# AGRICULTURAL CREDIT SCHEMES UNDER THE KURUNEGALA RURAL DEVELOPMENT PROJECT: AN EVALUATION

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AGRARIAN RESEARCH AND TRAINING INSTITUTE

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# FOREWORD

At the request of the Ministry of Plan Implementation and the World Bank, the Agrarian Research and Training Institute agreed to undertake the evaluation of the Kurunegala Integrated Rural Development Project. The Evaluation Plan made provisions for a baseline survey to analyse the pre-project situation and several indepth and management oriented studies. Some of these studies are meant to examine the implementation of important project components with a view to assess their performance from time to time. This study on Agricultural Credit is one of them.

Agricultural credit is one of the most important components of the Kurunegala Rural Development Project, which takes up about 25 percent of the total project cost phased over a period of five years from 1979 to 1983. This study attempts to assess the performance of this component over the last two and a half years and to analyse the factors contributing to the success or failure of the agricultural credit scheme implemented under the project. It is hoped that the study will provide the project management with sufficient insights into the problems in the implementation of credit schemes, particularly at the farm level. The policy implications spelled out in this report are expected to be useful for introducing necessary corrective measures in the agricultural credit schemes not only under the Kurunegala Project but also in other rural development projects in Sri Lanka.

Mr. P.J. Gunawardena, Research and Training Officer, was responsible for coordinating this study as well as in writing the report. My thanks are due to him and the others who made this publication possible.

T.B. Subasinghe
DIRECTOR

ACKNOWLEDGEMENTS

This report is an outcome of a one-year research programme which focussed its attention on the aspects of agricultural credit under the Kurunegala Rural Development Project. The study was made possible with the help and assistance extended by numerous persons, both in Kurunegala and Colombo.

In Kurunegala, farmers, private money lenders and Cultivation Officers supplied much needed information twice during the survey with patience, and extended their generous support to such an extent that the researcher and his assistants felt themselves at home in the study villages.

Managers of the branches of the People's Bank and the Bank of Ceylon, Credit and Marketing Managers of the Co-operative Societies, Managers of the District Offices of the two Banks and the Project Director and his Staff willingly co-operated in the provision of statistical as well as qualitative information with regard to the institutional lending.

Officials of the Agricultural Department, the Paddy Marketing Board, the Agrarian Services Department, the Agricultural Insurance Board and the Agricultural Development Authority also helped the researcher to gain an insight into the ancillary activities connected with agricultural credit.

At the ARTI, colleagues, Fredrick Abeyratne, John Farrington, Jacob Black-Michaud, and Ananda Wanasinghe offered helpful comments on some of the earlier drafts of the report, while Thilak Gunawardana acted as a constant source of intellectual stimulation.

N.S.B. Epakanda, W.M. Gunaratne, G. Ariyadasa, S. Abeysundara, W.A. Gunapala, B.F. Wijeratne, P. Piyaratne, A.V.G. sumathipala and R.M. Podiappuhami functioned as assistants in collecting and tabulating questionnaire data. Nalanie Sheelawansa, Indranie Hewavidana, B.K. Dissanayake, Malanie Abeygunaratne and Malanie Nanayakkara also assisted in the tabulation of data gathered through questionnaires.

The Director of the Institute made valuable suggestions regarding the design of the enquiry and encouraged the researcher throughout the study.

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Ariyapala Siriwardena edited the final script for publication.

Soma Wijewardena spared no pains to produce a fine script for final production; as far as typing was concerned, the drafts too were her burdens.

To all of them, the author expresses his gratitude.

P.J.G.

Agricultural Economics & Extension Unit,
ARTI,
August, 1981.

C O N T E N T S

## LIST OF TABLES

## WEIGHTS AND MEASURES

### Conversion Factors

**British to Metric Units**

| | | |
|---|---|---|
| 1 acre | = | 0.405 hectares (ha) |
| 1 pound (lb) | = | 0.454 kilogrammes (kg) |
| 1 bushel of paddy (46 lb) | = | 20.87 kg |
| 1 mile | = | 1.609 kilometres (km) |

**Metric to British Units**

| | | |
|---|---|---|
| 1 hectare | = | 2.471 acres |
| 1 kilogramme | = | 2.205 lb |
| 1 kilometre | = | 0.621 mile |

## CURRENCY UNITS

| | | |
|---|---|---|
| 1 US Dollar | = | around 20.00 Rupees (Rs) |
| 1 Rupee | = | around 0.05 US Dollar (US $) |

## ABBREVIATIONS

| | | |
|---|---|---|
| ADA | = | Agricultural Development Authority |
| AI | = | Agricultural Instructor |
| AIB | = | Agricultural Insurance Board |
| ARTI | = | Agrarian Research and Training Institute |
| ASC | = | Agrarian Services Centre |
| BC | = | Bank of Ceylon |
| CO | = | Cultivation Officer |
| CRB | = | Co-operative Rural Bank |
| FAO | = | Food and Agricultural Organisation |
| KRDP | = | Kurunegala Rural Development Project |
| KVS | = | Krushikarma Viyapthi Sevake (village level extension worker) |
| PB | = | People's Bank |
| PMB | = | Paddy Marketing Board |
| WB | = | World Bank |

# CHAPTER 1

# INTRODUCTION

## 1.1. Scope of the Study

The principal thrust of the Kurunegala Rural Development Project (KRDP) is to rehabilitate the production base and to improve supporting services essential for increased paddy and coconut production. Agricultural credit is one of the important supporting services envisaged under the project. As far as agricultural credit is concerned, the project aims at strengthening the credit facilities for crop production as well as for investment in farm equipment and machinery (World Bank, 1979:20-21).

The total estimated cost of the project is Rs 465 million phased over a period of five years from 1979 to 1983 while agricultural credit constitutes Rs 118.05 million or 25 percent of the total cost. Agricultural credit is second only to irrigation and water management, according to the componentwise breakdown of cost proportions. Thus, credit assumes an important place in the Kurunegala Rural Development Project.

The high priority accorded to credit implicitly asserts that the primary objective of the agricultural credit schemes is to relieve rural producers from the problem of insufficient capital, which has been advanced as one of the principal causes of underutilisation of production potential in paddy and coconut. Secondary to this, the project aims at laying the foundation for a viable agricultural credit system, encouraging a high level of farmer participation, particularly the small farmers (World Bank, 1979: 27).

The following components have been incorporated in the credit system, in order to realise the above objectives:

a) Recovery of overdue loans through recovery drives so as to foster strict credit discipline in the future.
b) Provision of short-term loans for paddy and other field crops.
c) Medium-term loans for supporting the fertilizing programme on coconut lands.
d) Medium-term loans for purchase of four-wheel and two-wheel tractors, and hand sprayers; and
e) Medium-term loans for purchase of five-ton trucks by MPCs.

Only the first four schemes will be covered in this study since they deal directly with the farmers.

Furthermore, the eligibility criteria for loans, terms and conditions of loans, lending procedures and details of refinancing, guarantees, interest rates, spreads etc., have been indicated in the project appraisal report (World Bank, 1979: 28-30), details of which will be dealt with in appropriate places in this report. The People's Bank and the Bank of Ceylon are responsible for the administration of the agricultural credit programme.

This study is an assessment of the agricultural credit schemes under the KRDP, which have been in operation since 1979. The enquiry is conducted in accordance with the requirements of the World Bank (1979: 45) which states that while the overall responsibility for project evaluation rests with the Agrarian Research and Training Institute (ARTI), small in-depth studies focussed on specific aspects of the project would be contracted to local universities and research institutions. However, in early 1980, a subsequent mission of the World Bank requested that an investigation of agricultural credit component should be undertaken at an early date by the ARTI itself. This was an outcome of the mission's discussions with the project management. The latter had indicated the following problems which were identified in the early stages of implementation of the project:

a) Lack of popularity of institutional credit, particularly among small farmers.
b) Low levels of credit disbursement and recovery.
c) Lack of integration between credit programmes and crop insurance, extension, and marketing.

Accordingly, the Evaluation Plan prepared by the ARTI (1980: 16-17) included a proposal for a management oriented in-depth piece of research on this aspect. The author was assigned with the study in May, 1980.

## 1.2.Objectives

This study primarily seeks to examine the factors contributing to the success or otherwise of the agricultural credit schemes under the KRDP. The purpose of so doing is to provide the project management with sufficient insights into the problems, particularly at the farm level, in order to identify necessary corrective measures. In recognition of the specific problems identified by the project management itself, the major objectives of the study are set out as follows:

a) To assess the procedures adopted by the lending institutions in the disbursement and recovery of credit.

b) To identify the credit needs and sources of credit of various categories of farmers.

c) To ascertain the possibilities for establishing linkages between credit and crop insurance, marketing, and extension.

1.3.Research Procedures

Information used in this evaluation relates to the period from June, 1980 to June, 1981. Three different but complementary approaches were followed to get at the data and information required for the study. These are described below:

a) Over two hundred farmers in sixteen Agrarian Service Committee areas in the District were interviewed using a structured questionnaire, covering the production and marketing of paddy, coconut, and subsidiary food crops. The reference period was 1980/81 crop year which included *yala* 1980 and *maha* 1980/81 seasons. The interviews were conducted separately for *yala* and *maha* ; the first in October 1980 and the second in March 1981. By conducting the survey separately, it was expected to obtain a fairly accurate set of data which was not subject to serious memory lapses. For *yala* survey, 243 farmers were interviewed, while for *maha* survey only 217 of the same farmers could be located (See Appendix 1,2 and 3 for details).

b) The officials of the banks, the co-operatives, the Agricultural Insurance Board, the Paddy Marketing Board, the Agrarian Services Department, and the Department of Agriculture, and private traders and money lenders were interviewed individually by the researcher at various stages from June, 1980 to May, 1981 to collect supplementary information at district, divisional, and village levels (See Appendix 4 for details).

c) Official documents and reports from the regional offices of the Bank of Ceylon, the People's Bank, and the project office were made use of as primary sources of macro data pertaining to lending, recovery, and outstanding loans.

## CHAPTER 2

## RECOVERY OF OVERDUE LOANS

An important aspect of the credit system under the KRDP is its objective of recovering an estimated amount of Rs 13 million outstanding from some 25,000 farmers in the district, through recovery drives, and rescheduling where necessary. The outstanding loans include those obtained before *yala* 1979 season. However, performance of the recovery drive, especially of the People's Bank, has fallen far short of expectations.

Inventorizing the overdue amounts had been completed on schedule by the end of the second quarter of 1979. Although the recovery of old debts was to be completed by the end of the third quarter of 1979, only 38 percent of such debts had been recovered by the expected date. It was mainly due to the efforts of the officials at the branches and District Offices that this amount has been recovered, i.e. meeting the defaulters and urging them to repay the overdue loans. Some defaulters paid their loans back just after receiving recovery notices, while others waited till the banks and co-operatives set the wheels of law in motion. Some of the wilful defaulters decided to repay the loans only after receiving the prosecution notices. There were instances too where the repayment has been made only after a court decision.

However, by June 1981, over 85 percent of overdue loans of the People's Bank and about 15 percent of those of the Bank of Ceylon remained unrecovered. As far as the People's Bank is concerned, it can only prevail upon the co-operative societies to recover the old debts by not giving funds for new loans until such time as a certain percentage of the old debts is recovered. This has happened in the case of certain co-operative societies in the District. However, the inability to trace some of the defaulters and delays in court decisions are some of the snags involved.

As far as the Bank of Ceylon is concerned, it has to depend on the efforts of its officials or resort to legal action. According to officials at the District level, the delay in the recovery of old debts stems from the dalays in filing action against the wilful defaulters.

Efforts of the lending institutions alone will not help in the speedy recovery of loans. It depends on the willingness and ability to repay, on the part of the defaulters. The findings of our field survey in this regard are

illuminating. Out of 243 farmers interviewed in October 1980, 24 had overdue loans. Seventeen of them belong to the land size class of 2-5 acres. Another 3 belong to the land size class of over 5 acres. Thus, they seem to have the necessary capacity to repay the loans. Moreover, 22 defaulters who have received recovery notices (reminders) expressed the willingness to repay the overdue loans. However, they have received only one notice and have not taken any effective step so far to repay the loans. Nor have they been subject to legal action.

A question arises here as to why these borrowers defaulted the loans when they had the capacity to repay the loans in time. In fact, some of these borrowers have defaulted the payment claiming to believe that these loans as outright grants from the Government. This was because earlier loans were granted on much more liberal terms. It is a fact that the politicians at every election have also promised to write off old debts to gain the support of the farmers. Others who delayed the payments have done so because of the above reasons plus the inability to repay institutional loans after fulfilling their obligations to private money lenders, landlords, and traders. The result has been cumulative debts to the co-operatives and banks, with cumulative interest. In most cases, the cumulative interest now exceeds the initial amount of loans made. However, all the defaulters expressed willingness to repay only the amount of borrowed capital plus the initially stipulated interest, but in small instalments.

