



P2-ABZ-513

## HELPING SRI LANKA TO GROW!

AgEnt is a dynamic USAID funded private sector agro-enterprise development initiative successfully assisting companies and entrepreneurs with viable business/marketing plans to expand existing operations or start-up new ventures targeted at both domestic and export markets.

October - 1993

## BASELINE SURVEY ON AGRO-ENTERPRISE SECTOR LENDING POLICIES AND SCHEMES OF SRI LANKA'S FINANCIAL INSTITUTIONS

Prepared By:

E R A Perera  
AgEnt Financial Adviser

BEST AVAILABLE COPY

5th Floor, Deutsche Bank, P O Box 389, 86 Galle Road,  
Colombo 3, Sri Lanka. Tel: 94-1-446447, 446420 Fax: 94-1-446428

A

## TABLE OF CONTENTS

	Page No.
EXECUTIVE SUMMARY	1
- Overview of Financial Institutions	1
A. ANALYSIS OF AGRICULTURAL SECTOR LENDING PORTFOLIO	3
B. ANALYSIS OF TERMS AND CONDITIONS OF FINANCING	4
C. REVIEW OF FINANCIAL INSTITUTIONS' CREDIT STAFF	5
D. IMPLICATIONS FOR AgEnt PROJECT	6
ANNEXES	
Annex I - Questionnaire Sent to FIs	
Annex II - Agricultural Loan Portfolio & Related Information	
Annex III - List of Nominated Executives for Liaison	
Annex IV - Regional Rural Development Bank Brochure	
ADDENDUM - Comments of Mr. Ralph Chaffee, Financial Consultant	

## EXECUTIVE SUMMARY

The Baseline Survey of Financial Institutions (FIs) was initiated to ascertain the Agro-Enterprise Lending Policies and Schemes of the Financial Institutions and their significance to and bearing on the AgEnt Project objectives and activities. Salient elements of the survey covered the present portfolio of agricultural related loans, the proportion of agricultural lending to total lending, sub-sector exposure, terms and conditions of agricultural loans, appraisal techniques used for agro-enterprise lending, loan monitoring, delinquency ratios, available lines of credit, transaction costs, policies on equity participation and loan syndication, training needs of FI Credit Staff, application of innovative financial instruments etc.

**The twin objectives of the survey are to build a data base on FI's agro-enterprise lending to enable the AgEnt Project to advise and assist clients within the framework of the available financial advisory services on the one hand and to stimulate the FIs to increased exposure to the agro-enterprise sector on the other.**

The methodology adopted was to conduct a preliminary survey and collect basic information to facilitate survey design. A questionnaire was designed (see Annex I) and sent to the FIs under cover of a letter addressed to the appropriate Chief Executive. This communication presented a profile of AgEnt, its objectives/activities and the advantages of the project to the FIs as well as the Agro-Enterprise Sector.

This was followed-up by personal interviews with senior management and operational credit staff to conduct the baseline survey and establish a working relationship. Once the questionnaire was returned, additional calls/visits were made to obtain more information/clarifications. Annual reports of the FIs were also used to obtain relevant information.

It is the project's position that the Baseline Survey should not be a "once and for-all" exercise, but ideally an ongoing process in the dynamic financial scene, also bearing in mind that AgEnt expects to stimulate increased agricultural lending as well as encourage greater application of innovative financial instruments.

### Overview of Financial Institutions

The survey covered the four private local commercial banks, namely the Hatton National Bank Ltd. (HNB), Commercial Bank of Ceylon Ltd. (CBC), Sampath Bank-Ltd (Sampath) and Seylan Bank Ltd (Seylan), the two private development banks i.e. Development Finance Corporation of Ceylon Ltd (DFCC) and National Development Bank Ltd (NDB), and the two state commercial banks i.e. Bank of Ceylon (BOC) and People's Bank (PB). The survey also touched upon the premier merchant bank - the Merchant Bank of Sri Lanka (MBSL); two venture capital companies i.e. Equity Investments Lanka Ltd (EQUILL), People's Venture Capital Company (PVCC); and the pioneer unit trust - National Asset Management Ltd (NAMAL).

The HNB and the CBC are the two oldest private commercial banks with roots going deep and have been operating in their present form since 1970 and 1969 respectively. Both these banks have established branch networks within the country and have computerized major banking operations. Their main portfolios have been export import and short-term trade finance.

