	26,819	29.0	235,115	38.8	261,634	67.4
499,969	74.2	35,052	37.4	298,583	49.9	333,635	87.3
525,168	81.5	37,839	40.6	307,328	51.6	345,167	92.2

**The functions of the CRB are :**

- (a) Mobilisation of deposits from members and non-members,**
- (b) Provision of loans and other accommodation to members for production and consumption purposes.**
- (c) Provision of pawn-broking facilities to members and non-members,**
- (d) Provision of money payment and transfer services.**

We have earlier referred to the Bank's policy of participating with the multi-purpose cooperative societies in the development of rural banking and credit. The CRBs operating in a limited area have advantages of intimate knowledge of the local individual. This has significance in a situation where the conventional forms of security are limited and the continued insistence on this by the lending authority would tend to perpetuate poverty. The People's Bank's link with the CRB is, therefore, a means of combining the advantages possessed by a village institution through a knowledge of local conditions with the advantages of a branch banking system allowing for a transfer of resources between different areas. As constituted today, the CRBs have the following objectives :-

- (a) Integration of credit with production and marketing,**
- (b) Provision of marketing information, storage and transport,**
- (c) Survey and identification of local skills and resources with potential for development,**
- (d) Formulation and implementation of development projects, and**
- (e) Development of package-credit facilities to members covering all basic needs.**

The credit limits and the types of credit given under the scheme are given in Table XIII.

**TABLE XIII**  
**Types of Credit and the Credit Limit**

Purpose	Limit
Production (Industries, agriculture, animal husbandry etc.)	Rs. 7,500/-
Consumption	Rs. 1,000/-
Construction (House, Workshops, Stores etc.)	Rs. 7 500/-
Trade	Rs. 1,000/-
Redemption of Debts	Rs. 5,000/-
Electrification (House, Workshop, etc.)	Rs. 1,000/-
Emergencies	Rs. 200/-

The lending policy of the CRB is production-oriented but in the context of the villager's traditional dependence on non-institutional sources of credit for his production as well as other essential needs it aims at providing a comprehensive package of credit facilities for a range of purposes as listed above. The facilities are made available to a member in the desired combination in the form of a credit limit established in his name on which he could draw for both production and other needs as and when they arise.

#### **Government Loans and CRB Loans**

Side by side with their loan operations MPCs also provide farmers with crop loans for paddy and a number of other essential food crops under a government sponsored scheme, styled the New Agricultural Credit Scheme. This is in effect a continuation of government loans for farmers which began shortly after the II World War through the old CAPS Societies discussed earlier. In 1967 government handed over these lending operations to the

People's Bank with a credit guarantee to the Bank upto 75 per cent in respect of loans in default. The Bank provides the funds to MPCs for re-lending to the farmers, but neither the People's Bank nor the MPCs have any real autonomy in credit decision making. Loans are given according to government criteria and these do not provide much opportunity for the application of even the basic tests of lending. From time to time defaulters have been accommodated afresh. Defaults under this scheme have been very high.

A clear distinction has to be drawn between these loans and the loan operations of the CRB proper. In the latter an attempt is being made to develop a sound rural credit system where basic tests of lending such as the borrower's character, skills and capacity to apply these skills and generate a surplus adequate to repay loans are taken into account. In marked contrast to the government loans scheme where the current default rate is 45.3 per cent the rate of default in CRB loans is around 9 per cent.

### **Deposit Mobilisation**

The sources of funds of the CRB are as follows :

- (a) Member and non-member deposits
- (b) Borrowings from the People's Bank.

The CRB's deposit mobilisation function has the twin objectives of maximising local resources for its own loan operations and promoting the savings habit in the village. Over the years, the rural areas of Sri Lanka have benefited from increased developmental expenditure of government. Large volumes of funds have been provided as agricultural credit. Government has also progressively increased the prices paid for agricultural commodities under its guaranteed price scheme. Paddy, for instance, is now purchased at Rs. 33/- per bushel whereas in the sixties the price paid was only Rs. 12/-. Growing agricultural productivity following adoption of improved cultural practices, fertilizers, pesticides and better seeds have resulted in higher

farmers' incomes, although it must be said that severe drought conditions during the past few years have caused considerable losses in certain parts of the country.