There is another dimension to the problem of recovery of overdue loans, especially those of the Bank of Ceylon. After closure of the hitherto operated bank branches at the Agrarian Service Centres, the farmers who had taken loans from these branches think that the repayment is no longer necessary. Although these loans have to be recovered by a parent branch of the area concerned, the defaulters claim that they have no obligation to "another bank." This attitude of the defaulters must also be changed, if the recovery drive is to be a success.

Although it is important to continue the present recovery drive, it should be done in such a way as to assure a greater voluntary participation of the defaulters. More flexible procedures in this regard will be needed since the success or otherwise of future lending will depend on the attitudes of the borrowers towards the lending agencies. The present procedures with certain modifications are suitable for recovery of overdue loans but the recovery of present and future loans has to be thought in terms of a more viable mechanism in which the past mistakes are not repeated.

## CHAPTER 3

## LOANS FOR PADDY CULTIVATION

### 3.1. General

Institutional credit for paddy cultivation has a long history in Sri Lanka. Earlier credit programmes had their ups and downs, high disbursements at the beginning, gradually decreasing recoveries, increasing default rates, and finally, a low level of disbursement.*

The new scheme introduced under the Kurunegala Rural Development Project, as pointed out earlier, tries to recover the outstanding amounts through legal actions where necessary, and at the same time, to maximize disbursements and recoveries at present as well as in the future. It also emphasizes the necessity to ensure more effective small-farmer participation in the credit schemes.

Terms and conditions governing paddy cultivation loans under the new scheme are as follows (World Bank, 1979: 28-30):

a) Loans are not given to defaulters.
b) All borrowers are required to have agro-identity cards.
c) A farmer is required to have all his borrowings from only one bank.
d) Maximum area financed is limited to 10 acres.
e) An interest rate of 9% per annum (with a penal rate of 15% per annum for late payments) is charged from the borrowers.

The Project Appraisal Report also states that loan application forms for both the Bank of Ceylon and the People's Bank should be standardized and simplified to cut down on excessive delays, and that the Central Bank of Ceylon would provide 100% refinance for cultivation loans. However, the lending banks would not be given any guarantee against default and would lend at their own risk (World Bank, 1979: 29).

In terms of the estimated finances and the number of beneficiaries, the paddy cultivation loans form the major component in the credit programme for the area. Hence, the stress is more on this aspect in this study. Since the project identifies the primary role of credit as one of increasing productivity

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*A detailed review of the earlier credit schemes for paddy in Sri Lanka can be found in Abeyratne (1979).

and total production of paddy in the district, the real test of performance of credit would be to see whether it has been able to achieve this objective. However, measuring the direct contribution of the loan scheme to the increase in productivity is a tedious process; and also such an exercise is obviously premature at this stage.

The performance of the credit scheme can also be assessed in terms of its cost-effectiveness and its operational efficiency. The cost-effectiveness of the loan scheme, too, is difficult to measure at this juncture due to paucity of data. Hence, the scope of the remainder of this chapter will be limited to an examination of the problems faced by both borrowers and lenders in the whole process of credit for paddy cultivation.

### 3.2.Borrowers' Side

This section analyses the means and ways of financing paddy cultivation by the farmers, the role of credit in farm financing, actual borrowings from institutional and non-institutional sources for paddy cultivation, the type of problems faced by the farmers in borrowing from institutions, and the difficulties in utilizing borrowed funds. The analysis draws primarily upon the data collected through the sample survey of farmers.

#### 3.2.1.Farm Financing and Credit Needs

Many farmers in the district have more than a single way of finding money for draught power, labour, seed, fertilizer, and agro-chemicals (Table 1). When funds raised at their own farms and through other supplementary sources of income are insufficient to meet the required working capital during certain times of the cultivation season, the farmers have to resort to borrowing, either from institutional or from private sources.

Table 1:Means of Financing Paddy Cultivation (Yala 1980 and Maha 1980/81)

| Means of financing | No. of farmers reporting | | % of the total sample+ | |
|---|---|---|---|---|
| | Yala 1980 | Maha 1980/81 | Yala 1980 | Maha 1980/81 |
| 1.Income from crop sales | 193 | 149 | 79.4 | 68.7 |
| 2.Government service and other self employment | 76 | 47 | 31.3 | 21.7 |
| 3.Hired labour | 59 | 29 | 24.3 | 13.4 |
| 4.Private loans | 53 | 89 | 21.8 | 41.0 |
| 5.Institutional loans | 16 | 16 | 6.6 | 7.4 |
| 6.Other* | 11 | 10 | 4.5 | 4.6 |

NOTES + = Total sample is 243 for Yala 1980, and 217 for Maha 1980/81
* = Include money and inputs supplied by landlords, income from sale of cattle, and money obtained from pawning jewellery.

Crops that are available for sale with the sample farmers are paddy, coconut, and subsidiary food crops. The majority of farmers depend on selling of paddy produced in the previous season to finance the cultivation in the current season. However, the marketable surplus of paddy in *yala* crop is usually less than that from *maha* crop in any given year except in certain parts of the dry zone where the water supply conditions are more assured. Subsidiary food crops (i.e. chillies, onions, gingelly) provides an important source of finance to those farmers in the villages in semi-dry and dry areas with less assured water supply. Sale of coconut is more vital in the case of villages in semi-wet and wet zones.

Loans obtained from non-institutional sources assume equal importance in almost all the sample villages. On the contrary, institutional loans do not appear to have contributed much in farm financing among the sample farmers as well as across the seasons. Even in the villages where some of the farmers have resorted to borrow from the banks, it is the non-institutional sources that dominate. This situation, and the reasons for it will be elaborated in section 3.2.2 onwards.

Wages earned from hiring out their labour provide working capital especially to smaller farmers (operating less than an acre of land) in the semi-wet and semi-dry zones.

Placed in a particularly advantageous position are the part-time farmers operating relatively larger paddy holdings who have access to all the means mentioned above, except wages from hired labour. This group of farmers mainly comprise school teachers, village level Government Officials, and traders.

Table 1 suggests that borrowings form a major component in the finances required for paddy farming, nearly half of the same farmers having the actual need for it. The following paragraphs analyses this need more in quantitative terms.

Data on the general situation regarding credit needs of the farmers was gathered during the early phases of the field survey, i.e. just prior to the beginning of the *maha* 1980/81 cultivation season. The relevant statistics are presented in Table 2.

Table 2: Credit Needs of Farmers for Paddy Cultivation for a Season (General Situation)

| Paddy Land Size Class (acres) | Farmers reporting | | Average credit needs (Rs) | |
|---|---|---|---|---|
| | No. | % of the sample in each size class | Mean value | Range of mean value |
| 0 - 0.5 | 2 | 11.1 | 400 | 200 - 600 |
| 0.5 - 1.0 | 11 | 26.8 | 1090 | 150 -2500 |
| 1.0 - 2.0 | 33 | 47.8 | 926 | 300 -1500 |
| 2.0 - 5.0 | 39 | 43.3 | 1782 | 200 -3965 |
| 5.0 & over | 19 | 76.0 | 3336 | 150 -8400 |
| All size classes | 104* | 42.8 | 1695 | 200 -3393 |

NOTE * = One farmer did not report the amount needed.

As Table 2 depicts, nearly 43 percent of the farmers in the district indicated the need for borrowings to augment their own funds so that they could pursue their cultivation activities on time. Larger the size of the paddy holding more is the need for credit. The mean values of necessary borrowings given in this table must be treated only as rough approximations of the general situation since there is an enormous variation among individual farmers. It must also be recognised that these figures cover only the relevant range of costs of production, i.e. those prevalent during *yala* 1980 and *maha* 1980/81 seasons. Aspects of costs of production and adequacy of bank credit in meeting the costs are discussed in section 3.2.5. The invariable need for credit is reflected by the fact that over 75 percent of the farmers who were borrowers stated that they usually financed 25 to 50 percent of the cost of paddy cultivation from loans alone.

In order to obtain a general picture of the total credit needs of all the paddy farmers in the district, the data derived from the sample survey can be extrapolated to the district level (Table 3), based on the following assumptions:

a) The size distribution of paddy lands operated by the sample farmers represents the district level situation.

b) The credit needs and the proportion of farmers in need of credit as indicated by the farmers in each land size class in the sample hold true for the farmers in each land size class in the entire district.

c) Credit requirements will remain more or less the same unless cost of production of paddy changes.

d) The estimated number of paddy farmers in the district remains unchanged as 170,000.

Table 3: Estimated Total Credit Needs of the Farmers in the District According to Paddy Land Size Classes

| Land size class (acres) | Percentage of farmers | Number of farmers | Percentage of farmers in need of credit | Number of farmers in need of credit | Average credit requirements (Rs) | Total credit requirements in Rs '000 |
|---|---|---|---|---|---|---|
| 0-0.5 | 7.4 | 12580 | 11.1 | 1396 | 400 | 558.4 |
| 0.5-1.0 | 16.9 | 28730 | 26.8 | 7700 | 1090 | 8393.0 |
| 1.0-2.0 | 28.4 | 48280 | 47.8 | 23078 | 926 | 21370.2 |
| 2.0-5.0 | 37.0 | 62900 | 43.3 | 27236 | 1782 | 48534.6 |
| 5.0 & over | 10.3 | 17510 | 76.0 | 13307 | 3336 | 44392.2 |
| All classes | 100.0 | 170000 | 42.8 | 72760 | 1695 | 123328.4 |

The total credit requirements of paddy farmers in one cultivation season are estimated to be around Rs 123 million. This entire amount applies mostly to the *maha* season in which most of the paddy fields go under cultivation. It is safer to assume that a half of this amount i.e. about Rs 63 million is needed in *yala*. Thus, the total estimated annual credit requirements are Rs 186 million. The credit needs of the farmers operating holdings below half an acre are not important as far as the current lending policy of the banks is concerned. Moreover, banks have been able to supply about 25 percent of the total borrowings made by the sample farmers during *yala* 1980 and *maha* 1980/81 seasons. *On the basis of these facts banks will have to allocate Rs 46 million annually if they are to supply at least 25 percent of the current credit requirements of all the farmers operating more than half an acre of paddy land, in the entire Kurunegala district.*

3.2.2. Statistics on Borrowing

In *yala* 1980, sixty five farmers borrowed Rs 74760 for paddy cultivation. The number of total borrowers represents 26.7 percent of the sample. Only about 25 percent of the borrowers have taken loans from institutional sources. The amount borrowed from the institutions represents 36 percent of the total borrowings. As against this, one hundred and five farmers (48.4 percent of the sample) have obtained loans for paddy cultivation in *maha* 1980/81; but only 15 percent has relied on the institutions. The clientele of the institutions remained the same both for *yala* and *maha*. In *maha* season, the amount borrowed from the institutions represent only 21.6 percent of the total borrowings (Rs 107545). It is discouraging from the view point of the KRDP that the

proportion of the borrowers who obtained loans from the institutions and the portion of institutional credit in their total borrowings have not increased from *yala* to *maha*.

A detailed breakdown of the figures on borrowers and borrowings according to land size classes are given in Tables 4 and 5. Apart from the factors discussed in the preceeding paragraph, the table clearly shows a situation where both institutional and non-institutional lending have been made use of more by the farmers operating relatively larger paddy holdings. Moreover, as shown in Tables 6 and 7, a higher percentage of farmers in areas under major irrigation where water supply conditions are more assured, have made use of the highest proportion of loans, especially from institutional sources.

In sum, the statistics examined here suggest the secondary role played by the institutional sources in providing credit to paddy farmers in the district, compared with the non-institutional (private) sources. Thus, the immediate impact of imposing limitations on the eligibility criteria for bank loans and the proposed action against the defaulters is clear enough. Most small farmers, who are eligible for bank loans, are now both reluctant and unable to borrow from the banks for several reasons; sections 3.2.3 and 3.2.4 deal with these problems in detail.

Table 4: No. of Borrowers and Amount Borrowed, According to Sources and Paddy Land Size Classes - Yala 1980

| Land size class (acres) | Institutional Sources* | | | | Non-institutional Sources** | | | | All Sources | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of borrowers | Percentage of farmers in the sample | Total amount borrowed (Rs) | Percentage of total borrowings | Number of borrowers | Percentage of farmers in the sample | Total amount borrowed (Rs) | Percentage of total borrowings | Number of borrowers | Percentage of farmers in the sample | Total amount borrowed (Rs) | Percentage of total borrowings |
| 0-0.5 | - | - | - | - | 2 | 11.1 | 700 | 1.5 | 2 | 11.1 | 700 | 0.9 |
| 0.5-1.0 | 1 | 2.4 | 400 | 1.5 | 4 | 9.6 | 2350 | 4.9 | 5 | 12.0 | 2750 | 3.7 |
| 1.0-2.0 | 5 | 7.2 | 2700 | 9.9 | 21 | 30.4 | 18550 | 38.9 | 26 | 37.6 | 21250 | 28.4 |
| 2.0-5.0 | 5 | 5.6 | 11810 | 43.6 | 16 | 17.8 | 18950 | 39.8 | 21 | 23.4 | 30760 | 41.1 |
| 5.0 & over | 5 | 20.0 | 12200 | 45.0 | 6 | 24.0 | 7100 | 14.9 | 11 | 44.0 | 19300 | 25.9 |
| All classes | 16 | 6.6 | 27110 | 100.0 | 49 | 20.1 | 47650 | 100.0 | 65 | 26.7 | 74760 | 100.0 |

NOTES - * = Co-operative Rural Bank, Bank of Ceylon, and the People's Bank.
** = Friends and relatives, private traders, and money lenders.