The exposure of both banks to the agriculture sector has been minimal. However, of late they are taking a keener interest in this sector partly due to Central Bank pressure rather than a firm commitment. On the positive side, the management of both banks is flexible and more receptive to innovation in this field and would be more responsive to bankable agricultural sector proposals.

Sampath and Seylan banks were founded in 1987, and started-off as "high tech" banks, taking advantage of available modern computer technology. Both banks embarked on aggressive business expansion and an ambitious branch network, probably driven by deposit mobilization needs. Both banks have similar emphasis on profit oriented portfolios, like HNB and CBC but have an increasing presence in the provincial and agricultural areas and their agricultural sector portfolios have shown a significant improvement in the last few years. Both banks have internal management problems, but, nevertheless operate efficiently and are increasing their market share of banking business mainly at the expense of the two state commercial banks and the foreign banks. Sampath and Seylan are keen to promote agricultural lending and have taken part in several schemes and lines of credit covering this area.

The DFCC and the NDB were originally state controlled/owned and now privatised. These two development banks have the best corporate image in the financial sector and are the sector pace setters in the Colombo Bourse. The management of these institutions are held in high regard, and the staff well qualified and trained. They also have access to low cost funds and are in a position to lend to the agricultural sector **with a competitive interest advantage**. They also have been more interested than the private commercial banks in lending to the agricultural/agro-based industrial sectors with longer term loans. The two institutions also take part in equity unlike the commercial banks. It is for these reasons that they were included in the Baseline Survey.

The two state commercial banks - BOC and PB are virtually two sick giants (subject to severe government intervention till very recently) struggling to compete with the dynamic private banking sector as well as innovative financial institutions like venture capital companies and Unit Trusts. The two state commercial banks are in a parlous financial position with a low capital adequacy ratio, a large portfolio of non-performing loans, excessive manning levels, insufficient provisions to meet superannuation liabilities to its employees and an outdated poor customer service. But they were included in the survey as they still account for a large market share in most banking services and historically have had a bigger exposure to the agricultural sector and have the largest branch network.

## A. ANALYSIS OF SRI LANKA'S AGRICULTURAL SECTOR LENDING PORTFOLIO

Information was collected from the FIs covering areas outlined in the first paragraph of the Executive Summary. In trying to evaluate and analyse this information the following factors must be borne in mind.

1. "Agricultural sector" portfolios of the FIs cover a wide range of subsectors and activities similar to AgEnt Project definition of agriculture but with two notable exceptions.
  - a) Agricultural sector of the FIs cover the three primary plantation export crops i.e. Tea, Rubber and Coconut and the major domestic crop Paddy, which are excluded in the AgEnt Project's definition of this sector. It is observed that some commercial banks have a fair exposure to the export crops at cultivation/production stages and a significant exposure at the export stage. While advances at cultivation and production stages are included in the agricultural sector category, financing at pre-shipment/post-shipment stages are not.
  - b) Agro-based industry in most FIs is a non-existent sub-sector whilst it is very much a part of AgEnt's activities. Advances to this sector are grouped under "industry". Most FIs contacted found it difficult to identify agro-based industrial loans separately, and such loans were generally excluded from the Agricultural sector portfolio. The currently operative small and medium industry loan scheme of the World Bank (SMI IV) covers agro-based industry as well. However, advances to this category are grouped under industry.
2. There is no uniformity among FIs in the classification of agricultural subsectors. Often there is a thin line between Minor Export Crops/Cash Crops/Subsidiary Food Crops/Perennial Crops. Only when there are specific re-finance schemes for different subsectors would there be uniformity in classification.

In spite of the above observations it may however be said that the agricultural sector lending portfolios as indicated in Annex 2 are a fair reflection of the FIs exposure to this sector. An analysis of this portfolio reveals the following features:

1. The information collected while confirming the generally held view that FIs in Sri Lanka have a very limited exposure to the Agricultural sector, also reveals that with very few exceptions, **the FIs have not targeted this sector as a growth area.** Only Sampath (13.1% portfolio exposure includes advances to Tea and Agro-based industry), and NDB (6.7%) have even a very modest exposure.
2. The discussions with the FIs indicate that while the FIs are highly profit oriented they seem to have a social conscience in assisting the agricultural sector and the rural areas. This awareness seem to have influenced some FIs to set up rural credit departments at Head Office level and employ agricultural diploma holders at branch level. This is a recent development. The two "youngsters", of the

private commercial banks, Sampath and Seylan, who have been expanding their branch network vigorously seem to be more receptive to agricultural sector loans.