Nevertheless it is clear that there is considerable potential to mobilise savings in the rural areas. The relative success achieved by the rural branches of the People's Bank in this regard is a pointer to the possibilities. The CRB being a village-level agency is, in fact, in a far more advantageous position, in many respects, than a People's Bank or any other commercial bank branch, to exploit this potential provided, of course, it can build the necessary confidence. Commercial bank employees with their urban life-styles may not be able to establish the right rapport with the village community as well as the CRB employees could. Often it is a case of persuading the villager to give up age old habits of hoardings and to eschew ostentatious expenditure on weddings, funerals and other ceremonies. To do this, confidence has to be created and this requires the right approach and understanding. On the question of deposit rates also, the CRBs can make themselves more attractive. It is not bound by Central Bank directives, and, unlike commercial banks, it is free from the operation of inter-bank arrangements on interest rates. Since money-rates prevailing in the unofficial rural market are generally higher than the urban deposit rates, financial institutions functioning in the village, to be competitive, will have to offer higher rates than in urban areas. The commercial banks cannot adopt such a differential rate policy as between its urban and rural branches, but a CRB is free to vary its deposit rates and, in fact, the prevailing interest rates on savings deposits in CRBs range between 6—8% and these are higher than the current commercial bank rate of 5½%. CRBs have much longer business hours and cost very much less to operate. Further, the CRB, being a department of the Multi-purpose Cooperative Society is in a position to link savings with sales through the marketing facilities for village produce provided by the society. This, in fact, is a device adopted by a number of CRBs today to tap the savings of paddy and other food-crop farmers.

It is useful to examine to what extent CRBs have succeeded in exploiting these advantages in actual performance. Table XII gives figures of savings and loans in the CRBS from 1965 to 31st March, 1976. It shows a steady upward trend in the growth of deposits. As at 31st March, 1976, savings and term-deposits amounted to Rs. 81.5 million, the number of deposit accounts being 525,168, the average deposit being Rs. 150/-. Assuming that each account represent a household of five persons, this would represent a population of 2.6 million and assuming further, that in Sri Lanka, 75% of its population of approximately 13 million live in rural areas this would amount approximately 28.2% of the rural population.

In evaluating the progress made a relevant point to be borne in mind is that CRBs on a national scale have been in operation only for 5 years so far. Although the CRB Scheme was launched as far back as 1964, prior to the amalgamation of 1971 the scheme had been extended to only 90 of the then existing societies. Considering the fact that at the time there were 5884 MPCs, the geographical coverage of the 90 societies was relatively very small. There are also a number of factors at work in the MPCs as they are presently constituted, which tend to inhibit CRB growth. Principal among these is the consumer-business activity of the MPCs. We have seen how during the war, government created an island-wide network of consumer cooperatives as distribution agents of essential food-stuffs which were in short supply. This situation did not end with the war, because shortages of essential commodities have persisted and the MPCs as inheritors of the old CAPS societies have been functioning as government's distribution agents throughout the entire country. Today, the volume of consumer business handled by MPCs is very large indeed and, as a result we find that most of the time and energies of the governing boards of MPCs are devoted to this work. This preoccupation has resulted in the relative neglect of the MPCs/credit and banking functions by the governing boards. There is also an inherent conservatism in the lending policies favoured by many MPCs boards, showing a preference for the security-oriented loan as distinct from the development oriented.

Besides this, shortcomings in CRB management constitute another inhibiting factor. In the present MPCS management hierarchy, the Manager of the CRB is subordinate to the MPCS's General Manager who is in overall charge of the MPCS activities. In some CRBs this has tended to restrict the CRB Manager's scope to display much initiative and drive in promoting CRB goals. Lack of adequate banking and loan experience on the part of the CRB manager has also contributed to slowing growth in a number of CRBs. A good number of CRBs have employed university graduates as managers and strange though it may seem, this has become a counter productive factor in CRBs. This is largely because the graduate while accepting the village level job due to lack of employment opportunities still aspires for a job in the public or private sectors where salary scales and prospects of future promotion are more attractive.

#### **Bank's Advisory Services to CRBs**

In view of these factors it has been generally understood that People's Bank field-staff should play a major role in initiating and directing the promotion of CRB activities. In the earlier phase of the CRB scheme beginning in 1964, the CRB organisational structure existing at the time, facilitated this kind of participation. Bank staff often functioned for periods of time as CRB managers. In that set-up the CRB operated a virtually autonomous unit of the MPCS. It maintained separate accounting records and its Manager was directly responsible to the governing board of the MPCS. But after the MPCS re-organisation of 1971, the CRB accounts were integrated with the rest of the MPCS departments, its manager was subordinated to the general manager of the MPCS and the CRBs existence as a virtually autonomous unit ceased. It should be mentioned that these problems inhibiting CRB growth are engaging the attention of the cooperative leadership both official and unofficial and it is expected that remedial action will be taken in due course. The Bank for its part is currently implementing a programme to restructure the work distribution of its branches so as to sharpen its focus on development work in the

rural sector. Development Assistants are being deployed in the field for the identification, formulation, implementation and follow-up of development projects. They will be posted to the CRBs which will serve as the centre of their activities in the village. It is expected that the CRB will benefit from the supervisory and advisory services which the Development Assistants will render to CRBs.

Reverting to the question of savings mobilisation by the CRB, there are certain aspects of the rural market for savings which require further examination. In the village, there are the more affluent farmers and other persons with surplus funds. These constitute the obvious market for deposits in the village, and the CRBs have been quite successful in inducing these persons to deposit their surplus funds with them, but there remains the question of the lower strata of the village community existing at subsistence and poverty levels. At these levels the CRBs savings promotion task requires a sharply different approach. In this area credit has to precede savings. The need is for the provision of credit to the farmers and the artisans accompanied by close end-use supervision directed towards increasing productivity so that income surpluses could be generated. CRB loan with such an orientation will not only result in increasing the incomes of the poorer classes, but also reduce the demand for loans from local private sources such as land owners, money-lenders and the affluent farmers. This will bring down village-level interest rates and attract the monies of those who have surpluses to the CRB.