Table 5: Number of Borrowers and Amount Borrowed, According to Sources and Paddy Land Size Classes - Maha 1980/81

| Land size class (acres) | Institutional Sources | | | | Non-institutional Sources | | | | All Sources | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of borrowers | Percentage of farmers in the sample | Total amount borrowed (Rs) | Percentage of total borrowings | Number of borrowers | Percentage of farmers in the sample | Total amount borrowed (Rs) | Percentage of total borrowings | Number of borrowers | Percentage of farmers in the sample | Total amount borrowed (Rs) | Percentage of total borrowings |
| 0-0.5 | - | - | - | - | 4 | 36.4 | 580 | 0.7 | 4 | 36.4 | 580 | 0.5 |
| 0.5-1.0 | - | - | - | - | 16 | 41.0 | 10370 | 12.2 | 16 | 41.0 | 10370 | 9.6 |
| 1.0-2.0 | 5 | 6.5 | 3090 | 13.3 | 25 | 32.5 | 13550 | 16.1 | 30 | 39.0 | 16640 | 15.5 |
| 2.0-5.0 | 10 | 13.5 | 19255 | 82.8 | 35 | 47.3 | 38200 | 45.3 | 45 | 60.8 | 57455 | 53.4 |
| 5.0 & over | 1 | 6.3 | 900 | 3.9 | 9 | 56.3 | 21600 | 25.7 | 10 | 62.6 | 22500 | 21.0 |
| All classes | 16 | 7.4 | 23245 | 100.0 | 89 | 41.0 | 84300 | 100.0 | 105 | 48.4 | 107545 | 100.0 |

Table 6: Number of Borrowers and Amount Borrowed According to Sources and Water Supply Conditions - Yala 1980

| Water supply condition | Institutional Sources | | | | Non-institutional Sources | | | | All Sources | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of borrowers | Percentage of farmers in the sample | Total amount borrowed (Rs) | Percentage of total borrowings | Number of borrowers | Percentage of farmers in the sample | Total amount borrowed (Rs) | Percentage of total borrowings | Number of borrowers | Percentage of farmers in the sample | Total amount borrowed (Rs) | Percentage of total borrowings |
| 1. Rainfed areas | 6 | 7.1 | 5700 | 21.0 | 18 | 21.4 | 17050 | 35.8 | 24 | 28.6 | 22750 | 30.4 |
| 2. Areas under minor tank irrigation | 4 | 3.2 | 4410 | 16.3 | 21 | 16.8 | 14050 | 29.5 | 25 | 20.0 | 18460 | 24.7 |
| 3. Areas under major tank irrigation | 6 | 17.6 | 17000 | 62.7 | 10 | 29.4 | 16550 | 34.7 | 16 | 47.0 | 33550 | 44.9 |
| All areas | 16 | 6.6 | 27110 | 100.0 | 49 | 20.1 | 47650 | 100.0 | 65 | 26.7 | 74760 | 100.0 |

Table 7: Number of Borrowers and Amount Borrowed According to Sources and Water Supply Conditions - Maha 1980/81

| Water supply condition | Institutional Sources | | | | Non-institutional Sources | | | | All Sources | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of borrowers | Percentage of farmers in the sample | Total amount borrowed (Rs) | Percentage of total borrowings | Number of borrowers | Percentage of farmers in the sample | Total amount borrowed (Rs) | Percentage of total borrowings | Number of borrowers | Percentage of farmers in the sample | Total amount borrowed (Rs) | Percentage of total borrowings |
| 1. Rainfed areas | 3 | 4.0 | 990 | 4.3 | 33 | 44.0 | 18670 | 22.1 | 36 | 48.0 | 19960 | 18.3 |
| 2. Areas under minor tank irrigation | 3 | 2.7 | 4440 | 19.1 | 41 | 36.6 | 33830 | 40.1 | 44 | 39.3 | 38270 | 35.6 |
| 3. Areas under major tank irrigation | 10 | 33.3 | 17815 | 76.6 | 15 | 50.0 | 31800 | 37.8 | 25 | 83.3 | 49615 | 46.1 |
| All areas | 16 | 7.4 | 23245 | 100.0 | 89 | 41.0 | 84300 | 100.0 | 105 | 48.4 | 107545 | 100.0 |

### 3.2.3.Borrowing from Institutions - Problems from the Farmers' Perspective

The stringent credit policy adopted from 1979 onwards not only disqualified the defaulters of earlier loans but also attached the risks of litigation. Hence, many small farmers who are not certain about their repayment capacity tend to abstain from borrowing from the banks. Out of 219 farmers who indicated that they do not intend to borrow from the banks, fifty two or 24 percent mentioned their inability to repay as a reason for abstaining (Table 8).

Table 8:Reasons for Not Intending to Borrow from Banks

| Reason | No. of farmers reporting each reason | Percentage of the farmers who do not borrow from the banks |
|---|---|---|
| 1. Lack of capacity to repay | 52 | 24.0 |
| 2. No need for credit | 45 | 20.5 |
| 3. Have overdue loans | 24 | 10.9 |
| 4. Difficulties in finding securities | 24 | 10.9 |
| 5. Cannot get bank loans in time | 17 | 0.8 |
| 6. Private sources are more convenient | 15 | 0.7 |
| 7. Difficulties with procedures of the banks | 8 | 0.4 |

Capacity to repay the loans is constrained not necessarily by the small size of paddy holdings but in many cases by the risks associated with cultivation in the absence of an assured water supply. This is specially so with regard to *yala* season and in areas where paddy cultivation is dependent on rainfall and minor irrigation. It is significant to note that 49 of those who indicated the lack of capacity to repay the loans came from such areas. Many farmers in these localities stressed the need to renovate minor tanks and allied irrigation structures in their villages so that they could apply for institutional credit with some confidence.

Apart from the defaulters of earlier loans and those who are not in need of credit, a good number of farmers do not borrow from the banks due to restrictions imposed by difficulties in finding securities, procedural inconveniences, and delays involved in releasing the loans by the banks. Another important reason is that obtaining credit from private sources is less arduous and less risky. This is further supported by the fact that 20 percent and 40 percent of the sample farmers had borrowed from private sources for paddy cultivation during *yala* 1980 and *maha* 1980/81 respectively.

Farmers have to incur various costs on bank loans, in addition to going through cumbersome procedures and fulfilling prerequisites. Therefore, an attempt is made here to calculate the ascertainable cost of bank credit to the borrowers in order to compare the costs with interest charged by the private money lenders. As far as the private lenders are concerned, the ascertainable costs are only the interests on loans (in terms of percentage interest on loans repaid in cash or the percentage of price differential in case of loans repaid in kind).

But in case of institutional loans, farmers have to go to the banks and the Cultivation Officer to get application forms, to hand-in completed forms, to sign the bond forms, to get the loans stage by stage, to inform the officers to insure the paddy crops, and so on. Farmers in the interior villages have to spend on bus fares and incur other expenses on these trips. A Borrower may generally spend 8 days to attend to these functions. He has to take time off from the farm work during busy activity periods, and these days have some value which can be roughly equivalent to the daily-wage rate in farm work. The prevailing wage rates were Rs 15/- per day in rainfed and minor irrigated areas, and Rs 20/- per day in major irrigated areas. And finally, there is the interest on loans.

A summary of these costs along with the actual ascertainable interest rate for a loan taken for 6 months period is indicated in Table 9. The total cost of a loan means the cost of the maximum amount of loans that can be obtained from the bank, under different water supply conditions.

Table 9: Ascertainable Cost of Credit to the Borrowers - Maha 1980/81

| Cost of Institutional* Loans | Rainfed areas | Minor irrigated areas | Major irrigated areas |
|---|---|---|---|
| 1. Bus fares (Rs) | 18.00 | 32.00 | 42.00 |
| 2. Other expenses (Rs) | 29.50 | 38.83 | 33.75 |
| 3. Value of days spent (Rs) | 120.00 | 120.00 | 160.00 |
| 4. Interest for 6 months (Rs) | 36.00 | 54.00 | 58.50 |
| Total cost of the loan (Rs) | 203.50 | 244.83 | 294.25 |
| Cost for 6 months per 100 rupees | 25.44 | 20.40 | 22.63 |
| Annual interest rate (%) | 9.00 | 9.00 | 9.00 |
| Credit ceiling (Rs) | 800.00 | 1200.00 | 1300.00 |
| Cost of Private** Loans (for a similar amount) | | | |
| | Rainfed areas | Minor irrigated areas | Major irrigated areas |
| Cost for 6 months per 100 rupees | 60.00 | 60.00 | 60.00 |
| Total cost of the loan (Rs) | 480.00 | 720.00 | 780.00 |
| Annual Interest rate (%) | 120.00 | 120.00 | 120.00 |

* = Co-operative Rural Bank, Bank of Ceylon, and the People's Bank.
** = Private traders and money lenders.

Table 9 shows that the borrowing from institutions is certainly less costly in monetary terms. But the farmers appear to be setting off this monetary advantage of bank loans against convenience and timeliness which characterise private loan transactions. The various stages that the farmers have to pass through before they finally get their loans from the banks are beset with a number of obstacles. Running after guarantors and struggling to cut through official red tape are to mention two of the many handicaps that the farmers have to guard against. The costs involved in crop insurance, agro-identity cards and so on are other additional expenses.

The private sources, on the other hand, offer no cumbersome procedure. The security needed is mostly the mutual trust, or the produce at harvest in case of private traders. Sometimes land and jewellery serve as collaterals. In most cases there is no specified period for repayment. Private traders and professional lenders charge an interest but where the creditor is a friend or a relation, quite often the loan is interest free. Mutual help serves as an "informal interest." It is a direct transaction where no paperwork is involved and the loan is given on the spot or at most it will take two or three days. All these factors lead many farmers to look towards the private sector for loans. Even the farmers who apply for bank loans resort to borrowing from private lenders in order to complete the work at hand. Such private loans are often set off after a month or so, when they get the bank loan.

3.2.4. Prerequisites for Institutional Loans

Defaulting and low capacity for repayment are not the only factors that condition the criteria for eligibility. There are several other prerequisites, set out by the lending institutions. Firstly, the paddy field for which the loans are applied should have been registered in the paddy lands register. Secondly, it should have been insured with the Agricultural Insurance Board. Thirdly the applicant should have a bank account. Fourthly, the applicant should possess an Agro-Identity Card. In addition, those who intend to borrow from the co-operatives should have the membership of the co-operative society. Obviously, without fulfilling all these requirements, one is not eligible for institutional loans.

The problem however, is that the farmers have not been convinced enough of the need to meet all the above requirements before they become eligible to apply for a loan. One possible exception is the registration of paddy lands. The owners and tenant farmers normally register their holdings but encroachers cannot do so and have to be left out of the institutional credit schemes. There

are instances where tenants are not allowed to register their names by land-owners who get the loans from the banks and relend it to the tenant at a higher interest rate.

*a) Agricultural Insurance*

A proper agricultural insurance scheme while increasing the borrowing capacity of farmers gives a no-risk assurance to the lenders too. But there are many shortcomings of the paddy insurance scheme as it operates in the Kurunegala district at present. First of all, though it is legally compulsory for all farmers to insure paddy crops whether they borrow from the banks or not, many farmers are reluctant to do so for several reasons. Firstly, the farmers assume that insurance is a prerequisite only for borrowing. Secondly, the procedural aspects involved in assessing the damages and in paying compensations make the farmers dubious about the entire exercise. An unawareness of the probable benefits of an insurance scheme too counts here. Resulting from these factors, only a fraction of farmers insure their paddy crops (Table 10).