3. It can be construed that part of the reason for the low exposure is the lack of credit worthy proposals from the sector. The FIs in general, are prepared to entertain projects from the agricultural sector if the proposals are bankable.
4. The two state commercial banks have a larger exposure and a longer association with the agricultural sector, but are saddled with high delinquencies and major internal re-structuring programmes to stay in the business. The standards in these two state banks have gone down dramatically and their response time takes much longer. But on the positive side although autonomy has been granted very recently, there has been no negative impact on the agricultural sector todate. However it is too early to assess the direction the two banks may take.
5. Most FIs are forming venture capital subsidiaries to take up equity positions in projects with good long term prospects, but tight near-term cash flows where commercial banking investment is not feasible. This presents possibilities of financial packaging involving a combination of debt and equity financing from the FIs and venture capital companies. However, venture capital companies are also selective and investment in agri-business is minimal.
6. Unit trust companies (as well as MBSL) are only interested in investing in quoted public companies or companies which are likely to be listed with the Colombo Stock Exchange within an year. This narrows the possibilities to a very few large corporate clients, who may not need AgEnt's financial packaging in any case.

## B. ANALYSIS OF TERMS AND CONDITIONS OF FINANCING

1. The most striking factor of the terms and conditions of credit facilities is the very high rate of interest ranging from 20 to 24 per cent out of normal bank funds and marginally lower rates for refinance funds.
2. The percentage of advance goes up to 90% of the cost in several areas of credit but **the mean debt:equity ratio is closer to 75:25** which is also the maximum ratio under the SMI scheme. The NDB goes up to a maximum rate of advance of 60% but offers a marginally lower rate of interest.
3. The FIs have an upper limit per crop or per acre at the lower end of the spectrum and a limit of Rs.8 million under SMI IV-scheme. Apart from that, credit limits are fixed on a case to case basis.
4. The type of facilities used by the FIs to lend to the Agricultural sector cover all the traditional types, i.e. term loans, short term loans, revolving loans , overdrafts, fluctuating overdraft etc. The more innovative facilities used by a few FIs include financial leases, subordinate loans and trade paper.

5. Although FIs are increasingly looking at cash flow financing the emphasis is still on security backed lending and the FIs take the normal securities by way of mortgage over project assets, credit guarantee cover, guarantors/inter-se guarantors etc.
6. The re-payment period go to a maximum of ten years whilst most FIs allow liberal initial grace periods, capitalization of interest and re-scheduling of loans.
7. All FIs have established mechanisms for monitoring, follow-up, collection and recovery. Generally, the credit officer responsible for evaluation and grant of the loan handles the above area as well.
8. There is a wide divergence in the delinquency rates of the agricultural loans between the two state banks and the private sector FIs. These rates which are generally **within 10%** for most schemes within the private sector FIs go up to **20% to 30%** in the two state banks for similar credit schemes.

### C. REVIEW OF FINANCIAL INSTITUTIONS' CREDIT STAFF

The credit function is normally exercised under two streams:

1. Credit evaluation, approval and follow-up
2. Credit administration

At Head Office and Main Branch levels the credit function is exercised by Credit Officers at middle management level who specialize in this banking area. These officers are generally well-trained with an adequate accounting background and attempt to specialize on a sectoral basis. At Branch level the credit function is exercised by Branch Manager assisted by Second Officer/Field Officer. Whilst the Field Officer generally is versed in the agricultural curriculum, the officers at the **Branch level could benefit by more professional training in the Credit Function.**

It is observed as a result of the survey, that the higher quality Credit staff is with the two Development Banks. The four Private Commercial banks, while the calibre of the Credit staff at the two state commercial banks have **dropped** appreciably in the last five years.