### **The Lower Strata in the Village**

This raises the question as to the extent to which cooperative credit reaches the lower strata of the rural population. We have already referred to a number of organisational and managerial weaknesses in the operations of the MPCs and CRBs. We have also commented on the innate conservatism of many MPCs governing boards in regard to loan policy. In this connection recent studies done by the Agrarian Research and Training



Institute of Sri Lanka, as well as by the Research Unit of the People's Bank, reveal certain interesting information. A study made by the former in the Kandy District in the central highlands shows that it was the class of smallest cultivators i.e. cultivators having up to 2 acres, which make the least use of the cultivation loans under the New Agricultural Credit Scheme. The figure of utilisation was 35% for the small farmer class as against 89% for the class of farmers having over six acres. The use of other services provided by the cooperatives also show a similar tendency. For instance, the use of seed paddy is only 38% for the small farmer of the two-acre class as against 67% for the six-acre class. It seems that the small farmers presumably handicapped by their low socio-economic status find it more convenient to go frequently to private sources for their loan requirements than to the cooperatives. The fact that credit does not seem to filter in sufficient quantities to those in most need of it i.e. the poorest farmer has also been confirmed in a study on the adoption of New Technology by Small Farmers (Samuel 1974) which indicates that the inputs to the village economy are absorbed more by the affluent strata than by the poor, who are those in most need.

A study undertaken by the Bank on the impact of the bureaucracy on the village indicates the mechanism through which these inputs are denied to the small farmer. This study tends to show that at the village-level, a coalition of forces representing elements of the government bureaucracy as well as landlord elements combined to provide an effective barrier that prevents the flow of credit and information to the small farmer. A study of vegetable-marketing practices undertaken by the Bank in the vegetable growing areas of Welimada, also in the central highlands has also tended to confirm the presence of such an alliance as a significant element inhibiting inputs of credit as well as capacity to sell produce at a fair price.

For its part the People's Bank is working out a strategy to help CRBs penetrate these barriers and reach down to the farmers, the artisan and the petty traders existing at the poverty level. Reference has already been made to the restructuring of

work distribution in the Bank's branches and the deployment of Development Assistants to work with the CRB at the village level. In the selection of staff to function as Development Assistants attention is paid to their aptitude for this type of work and their capacity to establish the right rapport with the village people. The Bank's training programmes are being fashioned to help field staff in cultivating the desired behavioural patterns. The Bank is also endeavouring to bring about closer coordination between the various agencies linked with the Cooperative Movement both at the national and village levels so that the problems arising in the promotion of cooperative credit could be more effectively dealt with than at present.

### Summary

We stated at the outset that the generation of savings is intimately tied to the credit institutions in the country and that no description of the savings system can be done without a description of the credit system. So we find that in attempting to trace the history of cooperative savings in Sri Lanka we have also had to deal with the history of cooperative credit. In conclusion we shall sum up the salient points that emerge from this study.

We have seen that cooperative credit societies were the earliest cooperative institutions to appear. Their effect on the economy was limited due to social and economic restraints. But it has to be noted that the monetisation of the traditional rural economy and the mobilisation of savings began in Sri Lanka with their establishment. Major changes that occurred with the granting of increased political autonomy since 1931 resulted in concerted attempts to restructure the local economy away from a colonial pattern. The setting up of local banks and the increasing importance attached to rural financial institutions were important aspects of these developments.

We have also seen the growing partnership of the cooperatives with the state in nation-wide economic activities and the organisational changes introduced to broaden their scope in keeping with these tasks. These ranged from War-induced

changes to take over marketing and distribution functions to the important transformation in the late fifties to undertake multi-purpose activities. Further, there was the consolidation that followed in the seventies whereby larger and more economically viable units were formed.

An important development in the savings field was the formation of the People's Bank with the express purpose of developing the cooperative movement and rural banking. The People's Bank has been experimenting with several credit as well as savings mobilisation schemes and among its most successful has been its sponsorship of rural banks based in cooperatives. The Cooperative Rural Banks, as they are known, now numbering 460 outlets have served as an important institution forging very close links with the village social and economic structure. They have been a key factor in the rural financial situation in the last few years with perhaps as much as 20 to 30 per cent of the rural population participating in their savings and loan business. The activities of the People's Bank in the savings field has, at a macro level, been a very important instrument in the redistributionary function in the economy with large deposits from the private sector being funnelled into the cooperative and state sectors. The Bank maintains an on-going review of its developmental activities and in recent months, as we have already indicated, there has been a further intensification of its efforts at reaching the bottom 40 per cent of the rural population.