Table 10: Number of Farmers Insured their Paddy Crops According to Land Size Classes - Yala 1980 and Maha 1980/81

| Paddy land size class (acres) | Yala 1980 | | Maha 1980/81 | |
|---|---|---|---|---|
| | Number of farmers | Percentage of farmers in the sample | Number of farmers | Percentage of farmers in the sample |
| 0-0.5 | 1 | 5.6 | 1 | 9.0 |
| 0.5-1.0 | 5 | 12.2 | 1 | 2.6 |
| 1.0-2.0 | 11 | 15.9 | 4 | 5.2 |
| 2.0-5.0 | 18 | 20.0 | 11 | 14.9 |
| 5.0 & over | 2 | 8.0 | 2 | 12.5 |
| All classes | 37 | 15.2 | 19 | 8.8 |

It is interesting to note from Table 10 that the majority of those insured were operating paddy holdings over two acres in extent. The number of farmers insured decreased by about 50 percent from *yala* to *maha*. The majority of the farmers who insured their paddy crops in *yala* belongs to rainfed and minor irrigated areas (high risk areas). All those insured have done so in order to obtain compensation in case of a crop failure. Only three had done so specifically with the intention of getting bank credit. In contrast, the majority of the farmers who insured their paddy crops in *maha* belong to major irrigated areas where risk is relatively lower, but borrowings from banks are relatively high. Reduced risks due to better rainfall conditions pursuade many

small farmers in rainfed and minor irrigated areas to avoid insuring their paddy crops during *maha* season. This is further reinforced by their reluctance to apply for bank loans.

The common complains of even those indured were that they normally have to wait two or three seasons to get the indemnities and that the officials entrusted with the task of assessing crop damages accord preferential treatment to rich farmers in the areas concerned.

The majority of those who do not insure their paddy crops demonstrate a proper scepticism when they state that they do not perceive any benefit accruing from insurance (Table 11). Those who gave no specific reason as to why they did not insure their paddy crops and those without a proper knowledge about the insurance scheme can be put into one category; these farmer need an enhanced awareness about the mechanism of crop insurance. Previous experience of not being able either to obtain the due indemnities in time or to obtain an amount which is sufficient to cover the entire damage to their crops make some farmers reticent about crop insurance.

Table 11:Reasons for Avoiding the Crop Insurance

| Reason | No. of farmers reporting | Percentage of farmers reporting |
|---|---|---|
| 1. No benefit | 76 | 36.9 |
| 2. No specific reason | 52 | 25.2 |
| 3. Lack of awareness | 25 | 12.1 |
| 4. Delays in paying indemnities and low level of indemnities | 34 | 16.5 |
| 5. Unable to pay the premium | 19 | 9.3 |
| Total | 206 | 100.0 |

*b) Savings Accounts*

Encouraging savings among the farmers in order to facilitate timely recovery of credit has not been an objective of the Kurunegala Rural Development Project. However, this Project is concerned with the prerequisite of having a savings account for borrowing for paddy cultivation, from the banks. One hundred and nineteen or 49 percent of the sample farmers had savings accounts at the People's Bank or at the Bank of Ceylon, at the time of *yala* survey (Table 12).

Table 12: Number of Farmers Having Savings Accounts at Banks According to Paddy Land Size Classes - as of October 1980

| Paddy land size class (acres) | Number of farmers reporting | Percentage of farmers in the sample |
|---|---|---|
| 0-0.5 | 7 | 38.9 |
| 0.5-1.0 | 13 | 31.7 |
| 1.0-2.0 | 32 | 46.4 |
| 2.0-5.0 | 46 | 51.1 |
| 5.0 & over | 21 | 84.0 |
| All classes | 119 | 49.0 |

It is worth mentioning that a higher percentage of farmers operating paddy holdings above two acres in extent and those living near the main townships had a higher number of savings accounts at these banks. Sixty eight percent of those having savings accounts knew that their accounts would make it easier for them to get cultivation loans if necessary, while the rest felt that some savings would help them to provide themselves against a rainy day.

*c) Agro-Identity Cards*

The Department of Agrarian Services estimates the requirement of Agro-identity cards for the entire Kurunegala district as 200,000. From mid 1979 to April 1980, 21,157 new cards have been issued while those that were issued since 1974 have been renewed only up to the end of 1980. Thus, issue of the remainder is no easy task. Although the KRDP aimed at finalizing the preparation of Agro-identity cards by the end of 1979, this did not come through due primarily to lack of farmer-enthusiasm, as discussed below. However, during the survey it was noticed that the issue of identity cards was progressing smoothly but the tremendous nature of the task may offer problems making it impossible to keep up to the targets envisaged under the project.

Since the issue of Agro-identity cards began in 1974, a little more than 50 percent of farmers in the sample owned these cards (Table 13). Those farmers who operate relatively large paddy holdings and live close to the Agrarian Service Centres and main townships tend to own identity cards more than those in other areas.

Table 13: Number of Farmers Having Agro-Identity Cards According to Paddy Land Size Classes - as of October 1980

| Paddy land size class (acres) | Number of farmers reporting | Percentage of farmers in the sample |
|---|---|---|
| 0-0.5 | 6 | 33.3 |
| 0.5-1.0 | 12 | 29.3 |
| 1.0-2.0 | 37 | 53.6 |
| 2.0-5.0 | 60 | 66.7 |
| 5.0 & over | 12 | 48.0 |
| All classes | 127 | 52.3 |

The majority (56 percent) of those having Agro-identity cards stated that they do not have any benefit from having such a document. The others felt that the card helps them in getting credit and inputs from the institutional sources.

However, an overwhelming majority (83 percent) of those who do not possess the identity cards at present adduced such reasons as lack of incentive, lack of time, lack of necessity, and unawareness. This group seems to be either unaware of the procedures involved in obtaining Agro-identity cards or not simply impressed by the whole exercise after realising through fellow farmers that the possession of an identity card does not serve any special purpose. Only a minority (17 percent) complained of procedural difficulties like delay in issuing. Most of such farmers are,however, those opertaing very small paddy plots, who in any case would not benefit much even if they have Agro-identity cards.

*d) Co-operative Membership*

Still a number of co-operative societies are engaged in lending to paddy farmers through the village level branches, patronised by the People's Bank. A farmer who intends to borrow from the co-operative should be a member of the co-operative. In the case of new applicants, the membership should have been obtained at least one year earlier. All applicants should have shares at the co-operative worth Rs 50/- for each Rs 1000/- applied for as loans. As of October 1980, 133 farmers in the sample (75 percent) were members of co-operatives.

Unlike in the case of Agro-identity cards and savings accounts, a higher percentage of farmers operating even smaller paddy holdings had become members of the co-operative. Of the sixty farmers who were not members of the

co-operatives, twenty five stated that there was no need to or no benefit from becoming members. Another twenty five of the non-members gave no specific reason, while the remaining fourteen mentioned that their ration cards have been transferred to private boutiques.

Although some co-operatives have become ineligible for bank credit due to overwhelming amounts of overdue loans, lending to small farmers in the villages far away from main towns has still to be carried out by the co-operative societies. This is particularly so in places where bank branches are not available. Therefore, membership of the co-operatives will still be an important prerequisite for the farmers, especially to the small farmers in the interior villages.

In recent times the co-operatives have laid more stress on the need to function as consumer servicing agencies overlooking the development aspect, agricultural development in particular. Allowing the private boutiques to function as authorised dealers in supplying agricultural inputs and issuing of subsidized food items has worsened the problem. In such circumstances it is doubtful whether a substantial number of farmers would seek co-operative membership in future.

Although the development of co-operatives may be outside the scope of the Kurunegala Rural Development Project, it may have some bearing on the small farmer participation in loan scheme for paddy cultivation, designed under the project. Devolving the responsibilities of lending to paddy cultivation more and more on the two leading banks will preclude many small farmers from participating in the loan scheme, quite contrary to the desired objectives of the project.

### 3.2.5.Credit Ceilings and Costs of Paddy Production

The average operational cost of production per acre (exclusive of the value of family labour and land) has increased from about 54 percent in major irrigated areas to about 76 percent in rainfed areas, from *yala* 1980 to *maha* 1980/81. However, the credit ceilings for paddy cultivation covering all the operations remained unchanged over these seasons (Table 14).

Table 14: A Comparison Between Costs of Production and Credit Ceilings - Yala 1980 and Maha 1980/81

| Operations | Rainfed areas: Average cost per acre (Rs) Yala 1980 | Maha 1980/81 | Credit ceiling (Rs) | Credit - cost (Rs) Yala 1980 | Maha 1980/81 | Irrigated areas: Average cost per acre (Rs) Yala 1980 | Maha 1980/81 | Credit ceiling (Rs) | Credit - cost (Rs) Yala 1980 | Maha 1980/81 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Land preparation | 357 | 583 | 200 | - 157 | - 383 | 384 | 559 | 400 | + 16 | - 159 |
| 2. Seed/planting/sowing | 198 | 254 | 120 | - 78 | - 134 | 261 | 377 | 200 | - 61 | - 177 |
| 3. Fertilizing | 195 | 209 | 150 | - 45 | - 59 | 200 | 196 | 200 | 0 | + 04 |
| 4. Agro-chemicals | 147 | 246 | 230 | + 83 | - 16 | 245 | 324 | 300 | + 55 | - 124 |
| 5. Harvesting & threshing | 292 | 425 | 100 | - 192 | - 325 | 353 | 577 | 200 | - 153 | - 377 |
| 6. Watching of crops, food & victuals given to hired labourers, and transport of produce | 162 | 664 | ... | - 162 | - 664 | 188 | 479 | ... | - 188 | - 479 |
| All operations | 1351 | 2381 | 800 | - 551 | -1581 | 1631 | 2512 | 1300 | - 331 | -1312 |

It is apparent from Table 14 that the present credit ceilings are not only inadequate to cover even the cash costs incurred by the farmers, but also incomparable with the increasing costs of production. In both rainfed and irrigated areas, the total costs of production per acre is substantially higher than the credit ceiling specified for an acre. Also, the amounts of credit allocated for each of the operations in both areas have been drastically outweighed by the increases in costs of production in *maha* 1980/81 season. The major factors that influenced the cost of production appear to be the rises in tractor and buffalo hire charges and price increases of seed, agrochemicals, and food given to hired labourers. Although the credit ceilings were more than adequate for covering the cost of agro-chemicals in both rainfed and minor irrigated areas in *yala* 1980, the reverse has occurred in *maha* 1980/81.

There are some notable similarities and differences of costs between rainfed and irrigated areas. Costs of land preparation and fertilizer application in both areas are almost equal whereas the specified credit ceilings differ widely.

Costs on transplanting, agrochemicals, harvesting and threshing demonstrate notable differences.

The large differences between bank credit ceilings and costs of production invariably force the farmers to augment the bank loans with borrowings from the private sector. This in turn compels the farmers to accord priority to repay private loans which affects the recovery of bank credit. There is thus a case for increasing the credit ceilings per acre as well as the ceilings for each operation in both rainfed and irrigated areas. This is more so in view of the recent increases in the prices of seed, fertilizer, agrochemicals, and draught power.

Also, there is no rationale for maintaining a bigger difference in credit limits between rainfed and irrigated areas, especially the ceilings for land preparation and fertilizer application. In addition, since a good part of the current difference between the costs of production per acre and the total credit ceiling is due to the expenses on food and victuals given to hired labourers, it would be worthwhile to make an allowance for such expenses in allocating bank credit for land preparation, harvesting, and threshing.

### 3.2.6. Access to Services of Allied Institutions

It is well known that efficient functioning of the institutions concerned with input supply, agricultural extension, and produce marketing is an essential condition to the success of an institutional credit programme. The input supply mechanism must be able to deliver the inputs required by the farmers in time. Agricultural extension service should help the farmers in using the inputs purchased on credit in such a way that the yield of paddy is maximized to the possible extent, increasing the repayment capacity of the farmers. Efficient marketing arrangements are necessary, if bank loans are to be recovered successfully.

However, the conditions prevailing in the Kurunegala district with regard to the above institutions are not very conducive to the objective of evolving a viable credit scheme. Some farmers in the district are faced with various problems with regard to input supply, extension, and marketing, due primarily to lack of proper integration between these and lending institutions. The problems specific to the institutions will be discussed in section 3.3.4. The paragraphs below deal with the problems from the viewpoint of the farmers.

*a) Input Supplies*

Although the KRDP emphasizes the need to improve input supply mechanism there are instances where some farmers are unable to obtain the inputs at the required time. Number of farmers making this complaint is indicated in Table 15. Shortage of the inputs means the lack of recommended types at the correct time either with the institutional sources or with the private sector.

Table 15 : Number of Farmers Reporting the Shortage of Inputs at the Required Time

| Input | Number of farmers | Percentage of farmers in the sample |
|---|---|---|
| 1. Seed paddy | 49 | 20.2 |
| 2. Fertilizer | 66 | 27.2 |
| 3. Agrochemicals | 49 | 20.2 |

*b) Agricultural Extension*

Agricultural Instructors (AI) and *Krushikarma Viyapthi Sevakas* (KVS) are supposed to function as extension agents at the Agrarian Services Centre and at the village level respectively. According to the findings of this study, the majority of farmers have had no direct contact with these officers (see Table 16). The project, however, seeks to improve the agricultural extension service through the Training and Visit system whereby more and trained extension officials will be appointed. Also, the farmers will be organised into small groups with a "contact" farmer as the group leader. The KVS will transmit extension massages mainly to the contact farmer who will inturn get the massages accross to other farmers in the group. A detailed analysis of this aspect can be found in a separate study conducted by the ARTI (see: Gunawardana and Chandrasiri, 1981).