The training programs which have already been made available to the FI staff have had very minimal emphasis on agricultural sector lending. Most FIs were keen to get the benefit of any AgEnt training that could cover agriculture sector lending specifically and also improvement of skills in appraising Business Plans, Project Feasibility and Risk Management. Training of branch credit staff other than in the main towns in Colombo and Kandy would be more useful if conducted in the National languages. **It would be prudent to make an assessment of future needs and delivery process of the training component within the financial sector after the first two workshops fixed for early December are completed and the feed-back obtained and evaluated.**

#### D. IMPLICATIONS FOR AgEnt PROJECT

The significance of the Survey to the AgEnt Project can be assessed under the following dimensions:

- 1) **How can AgEnt stimulate FIs to increase their lending to the agro-enterprise sector?**
- 2) **How can FIs be used for the delivery mechanism of the Financial Component?**

Commercial banks, the world over, are known to give step-motherly treatment to agricultural sector for obvious reasons. **Sri Lanka is no exception.** The only deviation here has been reasonable exposure of the two state owned commercial banks in the past, mainly due to government policy directives. The project's view is that **given present conditions and as structured now, AgEnt would have a gigantic task in trying to stimulate commercial banks to have increased agriculture sector involvement.** However, it must be stated that most FIs are prepared to entertain proposals from this sector if they are more creditworthy. One observes a **social conscience** on the part of private commercial banks as far as responsibility to this sector is concerned, although more lucrative opportunities are available elsewhere with the transition to a market economy situation.

Several funding lines particularly from the World Bank and the Central Bank are available to this sector; but generally at market rates of interest. Inadequacy of equity capital has pushed debt:equity ratios to high levels, and these factors, namely High Interest Rates and High Debt Component have adversely affected the profitability margins of agro-enterprises further compounding the inherent risks involved in this type of business. This indicates that for a solution to this constraint, one may need to investigate **the possibility of obtaining low cost funds from foreign sources for disbursement at discounted interest rates, sources of off-shore borrowing, particularly for export oriented agri-businesses, leveraging of equity, quasi-equity instruments, convertible debentures etc.** The recent further de-regulation of exchange controls sets the platform for expansion of off-shore borrowing from the Foreign Currency Banking units (FCBU), and Domestic Banking Units (DBU). However the inevitable depreciation of the SL Rupee (on a pegged crawl tied to a basket of currencies) presents inherent exchange risks. Short-term borrowing to finance working capital requirements can mitigate this risk. **An important contribution of AgEnt's financial component at this stage would be to explore possibilities and initiate action in the above directions.** For example we have identified a foreign source of funds which cover grants, equity holding (with possible conversion into grants later), interest free loan facilities, which are eligible for Sri Lankan enterprises (covering the Agricultural/Agro-based sectors as well), basically for start-up ventures, under certain pre-determined criteria. This refers to the "European Community Investment Partners" (ECIP) under the EEC umbrella. The AgEnt Project should take maximum advantage of relatively unknown "schemes" like the above, to facilitate the delivery process.

The Baseline Survey presented an opportunity to advertise AgEnt within the financial community. However, **to stimulate FI activity in this sector is a different proposition.**

The financial component of the project as presently structured **does not** cover investment in fixed assets, plant and machinery (with the exception of "innovative" pieces) nor working capital. Although AgEnt can provide valuable technical assistance in production and marketing disciplines, **the project does not have a financial thrust delivery mechanism. Financial packaging can be a more fruitful exercise if AgEnt has a greater financial involvement than at present by way of debt and equity instruments either independently or in combination or with options.** Such a mechanism coupled with the present assistance package would definitely not only make the FIs more interested but also project **an image of AgEnt as a "mobilizer"**. The Baseline Survey facilitated the establishment of channels of communication and a working relationship, (See Annex III for List of Nominated Executives of FIs for Liaison with AgEnt). However, if an integrated relationship is to be built and continued, a greater AgEnt involvement on the above lines may be imperative. Such an involvement would not make AgEnt activities in competition with the FIs but in fact, would be complimentary for the following reasons:

- 1) AgEnt interest and activity would be in areas where FIs would not be normally be interested in financing.
- 2) AgEnt participation would share out risk with the FIs.
- 3) AgEnt's assistance in production, processing and marketing disciplines backed by the facility to draw on an international reservoir of consultants would greatly contribute to the commercial viability of agro-enterprises.

As a sequel to the Baseline Survey, we carried out a preliminary study of the Regional Rural Development Bank (RRDB) structure which was inaugurated in 1985 and being rapidly developed. RRDBs have been established under the RRDB Act No.15 of 1985 with an equity of Rs.50,000,000 each (present paid-up value Rs.30,000,000) funded by the Central Bank of Ceylon. They are fully autonomous bodies governed by a Board of Directors located in the regions and having branches within the regions. Please refer Annex IV - Brochure detailing the objectives and activities of RRDBs. The significance of the RRDBs as far as AgEnt is concerned is:

1. They are autonomous banks with the ability of making quick decisions.
2. They have expert knowledge of the Region, localities, the people, strengths and weaknesses of the businesses in the region.
3. Their primary objectives and activities are in the agriculture and related sectors.
4. The RRDB network is well spread out in the country covering the agricultural production areas.
5. They have a qualified mobile field staff to reach and assist the clients at grass-root level.
6. RRDBs are backed by the Central Bank of Ceylon which is the local financial institution most concerned with the development of the agricultural sector.

I suggest that we explore the possibilities of working with RRDBs in association with the Central Bank. An initial assessment points to the possibilities of a **two tiered delivery mechanism** of the financial component *vis a vis* the financial institutions as follows:

- a. AgEnt to work with the four private commercial banks, the two development banks, the two state commercial banks, the merchant banks and the venture capital companies in respect of corporate clients, large, medium and perhaps upper end of the small-scale agribusinesses.
- b. Liaise with RRDBs in assisting small-scale clients and possibly clients too small for direct AgEnt involvement.

For the delivery mechanism to be more efficacious we could also integrate the following channels as well:

- c. Operate through big exporters, large corporations, nucleus farms (Integrators), for direct assistance **to them**, and **indirectly** to smaller businesses **through them**.
- d. Direct AgEnt assistance to clients where ever it is expedient to do so.
- e. Concentration on "pro-active" initiatives which would hopefully crystalize into client-driven assistance programmes.

AgEnt project design and targets also relate to new financial instruments/innovative financial arrangements etc. **My perception is that there are hardly any opportunities for "new financial instruments" in the strict banking sense of the word, in this sector at the present time. However, AgEnt could stimulate and popularize more innovative financial facilities to this sector by way of use of domestic letters of credit, discounting of trade bills, financial leases, lease purchase etc.**

I would suggest that the baseline survey be reviewed annually to update the database taking into account the changing financial scene, as well as AgEnt philosophy, and assess the performance of the delivery strategy of the Financial Component.

Kindly complete the following questionnaire as appropriate and where indicated  please mark  within the square if applicable.

BASELINE SURVEY - PART A

NAME OF BANK/FINANCIAL INSTITUTION : .....

<u>Classification of Agricultural Lending:</u>	<u>Value of Loans Approved for the Year 1992</u>	<u>% to Total Lending</u>
1. ....	.....	.....
2. ....	.....	.....
3. ....	.....	.....
4. ....	.....	.....

1. ....

2. ....

3. ....

4. ....

Schemes for Agricultural Lending :

1. ....

2. ....

3. ....

4. ....

Training (Credit Officers) for appraisal of Agro-Enterprise Proposals :

a. Average experience in credit: .....

b. Typical Qualifications: .....

c. Degree of accounting knowledge: .....

d. Training already undergone: .....

e. Any particular areas or aspects of agro-lending where training is desired.

f. Number of Officers in different districts: .....

g. Number of Officers that can be released from each district at any given time: .....

BASELINE SURVEY - PART B

Scheme (Title of Scheme/Line of Credit): Please use separate set for each scheme.

Type of Facility -

Term Loan     Short Term     Series of Loans

Revolving Loans     Overdraft     Fluctuating O/D

Other

Coverage of Credit Facilities

Cultivation     Production     Processing

Marketing     Distribution     Preshipment

Postshipment

Security Expected

1. ....
2. ....
3. ....

Limit (if any) : .....

Rate of Advance: .....

Interest :

a.     Own Funds

b.     Credit Line/Refinance Funds

Other charges (if any) : .....

Repayment Plan & Source : .....

Appraisal Techniques Used

- a. |--| Credit Investigation
- b. |--| Inspection
- c. |--| History of Project/Applicant
- d. |--| Whether Credit is granted on viability/cash flow appraisal method
- e. |--| Other

Debt / Equity ratio desired : .....

Flexibility of facilities in relation to market conditions :

.....  
Availability of Supervised Credit : .....

.....  
Initial Grace period/Moratorium/Capitalisation of Interest Allowed :

.....  
Time Frame for Approval.....  
/Disbursement.....

Disbursement Procedure :

.....  
.....  
.....  
Willingness for: |--| Loan syndication/ |--| Equity  
|--| |--| Participation

Mechanism for: |--| Monitoring |--| Follow up |--| Recovery  
|--| |--| |--|

Delinquency percentage:

Comments & Suggestions:

.....  
.....  
.....