Table 16: Services Obtained by the Farmers from AI and KVS

| Services | AI | | KVS | |
|---|---|---|---|---|
| | Number of farmers reporting | Percentage of farmers in the sample | Number of farmers reporting | Percentage of farmers in the sample |
| 1. Advice on plant diseases | 31 | 12.8 | 121 | 50.0 |
| 2. Information about high yielding paddy varieties | 24 | 9.8 | 55 | 22.6 |

*c) Marketing of Paddy*

Although the loan agreement between the borrower-farmer and the co-operative specifies that the borrower should sell his produce to the co-operative, in effect this does not happen. During the field survey it was found that only fifteen out of seventy one farmers who sold their paddy had marketed the produce through the co-operative society, in *yala* 1980. Of those farmers only two had done so in settlement of the loans taken for paddy cultivation (Sixteen farmers borrowed institutional credit during this season). These two farmers were in fact operating large extents of paddy land under major irrigation schemes. One of them handed over 45 bushels of paddy while the other gave 150 bushels to the co-operative in lieu of debt. In *maha* 1980/81, only ten out of seventy nine farmers sold their produce to co-operatives; seven of them came from a major irrigated area. However, none of them had the intention of repaying institutional loans by handing over the produce to co-operatives.

Farmers prefer private outlets to co-operatives in marketing their paddy for various reasons. Out of ninety five farmers who gave reasons for this preference, twenty six stated that the private traders pay a higher price. During *yala* 1980, private traders paid prices ranging from Rs 38/- to Rs 54/- per bushel of paddy in the peak season and Rs 56/- to Rs 62/- in the lean season. Thus, the average seasonal price has varied from Rs 47/- to Rs 58/- per bushel. However, the then guaranteed price remained unchanged throughout the season at Rs 40/-. As against this, the average price offered by the private traders varied from Rs 55/- to Rs 63/- in *maha* 1980/81, whereas the Government Floor Price was Rs 52.50 per bushel.

Eighteen farmers complained that the co-operatives often rejected the paddy brought by them for want of storage facilities, gunnies, and money. Another twenty seven complained of shortweights and measures and the incomprehensible grading methods applied by the co-operative personnel. Thirteen farmers found delays involving two or three days in getting money for their paddy from the co-operatives. Eleven farmers stated that selling paddy to the co-operative is a time-consuming procedure. The implication of these responses is that the private traders, on the other hand, buy the entire stock, pay spot-cash, come even to the farm (or threshing floor), do not grade, and so on. Thus, inefficient institutional marketing system acts as an obstacle to achieve the level of credit disbursement and recovery envisaged under the KRDP (See section 3.3.3 for details about institutional aspect of credit - marketing integration).

### 3.3.Lenders' Side

This section deals with the progress of institutional lending for paddy cultivation and the problems specific to banks and allied institutions. Some of the problems with banks, from the view point of the borrowers, derive from the fact that the lending institutions are commercial banks. They have to adhere to banking principles, keep records of loan transactions, insist on securities, scrutinize loan applications before granting a loan, adhere to Government interest rate policies, and above all show a good recovery rate. These problems are often not appreciated by the farmers, especially small farmers, for want of awareness about the banking principles and policies.

Any effective loan scheme in Sri Lanka should however, ensure a high level of small farmer participation. In order to do so, their awareness in banking

procedures need be enhanced. This is no easy task. Whether the commercial banks are the ideal institutions to lend to small paddy farmers or not, and what the alternative forms of organisation suitable for this purpose might be questions that fall outside the scope of this study. Therefore, the analysis that follows is confined to the operational aspects of the banks in lending to paddy cultivators.

3.3.1.Statistics on Lending

Aggregate statistics on bank lending for paddy cultivation in the Kurunegala District are given in Table 17.

Table 17: Lending for Paddy Cultivation by the People's Bank and the Bank of Ceylon as of 31.3.81

People's Bank[a]

| Time period | No. of loans | Amount granted (Rs) | Amount recovered (Rs) | Recovery rate (%) |
|---|---|---|---|---|
| From 1.1.79 to 31.10.80 | | 2612671 | 1623638 | 62 |
| From 1.11.80 to 31.3.81 | 2229[b] | 1116530 | 356808 | 32 |

Bank of Ceylon

| Time period | Granted | | Recovered | | Recovery rate | |
|---|---|---|---|---|---|---|
| | No. of loans | Amount (Rs) | No. of loans | Amount (Rs) | No. of loans (%) | Amount (%) |
| Maha 1978/79 and Yala 1979 | 2765 | 3397830 | 1861 | 2534445 | 67 | 75 |
| Maha 1979/80 and Yala 1980 | 1375 | 2159398 | 980 | 1701984 | 71 | 79 |
| Maha 1980/81 | 1597 | 2773860 | 453 | 632792 | 28 | 23 |

NOTES a) Include loans given for subsidiary food crops too.
b) Number of loans is for the entire period under consideration.

In the case of the Bank of Ceylon, the statistics given in Table 17 show an improved rate of recovery in the crop year 1979/80, when compared with the pre-project situation. This has to be expected because only those with good previous repayment records are given loans under the project. Even the new applicants are compelled to repay or face the risk of legal action. Nevertheless, one cannot still be satisfied about the absolute rate of recovery

experienced so far under the project.* It is yet premature to comment on the recovery of loans given during *maha*1980/81. Moreover, as pointed out earlier, the relative improvement in the recovery rate has not accompanied an increased disbursement rate mainly as a consequence of tightening of the eligibility criteria. For example, there is a 50 percent reduction in the number of loans given for paddy cultivation by the Bank of Ceylon from 1978/79 crop year to 1979/80 crop year. Amount granted also records a 36 percent drop during this period.** Loans granted as well as the amounts recovered by the People's Bank are relatively lower than those of the Bank of Ceylon. This may be also due to the fact that some of the co-operative societies which earlier acted as the agents of the People's Bank became ineligible for further loans under the project.

The above analysis brings us to an important point. That is, the banks have not been able to reach a significant proportion of the paddy cultivators in the district. There are about 170,000 paddy farmers (estimated) in the entire district and catering to the need of all is no easy task. According to figures given in Table 3 in section 3.2.1, about 7 percent of these farmers operate paddy holdings less than ½ acre in extent. They are not entitled to paddy loans from the banks. Another 10 percent or so operate paddy holdings over 5 acres in extent. They usually do not have problems with regard to the bank loans. The findings of this study (section 3.2.2) also confirm that the farmers in this land size group obtain a high proportion of institutional loans for paddy cultivation.

Extrapolating the credit needs of the sample farmers to the district level as done in section 3.2.1, it is estimated that the total amount of credit required by the farmers in the land size class of ½ to 5 acres is Rs 117 million per year. If the banks are to provide at least 25 percent of this amount, they have to allocate about Rs 30 million per annum. The KRDP has, of course allocated an amount ranging from Rs 7.5 million for 1979 to Rs 28.5 million for 1983. However, the question is not merely one of inadequate allocation of

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* Figures available at the Project Office suggest that only 58.8 percent and 62 percent of the amount granted by the People's Bank and the Bank of Ceylon respectively (from 1979 to *maha* 1980/81) have been recovered so far.

** Latest figures supplied by the Bank of Ceylon indicate that as against Rs 10.6 million from 1974 to 1978, Rs 7.3 million have been granted from 1979 to May 1981.

credit; the more discouraging aspect is the relatively low participation by the farmers in the land size class of ½ to 5 acres, in the paddy loan scheme, although they are in the majority. The plausible reasons for this situation from the viewpoint of the farmers were discussed in sections from 3.2.3 through to 3.2.6. The next two sections will concentrate on why the banks and allied institutions have failed to enlist a better participation of small farmers in the paddy loan scheme.

3.3.2. Lending Mechanism and Procedures

The delivery mechanism of credit for paddy cultivation has not changed much. As in the pre-project era, People's Bank operates the paddy loan scheme through the co-operative societies. Where the societies have not been able to maintain at least 20 percent recovery rate, the People's Bank directly lends money to the paddy farmers. Bank of Ceylon, as it did earlier, continues to lend direct to the farmers.

Loan application procedures are still cumbersome, especially those of the co-operatives and the People's Bank. The Bank of Ceylon, however, uses a set of simple application forms. The use of a simple standard form, as expected under the Project, would definitely help both the farmers and the bank officials. But steps have not yet been taken to simplify the paperwork involved in making an application to the People's Bank for a loan. This itself may be an important reason why these institutions lag behind the Bank of Ceylon in lending activities.

No bank functionaries work at village level* to carry out the credit extention activities, i.e. to inform the farmers about the lending schemes and procedures, to help the farmers in paper work, and to work as agents between the farmers and the banks. Consequently, the banks have no way of knowing in advance the credit needs of farmers in a particular cultivation season. The Banks have to wait till the farmers come and ask for loans because it is impossible, under the present circumstances to prepare an advance programme of lending. Having a cadre of banks' own officials at village level may not be feasible from the banks' point of view because the administrative cost of paddy loans is already in excess of the income from interest, and the risk of default is high.

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*The Bank of Ceylon, however, has set up a special unit for supervision of agricultural credit at the District Office, and field officers are deployed in the field level supervision activities. The Bank is also currently *considering* the appointment of Development Assistants with adequate technical knowledge to monitor and supervise agricultural lending.

At present, the Cultivation Officers do an appreciable service as agents between the farmers and the banks, in addition to numerous other duties. In this way, acting as an intermediary between the farmers and the banks, the Cultivation Officers quite often take upon themselves the responsibility of going through most of the phases of the loan procedure on behalf of the farmers. At times this is at the expense of their other legitimate duties. Another unhappy situation is that quite a number of Cultivation Officers themselves are not well versed in the procedural requirements of the banks. This causes delays in processing the application forms and releasing the loans.

### 3.3.3. Linkage between Credit and other Allied Institutions

The success of a viable loan scheme for paddy cultivation also depends on its degree of integration particularly with agricultural insurance, input supply, and produce marketing. At present the banks do not have any control over the latter functions, and therefore, can only lend money and recover them depending solely on the honesty and integrity of the borrowers. Unless and until the situation with regard to the above mentioned factors is improved to the extent that they all become components of one package the *status-quo* will continue to remain.

*a) Crop Insurance*

Although the crop insurance is intended to act as a collateral for credit, it fails to elicit the expected response at times. In the eventuality of damage to the crop the repayment of bank loans is held up on grounds of crop failure. The Agricultural Insurance Board decides on an indemnity payment which depends on the extent of damage. That is invariably insufficient to cover the loans taken by the farmer. The farmer however, expects the Agricultural Insurance Board to repay the loan direct to the bank.

The Agricultural Insurance Board has its own causes for the delays in the payment of indemnities and the very low rates of indemnities in certain cases. Firstly, the paddy fields have to be insured and the crop damages have to be reported on specific dates laid down by the Board. Most farmers do not comply with these specifications. Secondly, the Board's branch office at Kurunegala does not have a permanent field staff to carry out extension functions effectively at local and regional levels. The office has only five officers to assess damages in the entire district. Thirdly, the Board normally does not pay indemnities for damages below 20 percent. Fourthly, tenant farmers are entitled to claim for only up to 75 percent of the damage.

In the entire Kurunegala district, 2336 acres have been insured by 1784 farmers in *yala* 1980. This shows a reduction of 45 percent in acreage and 58 percent in the number of farmers when compared with the corresponding figures for *yala* 1979. The premia collected in *yala* 1980 amounted to Rs 103,000/- representing a reduction of 28 percent of that in *yala* 1979. Crop damages for *yala* 1980 had not been indemnified for lack of funds even by the end of 1980. The lesser participation of farmers in the scheme and the indemnity payments outweighing the premia collected have resulted in the Board's failure to build up sufficient funds.

This brings us to three important conclusions. Firstly, a planned drive to educate the farmers on the mechanisms and the allied benefits of crop insurance scheme is essential. Secondly, a proper assessment of crop damages and the prompt payment of indemnities will tend to enhance the degree of farmer participation. Finally, an adequate and well trained field level staff and a strong insurance fund are important prerequisites to the success of the crop insurance scheme, particularly so if it is to serve as an effective collateral for agricultural credit.

*b) Input Supply*

When certain credit items (seed, fertilizer, agrochemicals) are issued by the banks through pay orders, the borrowers have to get the required inputs from the co-operative, Agrarian Service Centre or an authorised dealer. Though many farmers agree that there is no general shortage of agrochemicals, at times they face problems in finding fertilizer and seed material. Managers of several bank branches have been flexible enough to release the loans in cash in such instances, enabling the farmers to buy the inputs from other areas. There are also complaints about inputs from co-operatives and Agrarian Services Centres finding their way to the private merchants.