NAME/DESIGNATION: .....

ADDRESS: .....

TELEPHONE NOS: .....

DATE: .....

100-141-2000

## AGRICULTURAL LOAN PORTFOLIO AND RELATED INFORMATION

Rs. '000

Financial Institutions	Agriculture Sector Loan Portfolio for Year ended 31.12.92		Minor Export Crops	Subsidiary Crops	Farm Machinery	Animal Husbandry & Fisheries	Interest %		Staff
		% Total Lending					Bank Funds	Refinance Funds	Credit Officers in Agric. Lending
H.N.B.	189,000	2	36,150	35,543	9,475	13,966	21 - 22	19.5	72
Commercial Bank	155,000	1.5	390	584	45	-	22 - 23	16 - 20	38
Sampath Bank	81,306	13.1 (includes tea and agro based ..)	23,697	47,968 7.8% (includes tea and agro based ..)	9,641		24	18.5 - 19.5	100
Seylan Bank	215,800	2.64	33,546	84,954	1,337	95,963	21 - 24	16 - 20	25
D.F.C.C.	89,000	2.5	25,437		-	24,774	22	19.5	2
N.D.B.	268,560	6.7	268,560				20.5	18.5 - 19.5	2
Bank of Ceylon	1,489,696	4.62	1,228,997		173,937	69,083	21	16 - 20.5	400

## BASELINE SURVEY

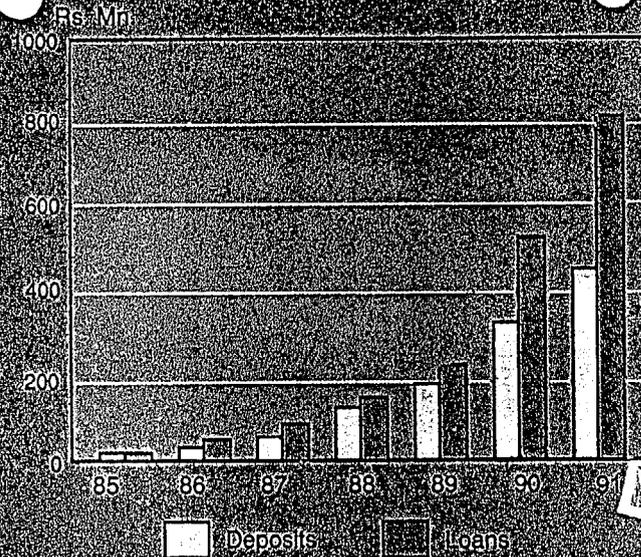
2.11. 1993

LIST OF NOMINATED EXECUTIVES FROM FINANCIAL INSTITUTIONS  
FOR LIAISON WITH AG-ENT

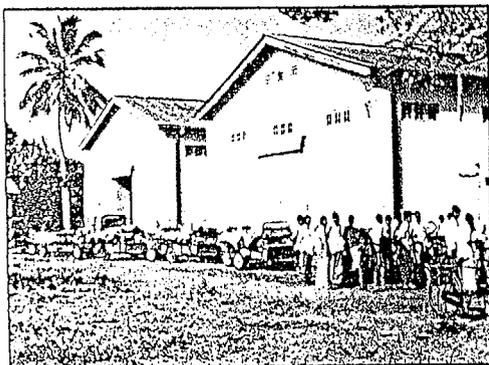
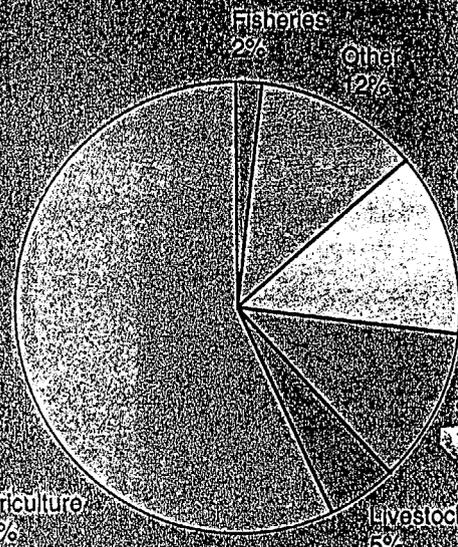
SENIOR EXECUTIVE	OPERATIONAL EXECUTIVE
COMMERCIAL BANK OF CEYLON	
N B S B Balalle AGM (Branches) 'Phone: 445010 - 6, 430420	P G A P Wijesinghe Manager (Rural Credit) 'Phone 330401, 545010 - 17
HATTON NATIONAL BANK	
D Muthukumarana DGM (1) (Corporate Banking) 'Phone: 320089, 421885 - 7	(Ms) Ranjani Goonatileke Senior Manager (Project Finance) 'Phone: 503908
SAMPATH BANK	
Edgar Gunatunge Managing Director 'Phone: 332945	Aravinda Perera Manager (Development Banking) 'Phone: 332945, 438331 - 5,
SEYLAN BANK	
C R S Perera General Manager/Chief Executive 'Phone: 329509, 329510, 437901-7	E C S Anthony Chief Manager (Branch Credit) 'Phone: 431284
D F C C	
K V M Fernando Senior Deputy General Manager (Credit) 'Phone: 440366	L G Perera AGM (Small Enterprises) Special & Agric Projects 'Phone: 440366
NATIONAL DEVELOPMENT BANK	
Ranjith Fernando Director/General Manager 'Phone: 448889	Russel de Mel Manager (Loan Dept) 'Phone: 440177, 437350 - 3
BANK OF CEYLON	
K Thurairajah Deputy General Manager (Development Banking) 'Phone: 445805, 328521	S J R Senarath Credit Manager (Agriculture) 'Phone: 445807

PEOPLE'S BANK	
Asoka de Silva Deputy General Manager (Development Finance) 'Phone: 327841, 434527	Ms. Vimala Gunawardena Chief Manager (Development Finance) 'Phone: 327841 Ext - 529 436557
EQUITY INVESTMENTS LANKA LTD. EQUIL	
Nimal Wadugodapitiya General Manager 'Phone: 449520, 430592 - 3	
PEOPLE'S VENTURE CAPITAL COMPANY	
Ms. Ajantha Disanayake Director 'Phone: 436561	

6.1 Deposits	End 1985	End 1990	End 1991
Amount - (Rs. Mn.)	3.4	313.9	437.5
No. of Accounts	12,518	309,616	423,680
Average Deposit (Rs.)	273	1,014	1,033
6.2 Loans			
Amount - (Rs. Mn.)	4.4	517.2	806.1
No. of Loans	1,277	86,151	120,848
Average Loan (Rs.)	3,446	6,004	6,663
6.2.1 Purpose-Wise (Rs. Mn.)			
Agriculture	1.6	271.5	400.3
Livestock	0.5	21.4	33.9
Fisheries	-	8.4	9.9
Small Industries	0.8	55.1	77.6
Commerce & Business	1.0	55.3	94.2
Others	0.5	42.6	85.5
Pawning	-	62.9	104.7



Loans by Purpose  
(as at 31st December 1991)

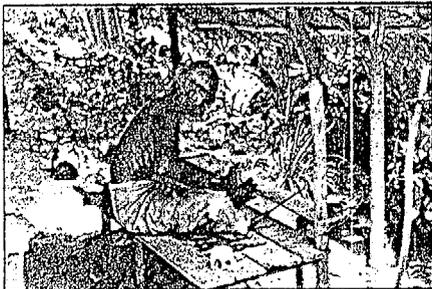


## 2.0 Establishment

1.1 Established by the RRDB Act No. 15 of 1985

1.2 16 Region Specific Banks :

- \* Kalutara
- \* Matara
- \* Kurunegala
- \* Anuradhapura
- \* Hambantota
- \* Kegalle
- \* Puttalam
- \* Galle
- \* Mahanuwara
- \* Nuwara Eliya
- \* Moneragala
- \* Badulla
- \* Polonnaruwa
- \* Matale
- \* Ratnapura
- \* Ampara



1.3 Total No. of Branches (end September 1992) 152

1.4 Established for :

- 1.4.1 Commercial banking business (Except foreign exchange)
- 1.4.2 Development banking activities

## 2.0 Objectives

- 2.1 Provision of banking facilities to poorer segments.
- 2.2 Improvement of living standards of the rural poor
- 2.3 Promotion of self-employment schemes
- 2.4 Activate income generating projects

## 3.0 Activities

- 3.1 Mobilize rural deposits
- 3.2 Grant loans to :
  - \* Farmers
  - \* Agricultural labourers
  - \* Co-operative Societies
  - \* Marketing & Processing Societies