The timely supply of inputs is a multi-faceted problem. For example, when fertilizer issued on credit is not available with the co-operatives at the required time, the farmers borrow some fertilizer from their neighbour farmers or from traders. This is paid back either in kind once they get the fertilizer from the co-operatives or in cash after selling the fertilizer. Some would treat this as a "misuse" of credit and argue for field-level supervision of credit use, overlooking the deficiencies of the input supply mechanism.

Evaluation of input supply under the Project would form a separate study in itself, and we do not propose to discuss this aspect further. But, it suffices to mention here that without correcting the mistakes in the input supply system, the Project would not be able to achieve its objective of increasing paddy output through providing institutional credit.

*c) Produce Marketing*

A serious snag in the earlier credit schemes, which is found in the Project too, is the absence of a strategy to link institutional credit with marketing functions. For want of compulsory sales regulations compelling the farmers to sell their paddy to the Paddy Marketing Board (PMB) through the co-operatives, recovery of co-operative credit has become difficult.

How the Bank loans are recovered is a question even more difficult to answer. The banks have to rely solely on the credibility of the borrowers. However, there is no guarantee that the farmers will settle their debts after selling the produce. If the borrowers do not repay loans in time, the banks have to treat the loans as overdue and take legal action against the defaulters - a time consuming and expensive process. The ideal situation would have been to recover the loans at the purchasing centres of the PMB (co-operative or private agents) under a compulsory sales scheme. But such a recovery mechanism has been impossible for two main reasons. Firstly, farmers can now sell their paddy to private traders at a higher price than that offered by the co-operatives under the Floor Price Scheme. Secondly, even at times when private traders pay a lower price than the Floor Price they prefer private outlets due to various drawbacks at the co-operative paddy purchasing points (see Section 3.2.6).

From the entire Kurunegala district, the PMB has been able to collect only 1074 bushels of paddy in *yala* 1980. In *yala* seasons in the years of 1977, 1978 and 1979, the collections were 584969, 387140, and 18006 bushels respectively. This drastic decrease further substantiates the farm-level situation with regard to institutional marketing of paddy. The situation warrants serious attention for two reasons. Firstly, the Government has invested large sums of money on establishing stores and milling complexes of the PMB which also entails a heavy administrative cost. Secondly, as far as the rural Development Project is concerned, it is expected to evolve a viable credit scheme for paddy cultivation in which not only credit disbursement but also the recovery are supposed to function at a very efficient level. This

study is concerned mostly with the latter aspect. Thus, a proper and workable tie-up between institutional lending for paddy cultivation and marketing of paddy produce need to be established.

3.3.4.Servicing the Small Farmer

One of the important objectives of the KRDP is to evolve an effective credit programme in order to assist the maximum possible number of small farmers. It seems difficult for the banks to reach such a large number of small farmers (an estimated number of 140,000 farmers operating ½ to 5 acres of paddy land), especially to the extent that farmers remain unorganised and apply for loans individually. Banks have only been able to provide credit for less than 3 percent of the paddy farmers of ½ - 5 acre land size class in recent seasons. Therefore, the significance of small scale farmer groups which collectively organise not only loan transactions but also other activities relating to production and marketing of crops, cannot be overemphasized.

A system of group farming is now being tried out in the Galgamuwa ASC area, by setting up "small farmer organisations" under the auspices of the FAO and ARTI. A case study of the 6 small farmer organisations in Usgala C.O. area is presented below to provide insights into the possible advantages of such a group approach in getting farmer participation in credit schemes.

Of the 325 farmers in the Usgala colony, about 85 percent had taken loans from the co-operatives before 1979 some of whom had ended up as defaulters. However, the sponsors of the "farmer organisations" have been able to work-out a credit scheme with the help of the Bank of Ceylon, to lend to those farmers who have not been able to repay the overdue amounts. Under the new scheme, they were issued with in kind components of the loans and were expected to repay even the earlier overdue amounts gradually. About 40 of such farmers borrowed during *maha* 1980/81 and almost all have repaid these loans. They are also now in the process of repaying the overdue amounts.

About another 60 farmers in the colony have obtained loans individually from the Bank of Ceylon and from the People's Bank. All but 2 have repaid these loans. Most farmers are now reluctant to borrow from private sources since they charge a very high interest; two bushels of paddy as interest on every Rs 100/- borrowed, per season.

In addition to working-out a credit scheme, these organisations have been able to get most of the inputs, i.e. seed paddy, fertilizer, and chemicals issued by the Galgamuwa ASC, and distribute them among the member-farmers in

time, during *maha* 1980/81. Subsidies worth of Rs 30,000/- have been distributed among the coconut growers in the area, with the support of the Coconut Development Officer. The meetings of the Organisations are attended to by all the officials of the Departments concerned with agricultural development. Each Department has an officer nominated to handle the duties relating to farmer organisations. The meetings are used as a forum to discuss the farmer problems with the officials.

However, any attempt to replicate the Usgala model of small farmer organisations seems to offer a number of problems. Usgala appears to have received all the necessary attention from the sponsors mentioned above and the local officials, being the first 6 effective farmer organisations in the area. Attempts to set up and develop several other groups in the same ASC area have not met with the same degree of success. It is likely that even the organisations at Usgala could have been more or less failures, if they did not succeed in sustaining the interests of the members by resolving a substantial portion of current problems in their particular farming environments and in mitigating the possible influence of middlemen (traders and money lenders). The success also depended very much on the extent to which the organisations could approach the public institutions which supply credit, inputs, extension services, marketing, and so on.*

Another problem that may arise in an attempt to duplicate the "Usgala model" is the fact that particular farming conditions at Usgala which facilitate group farming cannot be found in all the parts of the Kurunegala District. Usgala comes under a major irrigation scheme. All farmers operate 3 acres or more of paddy land. They have easy access to the banks and their repayment capacity too is at a higher level, the reverse of which is the case for farmers having smaller holdings worked under rainfed conditions or minor tanks.

Institutional credit schemes for paddy cultivation in Sri Lanka should ideally be a component of a package deal which has some arrangement to ensure the creditworthiness of farmers against such stumbling blocks as the non-viable size of the paddy holding and the absence of an assured water supply. The fact that those who are favourably placed with regard to land and water resources

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*However, one leader of a small farmer organisation at Usgala stated that he had to visit the Bank of Ceylon, Galgamuwa 30 times to get loans approved for 8 member farmers belonging to his organisation. This was also a result of the indifference expressed by the former manager of the Bank, whose attitudes were not favourable towards a group farming approach. Also, the leader had difficulties in getting inputs from co-operatives for the cheques issued by the Bank of Ceylon.

also have easy access to bank credit is amply demonstrated by the findings of this study. Under a stringent criteria for lending, either a simplification of loan application forms or a better integration of credit with other relevant aspects, and even group farming, will not be of much help in winning over more small farmers into the institutional credit schemes unless and until their basic problems, particularly with regard to land and water are looked after. However, they do not fall within the purview of the Kurunegala Rural Development Project and better be dealt with at macro level.

## CHAPTER 4

## LOANS FOR OTHER FIELD CROPS

Provisions have been made under the project to grant short-term loans for the cultivation of subsidiary food crops such as chillies, cowpea, green gram, groundnut, onions etc., up to 5 acres of land in extent. The procedure and interest rates are the same as those applicable to paddy cultivation loans. Both these loans are known in banking circles as "cultivation loans." It is often difficult to obtain separate statistics on loans for other field crops. However, the figures supplied by the Bank of Ceylon will to a certain extent explain the situation with regard to these loans (Table 18).

Table 18: Lending for Other Field Crops by the Bank of Ceylon - 1977-80

| Year | Amount granted (Rs) | Amount Recovered (Rs) | Outstanding amount (Rs) | Recovery as a percentage of amount granted |
|---|---|---|---|---|
| 1977 | 756,538 | 413,722 | 342,816 | 54 |
| 1978 | 441,813 | 177,099 | 270,714 | 31 |
| 1979 | 116,351 | 73,035 | 43,316 | 63 |
| 1980 | 441,911 | 61,300 | 380,611 | 13 |

The statistics in Table 18 show a reduction of credit disbursements for other field crops in 1979 when compared with the situation in the pre-project period. As in the case of paddy loans, this was mainly due to the restrictions imposed on eligibility conditions. However, a relatively better recovery rate too is registered (in the year of 1979) suggesting that the majority of the borrowers had the repaying capacity. In 1980, the disbursements increased again; but only 13 percent of the amount granted had been recovered by May 1981.

Some farms given to the cultivation of other field crops are encroached crown lands. Therefore, operators of such land are faced with the initial difficulty of becoming qualified to apply for bank loans. The largest proportion of such farms is located in the dry zone areas of the district and are rainfed. The majority of farmers borrowing from the banks at present grow these other field crops on highland which they own or have obtained under leasehold arrangements.

Many of these other field crop growers go to the private traders, professional money lenders, and friends and relations, for loans. *Chena* crops such as cowpea, green gram, onions, and groundnuts are mostly grown in the *maha* season.

Chillies and gingelly are grown during the *yala* season. The *yala* crop is usually harvested immediately before the *maha* paddy cultivation. Loans obtained from the private sector are repaid with the harvest. Some farmers are able to finance the *maha* paddy cultivation with the proceeds of the sale of these other crops. As in the case of paddy loans, here too the private sector dominates.

The market for these crops, especially subsidiary food crops is almost exclusively in the hands of the private trader. Public sector organisations like the Paddy Marketing Board and the Marketing Department have the necessary wherewithal to purchase this produce but are often bypassed by the farmers in preference to the private traders not necessarily for the higher prices they pay but for the convenience of the transaction. The need to settle the loans too counts. According to our observations, private traders pay a lower price than the Floor Price, especially during the peak harvesting season and in some instances, traders are able to convince the farmers that the Floor Price is a sort of "controlled price" stipulated by the Government. In most remote villages, the farmers were completely unaware of a "Floor Price Scheme." However, the cultivators are generally satisfied with the services offered by the private traders, including the price paid by them, and quite naturally look to them for loans even at a higher interest.

Even the cultivators who borrow from the banks for other field crops market their produce through private traders, leaving the banks with no other alternative but to rely on the credibility of borrowers for loan recoveries, since the activities of the banks, as the lending institutions, have no bearing on the function of marketing these crops by the state institutions.

## CHAPTER 5

## LOANS FOR COCONUT FERTILIZER

The loan scheme for coconut fertilizer can be regarded as an important loan scheme which came into operation just prior to the implementation of the Kurunegala Rural Development Project and gathered momentum with the implementation of this project.

Under the scheme, loans are given by the banks in pay orders to obtain coconut fertilizer from the Government fertilizer stores. 640 pounds of fertilizer are issued for an acre of coconut in accordance with the requirement of 10 lbs. of fertilizer per tree. Loans are available for extents ranging from ½ an acre to 50 acres. Loans should be repaid within a period of five years, and a 2 year grace period is allowed. The interest is 9½% per annum. Borrowers have to furnish two securities usually in the form of two income tax payers or two persons earning a basic salary of at least Rs 520/- per month.

The project envisages to support the fertilizing of about 50,000 acres of coconut within the project period by providing loans worth Rs 40.5 million. In fact loan operations by the banks in this regard started in January 1980, and up to 30th June 1981, the People's Bank and the Bank of Ceylon have lent about Rs 5 million, covering about 20,000 acres of coconut. This is a substantial achievement during the first one and a half year of operation. The scheme has undoubtedly enhanced the use of fertilizer in the coconut lands which have hitherto been poorly fertilized due to the constraints imposed by lack of capital as well as fertilizer. However, the real test of performance lies in the increase in productivity and total production of coconut in the district and in the extent to which the loan recoveries are made and the ability of the scheme to sustain the present disbursement rate. We cannot forecast the results of such tests at this stage since it will take another one or two years for the scheme to have some impact on productivity, and a five year period for the recoveries of at least the first series of loans to be completed. Thus, our intention here is only to point-out certain operational features of the scheme which need attention in the short-run.

Since the loan scheme is relatively new, the coconut cultivators have to be made aware of the scheme. This itself involves certain amount of extension work. As in the case of paddy loans, the Cultivation Officers perform this task at present. But there are instances where the Cultivation Officers

themselves are not conversant with the procedural and other requirements involved in the application process, creating stumbling blocks between the borrowers and bank officials. Banks too have at times developed an indifferent attitude towards Cultivation Officers and coconut growers.