- \* Cottage Industries
- \* Fishing Industry
- \* Commercial Activities
- \* Other Development Activities

3.3 Discount, buy, sell and deal in :

- \* Bills of Exchange
- \* Promissory Notes
- \* Drafts
- \* Shares
- \* Other Instruments

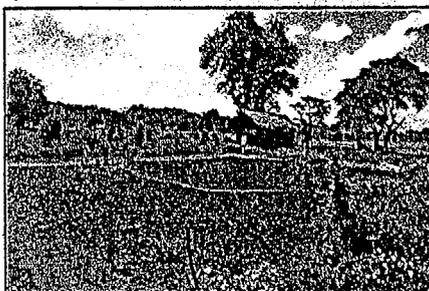
3.4 Provide Refinance Loans

3.5 Collect & transmit money and securities

3.6 Manage movable and immovable property

3.7 Transact agency business

3.8 Assist and promote marketing and processing of :



- \* Agricultural produce
- \* Industrial products
- \* Fish and fish products

3.9 Pawning

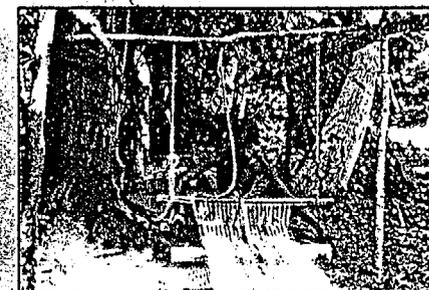
3.10 Advise/Assist Management

3.11 Undertake Special Projects:

- Small scale rural development
  - \* Gherkins Project
  - \* Dairy development project
  - \* White coir project
  - \* Janasaviya related projects
- Development and reconstruction of villages
- Construction of Warehouses

## 4.0 Specialized Activities

- 4.1 Group Lending
- 4.2 Group Deposit Schemes
- 4.3 Mobile Banking Service
- 4.4 Minors/School Children's Savings Deposits
- 4.5 Purchasing/Sales Centres
- 4.6 Encouraging and assisting the farmer organizations to store agricultural products in order to secure a reasonable price level for them
- 4.7 Establishment and maintenance of marketing information centres for products of small scale entrepreneurs
- 4.8 Conducting exhibitions to educate the people
- 4.9 Other Special Rural Development Projects/ Schemes
  - Projects sponsored by UNICEF
    - \* Dug Well Project
    - \* Cashew Nut Project
    - \* Seed Potato Project
    - \* Self-employment Projects for women.
  - Schemes sponsored by the "Swiss Intercooperation"
    - \* Employee/Farmer Training Programmes
    - \* Technical Assistance



## 5.0 General

5.1 RRDBs and their clientele are exempted from payment of stamp duty

## ADDENDUM

### BASELINE SURVEY COMMENTS

Much of the underlying thrust of the baseline survey has included finding an appropriate avenue for increasing the banking community's involvement in agricultural lending. Studies of loan portfolios and discussions with lenders have all revealed that the banks do not play a large part in directly financing production units. It has been assumed that training of bankers in "appraisal of loans" from a cash flow approach would solve the problem. What has not been recognized is that the Sri Lankan banking system has no provision for the securing of chattels. Without an avenue for securing growing crops and livestock, prudent business practices will prevent lenders from advancing funds when the only security, is the hope of getting their money back. Without access to chattels, the banks are forced to limit loans to what can be supported by available security; namely real estate and equipment.

This fundamental problem is worked around in several different ways. Large processors of agricultural products, in effect finance their growers. The processors provide either money or supplies on a tightly controlled basis. Collection of the funds is accomplished by way of deductions from proceeds. This is an efficient way to provide production funds, but it does tend to perpetuate peasant farming as processors report that small growers produce crops at the least cost. If this situation were analyzed, it would probably show that per unit labor cost to the processor is the lower with the typical small grower than with a commercial farm.

Rural Development Banks that target the small and medium business and farmers get around the lack of security problem by way of guarantees. This is somewhat awkward as the rural banker spoken to reports that suitable and willing guarantors are hard to find.

One final source of funds available to the smaller producer comes from private village lenders. This money is extremely costly and probably does little to add to the domestic product of the country.

It would appear that the inability of securing chattels is a major hinderance to the financing of the farm sector. Bankers spoken to are well versed in credit practices and are doing all that is possible under the present conditions. Introduction of a chattels mortgage system may provide the stimulus for increased agricultural productivity.