A case in point is the experience of the Dunakadeniya Cultivation Officer area in Udubaddawa ASC area. Of the large number of coconut cultivators in the area, only a few were aware of the fertilizer loan scheme. The Cultivation Officer (CO) and the Divisional Officer (DO) organised a meeting in September 1979, where the coconut cultivators and the Bank Officials were to participate, to let the cultivators know more of the loan scheme and to encourage them to take advantage of the scheme. The CO and the DO experienced great difficulties in getting down the Bank Officials. However, after the meeting, 47 cultivators in this CO area applied for fertilizer loans. Several visits made to the Bank to get the pay orders were of no avail and even the intervention of the Member of Parliament proved unfruitful. It was only after the bureaucratic wheels in Colombo were set in motion that the cultivators got the pay orders from the Bank. This may be an exceptional case, but it reflects the extent of the hardships which the small farmers have to encounter.

Since the coconut cultivation is thriving in the wet parts of the district, much of the lending activities for coconut fertilizer has concentrated in the wet and semiwet areas such as Narammala, Giriulla, Kuliyapitiya, Ibbagamuwa, etc. Bank managers of these areas confirmed the predominance of the small holders operating 2-3 acres of coconut land among borrowers. Earlier surveys have found that the average size of coconut holdings in the wet parts of the district is about 3 acres while in the dry areas it is about 2 acres (Hussain, *et.al.*, 1978; Gunawardana, *et.al* 1981), making it logical to deduce that the cultivators in dry areas too would make use of the coconut fertilizer scheme.

Nevertheless, according to the records of the banks, none of the coconut growers in the dry areas such as Galgamuwa, Maho, and Melsiripura has obtained bank loans for coconut fertilizer. A plausible explanation is provided by the rainfall pattern in the area. Greatest part of rainfall is in *maha* season, when farmers concentrate exclusively on paddy and *chena* cultivation thus invariably neglecting the coconut holdings. During the rest of the year, fertilizer application is meaningless. Also, fertilizer stores are located in the southern wet zone areas, i.e. Kurunegala, Kuliyapitiya, Katugampola, and Bingiriya, from where the transport of fertilizer will definitely be a costly operation for small holders in the dry areas. The Agrarian Service Centre or the co-operative store, may be a more convenient place.

Even in the wet zone areas, the cultivators working on holdings of ½ to 1 acre have not been benefited by the loan scheme. Such small holders are traditionally less concerned with the use of fertilizer. A mere existence of a loan scheme would not motivate such people to fertilize their coconut stands. What will be needed is a comprehensive development plan with regard to these very small holdings on the basis of a Home Garden Development Programme. These aspects, however, are beyond the scope of this study.

## CHAPTER 6

## LOANS FOR TRACTORS

The Rural Development Project also provides credit facilities to finance medium-term loans for the purchase of about 200 four-wheel tractors and 500 two-wheel tractors during the project period, for the use of farmers in the project area. The loans with an annual interest rate of 14 percent are repayable over a maximum of five years with bi-anhual instalments. A down payment of 10-20 percent of the value of the tractors is required. In addition to the guarantee of any two persons acceptable to the banks (mostly two income tax payers), a lien is taken on the tractor. Applications for tractor loans are approved only at the District offices.

During the first two and a quarter years of operation the two banks have loaned a substantial amount of money for the purchase of tractors. As of 30th June 1981, both banks have lent over Rs 11 million for four-wheel tractors alone, and about Rs 8 million for two-wheel tractors. Roughly about 150 four-wheel tractors and 400 two-wheel tractors have been sold under the loan scheme, up to 30th June 1981. Thus, about Rs 19 million have been lent on tractors alone, representing about 65 percent of total agricultural lending under the Project during the first two years of operation. Moreover, the lending for tractors in these years has exceeded even the total amount allocated for farm machinery and equipment including sprayers. However, the Steering Committee of the Project decided in January 1981, to suspend the loan scheme for four-wheel tractors. At the current rate of lending even the money allocated for two-wheelers would be over by the end of 1981.

The impact of concessionary credit facilities for four-wheel tractors is controversial as far as their broader effects on employment, income distribution, wealth concentration, and contribution to agricultural productivity are concerned. This study is not preoccupied with such aspects. Nevertheless, studies carried out elsewhere in Sri Lanka* suggest that the tractors are underutilized to a great extent and adding new stocks results in (a) reducing employment opportunities for poor groups in the countryside, (b) the concentration of wealth and social power with a few already rich people in the localities concerned, (c) widening income disparities, (d) and above all having little or no direct positive impact on agricultural productivity.

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* For example, various reports published by the Research Team of ARTI/Reading University on Farm Power and Water Use in the Dry Zone.

According to our observations in the Kurunegala District, most four-wheel tractors sold under the loan scheme have been acquired either by large farmers-cum-businessmen or full-time businessmen. Non-availability of funds to make the down payment has eliminated the average farmer from this venture. Purchase of four-wheel tractors can be treated as investment in agricultural machinery, but cannot be treated as a direct investment in agricultural development *per se*. Although the project envisaged that the four-wheel tractors would be used in agricultural operations within the project area itself this has not happened in practice. Most of the new four-wheelers sold under the loan scheme are utilized for haulage purposes (not necessarily to transport agricultural produce but to transport building materials). If in farming, it is mostly for threshing paddy. Most tractor owners are now reluctant to put their tractors into ploughing. All in all, the loan scheme for four-wheel tractors has helped neither to overcome the seasonal scarcity of tractors in some areas of the district nor to develop the farming conditions in the project area.

Even the two-wheel tractors sold under the loan scheme have been snatched up by large farmers and businessmen. However, they make a more direct contribution to agriculture. It was observed that the two-wheelers are used mostly for ploughing paddy land and the transport of agricultural produce. These tractors have been sold mostly in wet parts of the district where more smaller farms are located. Even the smallest paddy plots can be ploughed with two-wheel tractors, provided the farmer can afford the charges.

However, farmers have to rely on either buffaloes or four-wheel tractors for threshing of paddy. Since the loan scheme for two-wheel tractors will also come to an end by the fall of 1981 or so, it is worthwhile exploring the possibilities for implementing a loan scheme for the purchase of buffaloes (or improved neat cattle). Such a scheme will help the small farmer even in a long term perspective, since faced with the severe fuel crisis and increasing costs of tractor charges, animal power is going to be the best possible alternative for the small farmer in his draught power needs.

## CHAPTER 7

## LOANS FOR SPRAYERS AND WATER PUMPS

Provisions have been made under the project to finance medium-term loans for about 1000 hand sprayers. Terms and conditions are the same as those applicable to tractor loans. The Agricultural Development Authority co-ordinates the issue of sprayer loans with the help of the Cultivation Officers and the officials of the banks. At the time of our investigation the total cost of a sprayer ranged from Rs 750/- to Rs 1150/-, depending on the make.

Since the farmers face difficulties in getting sprayers on hire they would welcome such a loan scheme. However, many farmers were unaware of this loan scheme. In some areas, the Agricultural Development Authority has not been able to make available the necessary application forms. Still some Cultivation Officers and farmers complained of misallocation of sprayer loans on political and personal considerations on the part of the officials concerned and the prospective borrowers.

Despite these snags the Bank of Ceylon was able to lend about Rs 60000/- for about 55 sprayers up to 30th June 1981. The People's Bank has however, been able to lend only Rs 11484/- for 11 sprayers upto the same date.

Although a loan scheme for water pumps was not envisaged at project appraisal, medium-term loans for water pumps are now being given by the banks. However, these lending activities do not come under agricultural credit activities of the Project. But, since the problems of water supply for farming are acute in most parts of the district, the importance of including loan arrangements for water pumps in the Project's lending activities under the item of "farm equipment" cannot be overemphasised.

At present the banks provide loan facilities for the purchase of water pumps on the same conditions applicable to sprayer loans. The maximum amount of credit per water pump is Rs 4,500/-, which varies depending on the individual farmers' requirements. As in the case of sprayer loans, issue of loans for water pumps too is co-ordinated by the Agricultural Development Authority (ADA).

Given the problems in farm-water supply in several areas in the district, many farmers express willingness to buy water pumps under the scheme. Even *chena* cultivators growing subsidiary food crops on encroached land would benefit from such a scheme. However, this scheme also has various problems

similar to those of the loan scheme for sprayers. The relative lack of awareness among the farmers of the loan scheme and its procedures, difficulty in finding income-tax payers to stand as guarantors, delays in processing of applications and issuing the equipment, and irregularities on the part of officials are some of the pressing problems that need attention.

# CHAPTER 8

## CONCLUSIONS AND POLICY IMPLICATIONS

### 8.1.Summary

According to available statistics, the seasonal disbursement of paddy cultivation loans under the project has so far been lower than that in the pre-project era. At the same time, the figures suggest a better recovery rate emanating from the limits imposed on eligibility conditions. Now, most of those borrowing from the banks seem to be really creditworghy and having the necessary repayment capacity, unless drastic crop failures occur. Since the Project aims at a viable credit scheme, this indeed is a healthy sigh. However, the decline in the disbursement rate is not compatible with another desired objective of the project : increased small farmer participation in the loan scheme.

Some of the small farmers, especially the farmers in rainfed and minor irrigated areas, run into risks in cultivation and they find it difficult to repay the loans. Fear of being prosecuted in case of default, failure to meet with the basic requirements laid down for loan applications, and the incidental expenses involved in the process of getting the loan make many small farmers reticent about a bank loan. Formalities and cumbersome procedures have dampened the interests of the farmers, making them look to private sources for easy loans. The People's Bank has not yet simplified its application forms.

The project does not propose to improve the agricultural insurance scheme, and the aspects of marketing of agricultural produce, which are in fact integral parts of the institutional lending. However, only a small fraction of farmers insure their paddy fields at present. Even in such cases payment of indemnities are held up, at times due to acts of misdemeanour on the part of officials. The majority of the farmers look upon the Agricultural Insurance Scheme as an additional burden imposed on them and it has not thus effectively functioned as a collateral for credit. There is no strong insurance fund at the Agricultural Insurance Board level, and the indemnities paid in recent years have exceeded the premia collected. Inadequacy of field level staff is also a problem.

The speedy recovery of loans would have been better ensured, had there been a comprehensive savings drive intended more towards this purpose. Recovery of

loans has also become difficult due to the fact that the loan scheme has been drawn up in complete isolation of the marketing aspects which now concentrate on the hands of private traders. In the eyes of the farmers, the Agro-Identity Card has served no better purpose than merely that of an identity document.

Co-operative societies still function as institutional credit sources, especially to the farmers in the villages far away from the main townships. Nevertheless, the co-operatives' gradual withdrawal from the functions of agricultural development has resulted in less and less numbers of farmers becoming members of the co-operatives. This may be another setback for the small farmer participation in institutional loan scheme for paddy cultivation. Input supply and agricultural extension are supposed to have been improved substantially through Project activities. However, at present there are problems with regard to both these aspects which make it difficult for the small farmers to get the required inputs in time and the correct extension advice.

The present bank credit ceilings for various stages of paddy cultivation are inadequate to cover the actual costs of such operations. Also, at present there is an unjustifiable difference between the credit ceilings for rainfed and irrigated areas, especially for land preparation and fertilizer.

There is a long felt need for a cadre of bank officials to function at grass roots level offering their services both to the farmers and the banks, specially in activities related to agricultural credit. Although the Cultivation Officers are not complete substitutes for such a cadre, they perform an appreciable role in this content. However, the banks have no way of knowing the credit needs of the farmers which make it difficult for them to prepare a lending programme well in advance of the cultivation season.

In the absence of a proper arrangement to service the farmers working on paddy fields of ½ - 5 acres in extent, the majority of them are deprived of the benefits of bank credit while those operating larger holdings have easy access to banks, thus negating the very objective of such a loan scheme meant to serve the smaller farmers.

The above problems are common to the loan scheme for other field crops, i.e. subsidiary food crops too. The coconut fertilizer loan scheme however, seems to have recorded a substantial achievement during the first year of operation. The credit disbursement has been extensive in the wet parts of the district, the major coconut growing area. Non-availability of coconut fertilizer within convenient distances poses a problem for the cultivators in the dry areas.

The loan scheme designed for tractors has been successful in terms of the target fulfilment, but has not had the desired impact on agricultural development. Most of the four-wheel tractors had gone into the hands of non-agricultural entrepreneurs; and the tractors have been used mostly for haulage purposes. Thus, the steering committee of the project decided to suspend the loan scheme for four-wheelers in January 1981. However, both four-wheel and two-wheel tractors alone took about 65 percent of the total value of credit disbursed under the project during the first two years of operation. Thus, it is apparent that the banks have been more concerned with less-risky, easy-to-manage, and less-costly credit operations.

Loan schemes for sprayers and water pumps which even the small farmers would have readily joined have fallen far below the expectations. Many farmers are not simply aware of these loan schemes. There have been instances of misallocation and preferential treatment in the issue of this equipment.

Recovery of loans on coconut fertilizer, tractors, sprayers, and water pumps should not pose serious difficulties, unlike in the case of short-term loans for paddy and other field crops. However, even an interim judgement on recovery of such loans is premature at this stage since it takes another two or three years to complete the recovery process.

8.2. Recommendations

*a) Recovery of Overdue Loans*

i. The present drive to recover the overdue loans has to be continued so as to foster credit discipline among the farmers. However, all the defaulters should be allowed to repay the amount of borrowed capital plus the initially stipulated interest, in a number of instalments. After paying back such overdue amounts, they should be allowed to apply for fresh loans.

*b) Loans for Paddy and Other Field Crops*

i. A planned drive is needed to educate the farmers about the procedural requirements for bank loans. As a part of this, the mechanisms and the benefits associated with the Agricultural Insurance Scheme, Agro-Identity Cards, savings accounts, Co-operative membership, etc., should be made known to the farmers. An effective communication-cum-training programme in this context should yield better results. Although the People's Bank has already conducted some farmer training programmes in this regard, the Bank of Ceylon does not appear to have followed suit.

ii. The Agricultural Insurance Scheme as one component of a package offered to the farmers needs reorganisation for them to be convinced that insurance is an effective way for enhancing their creditworthiness. To win over more farmers to this scheme, proper assessment of crop damages and prompt payment of indemnities are indispensable for which a trained field level staff is required.

iii. A proper link-up between credit for paddy and other field crops and marketing of such crops is an important prerequisite in a successful recovery programme. For example, it should be made obligatory for the borrower to surrender a certain percentage of his produce to the Co-operative at the Government Floor Price, in order to cover a certain proportion of the loans taken from the institutions. This would be his first instalment of loan recovery. The balance of the loan, if any, could be repaid in about two instalments before the beginning of the next cultivation season.

iv. Making improvements to the existing system of input supplies and agricultural extension may be necessary so as to enable the cultivators of paddy and other field crops to use institutional credit in a most efficient manner.

v. The complex and intricate paper work involved in the loan procedures of the People's Bank and the co-operatives should give way to a simple application process. These institutions can look to the possibilities of standardizing their application form with that used by the Bank of Ceylon.

vi. If the appointment of a separate carde of bank officials at village level is considered a difficult and costly venture, the Cultivation Officers (CO) and their assistants should be given a proper training on loan application procedures and all extension work in relation to agricultural credit at village level. After such a training, the banks should also be able to obtain details of credit needs of each CO area well ahead of the cultivation season in order to prepare the lending programmes concerned.

vii. The present credit ceilings for paddy cultivation-both the total ceiling per acre and the ceilings for each operation - should be increased. Also, there is no rationale for maintaining different credit ceilings for land preparation and fertilizer application, between rainfed and irrigated areas. The present ceiling will have to be increased up to Rs 1800/-, if at least 75 percent of the current production costs in both rainfed and irrigated areas is to be covered. In allocating credit for operations such as land preparation, harvesting, and threshing, an allowance should be made for the expenses incurred on incidentials such as food and victuals given to hired labourers.

viii. A special organisational set up - preferably a group approach - to serve the small farmers in credit (and other production and marketing) matters deserves consideration. This can be a long-term objective of Integrated Rural Development Projects.

*c) Loans for Coconut Fertilizer*

More of the loan scheme and its benefits need be known both by the coconut cultivators and the Cultivation Officers. Efforts should also be taken to popularise fertilizer application on coconut lands in the dry areas of the district by making fertilizer readily available in these areas. In such eventuality there is scope for covering an acreage of about 20,000 in addition to the target of 50,000 acres set by the original project proposal.

*d) Loans for Farm Equipment and Machinery*

i. After completing the targets set for tractor loans, much more emphasis has to be placed on loans for sprayers and water pumps.

ii. Should there be a loan scheme for farm-draught power in future, it should explore the possibilities for implementing a loan scheme for the purchase of buffaloes or improved neat cattle. Proper and adequate facilities for breeding of these animals need to be established under the livestock development programme of the Project.

iii. As in the case of other loan schemes, the factor of awareness counts here too.

iv. In case of sprayers and water pumps, the repayment should be on small monthly instalment basis, instead of large bi-annual instalments.

v. Adequate care should be exercised to ensure a more reasonable distribution of sprayers and water pumps and to avoid unnecessary delays in releasing the equipments, once loans are approved by the banks.

APPENDIX 1: FARMERS INTERVIEWED FOR THE STUDY DURING JUNE, 1980 -MARCH 1981

| Serial No. | A.S.C. area | CO area | Village | Number of farmers Yala 1980 | Maha 1980/81 |
|---|---|---|---|---|---|
| **Semi-wet zone** | | | | | |
| 1 | Dambadeniya | Maravita | Maravita | 15 | 13 |
| 2. | Narammala | Medagoda | Minikukula | 15 | 15 |
| 3 | Rambadagalla | Delvita | Kitulwala | 15 | 13 |
| 4 | Kuliyapitiya | Haggamuwa | Pahala-Haggamuwa | 16 | 14 |
| 5 | Udubaddawa | Dunakadeniya | Kumbukgahamulla | 16 | 8 |
| 6 | Nathagane | Nathagane | Walpola | 15 | 12 |
| **Semi-dry zone** | | | | | |
| 7 | Bingiriya | Brahamanayagama | Oorapoththa | 15 | 12 |
| 8 | Tharana | Tharana | Udawela | 18 | 16 |
| 9 | Madahapola | Keralankadawala | Imihamínegama | 17 | 15 |
| 10 | Kobeigane | Amunukole | Thelahera | 15 | 14 |
| 11 | Nagollagama | Nagollagama | Moragollagama | 16 | 15 |
| 12 | Nikaweratiya | Nikaweratiya | Balagollagama | 16 | 15 |
| 13 | Monnekulama | Monnekulama | Mudaththawa | 15 | 14 |
| **Dry zone** | | | | | |
| 14 | Ambanpola | Ambanpola | Ambanpola | 15 | 16 |
| 15 | Galgamuwa | Usgala-Siyamba-langamuwa | Usgala | 18 | 15 |
| 16 | Mahananneriya | Mahananneriya | Mahananneriya | 14 | 10 |
| **Total No. of farmers** | | | | 251 | 217 |

APPENDIX 2: CLASSIFICATION OF SAMPLE FARMERS ACCORDING TO PADDY LAND HOLDING SIZE - YALA 1980 SURVEY

| Villages | Holding sizes (acres) | No. of farmers | | | | | |
|---|---|---|---|---|---|---|---|
| | | 0-0.5 | 0.5-1.0 | 1.0-2.0 | 2.0-5.0 | 5.0 & above | All size classes |
| **Semi-wet zone** | | | | | | | |
| Maravita | | 1 | 4 | 7 | 2 | 1 | 15 |
| Minikukula | | 1 | 6 | 4 | 4 | - | 15 |
| Kitulwala | | 2 | 2 | 8 | 2 | 1 | 15 |
| Pahala-Haggamuwa | | - | 2 | 6 | 8 | - | 16 |
| Kumbukgahamulla | | - | 2 | 4 | 1 | 1 | 8 |
| Walpola | | 3 | 2 | 5 | 3 | 2 | 15 |
| **Semi-dry zone** | | | | | | | |
| Oorapoththa | | 1 | 2 | 6 | 5 | 1 | 15 |
| Udawela | | 2 | 6 | 9 | 1 | - | 18 |
| Imihaminegama | | 5 | 4 | 3 | 5 | - | 17 |
| Thelahera | | 1 | 4 | 3 | 6 | 1 | 15 |
| Moragollagama | | - | 3 | 6 | 7 | - | 16 |
| Balagollagama | | - | 3 | 1 | 7 | 5 | 16 |
| Mudaththawa | | 1 | - | 2 | 6 | 6 | 15 |
| **Dry zone** | | | | | | | |
| Ambanpola | | 1 | - | 4 | 8 | 2 | 15 |
| Usgala | | - | - | - | 18 | - | 18 |
| Mahananneriya | | - | 1 | 1 | 7 | 5 | 14 |
| All villages | | 18 | 41 | 69 | 90 | 25 | 243 |
| % of total | | 7.4 | 16.9 | 28.4 | 37.0 | 10.3 | 100.0 |

APPENDIX 3: CLASSIFICATION OF SAMPLE FARMERS ACCORDING TO PADDY LAND HOLDING SIZE - MAHA 1980/81 SURVEY

| Villages | Holding sizes (acres) | No. of farmers | | | | | |
|---|---|---|---|---|---|---|---|
| | | 0-0.5 | 0.5-1.0 | 1.0-2.0 | 2.0-5.0 | 5.0 & above | All size classes |
| **Semi-wet zone** | | | | | | | |
| Maravita | | 3 | 3 | 6 | 1 | - | 13 |
| Minikukula | | 1 | 8 | 4 | 2 | - | 15 |
| Kitulwala | | 2 | 5 | 4 | 2 | - | 13 |
| Pahala-Haggamuwa | | - | 1 | 9 | 4 | - | 14 |
| Kumbukgahamulla | | - | - | 7 | - | 1 | 8 |
| Walpola | | - | 1 | 9 | 1 | 1 | 12 |
| **Semi-dry zone** | | | | | | | |
| Oorapoththa | | - | 2 | 5 | 5 | - | 12 |
| Udawela | | 2 | 4 | 8 | 2 | - | 16 |
| Imihaminegama | | 1 | 7 | 6 | 1 | - | 15 |
| Thelahera | | - | 2 | 4 | 8 | - | 14 |
| Moragollagama | | 1 | 1 | 4 | 9 | - | 15 |
| Balagollagama | | - | 1 | 3 | 7 | 4 | 15 |
| Mudaththawa | | - | 2 | 1 | 7 | 4 | 14 |
| **Dry zone** | | | | | | | |
| Ambanpola | | 1 | 1 | 4 | 8 | 2 | 16 |
| Usgala | | - | - | - | 15 | - | 15 |
| Mahananneriya | | - | 1 | 3 | 2 | 4 | 10 |
| All villages | | 11 | 39 | 77 | 74 | 16 | 217 |
| % of total | | 5.1 | 18.0 | 35.5 | 34.1 | 7.3 | 100.0 |

APPENDIX 4: OFFICIALS AND PRIVATE TRADERS INTERVIEWED DURING JUNE, 1980 - MAY 1981

a) Bank Officials

i. Regional Manager and the staff, Regional Office, People's Bank, Kurunegala
ii. District Manager and the staff, District Office, Bank of Ceylon, Kurunegala
iii. Manager, People's Bank, Narammala
iv. Manager, People's Bank, Kuliyapitiya
v. Manager, People's Bank, Galgamuwa
vi. Manager, Bank of Ceylon, Kuliyapitiya
vii. Manager, Bank of Ceylon - ASC branch, Wariyapola
viii. Manager, Bank of Ceylon, Bingiriya
ix. Manager, Bank of Ceylon, Pannala

b) Co-operative Officials (Credit and Marketing Managers)

i. Kobeigane Multipurpose Co-operative Society
ii. Nikaweratiya Multipurpose Co-operative Society
iii. Galgamuwa Multipurpose Co-operative Society
iv. Dambadeniya Multipurpose Co-operative Society

c) Cultivation Officers

i. Maravita
ii. Medagoda
iii. Delvita
iv. Dunakadeniya
v. Nathagane
vi. Brahamanayagama
vii. Keralankadawala
viii. Amunukole
ix. Nagollagama
x. Nikaweratiya
xi. Monnekulama
xii. Ambanpola
xiii. Usgala-Siyambalangamuwa
xiv. Mahananneriya
xv. Pannala

d) Other Officials

i. Project Director and staff, Office of the Rural Development Project, Kurunegala
ii. Agricultural Officers, Assistant Director's Office, Department of Agriculture, Kurunegala
iii. Extension Officer, Department of Minor Export Crops, Kurunegala
iv. Electoral Manager, Agricultural Development Authority, Wariyapola
v. Coconut Development Officers, Dambadeniya and Galgamuwa
vi. Assistant Commissioner, Department of Agrarian Services, Kurunegala
vii. Assistant Director, Agricultural Insurance Board, Kurunegala
viii. Regional Manager, Paddy Marketing Board, Kurunegala

e) Private Traders

| | CO area | Village/Town | Number of traders | Commodities traded |
|---|---|---|---|---|
| i. | Delvita | Delvita | 1 | Paddy & coconut |
| ii. | Keralankadawala | Polgahangoda | 1 | Paddy & subsidiary food crops |
| iii. | Nathagane | Walpola-Bamunakotuwa | 1 | Coconut |
| iv. | Ambanpola | Ambanpola | 3 | Paddy & subsidiary food crops |
| v. | Mahananneriya | Mahananneriya | 2 | Subsidiary food crops |
| vi. | Tharana | Udawela | 1 | Coconut |
| vii. | Brahamanayagama | Oorapoththa | 2 | Paddy & coconut |
| viii. | Dunakadeniya | Kumbukgahamulla | 2 | Coconut |
| ix. | Maravita | Muthugala-Dambadeniya | 3 | Coconut & paddy |
| x. | Medagoda | Minikukula | 1 | Paddy & coconut |
| Total Number of private traders | | | 17 | |

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